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Cabinet / Cabinet Committee Documents

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E(80) 143	11.12.80
E(80) 46th Meeting, Minute 1	18.12.80
L(81) 87	2.10.81

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed C Wayland Date 23 August 2012

PREM Records Team

cc AD
JV.

Energy

PRIME MINISTER

OIL DEPLETION POLICY: PRODUCTION CUTS

This minute concerns the question of cutting production from UKCS oil fields this year and next. The purpose would be to defer some oil production to the 1990s, when we must expect to become net importers again.

2. My predecessor circulated on 12 May 1981 a report on this subject by the Interdepartmental Working Group on Depletion Policy (WGDP). We then deferred a decision (as announced by Hamish Gray on 2 June 1981). Relevant unfettered powers to impose production cuts became available to me on 1 January 1982 with the ending of the main period covered by the so-called Varley assurances of December 1974. A statement of intent is now required since continuing uncertainty could be very damaging.

3. The Working Group report has been updated and is attached. It concentrates on action which might be taken in the second half of this year and 1983 but looks ahead to the year 2000.

4. For the four years 1982-1985, there is expected to be a cumulative surplus of UK production over consumption ranging between 70 to 180 million tonnes, depending on production and demand. Some 17 to 28 million tonnes of this will accrue this year and 24 to 37 million tonnes in 1983. The probable scope for cuts - 5 million tonnes in the second half of this year and 13 million tonnes in 1983 - would leave production significantly above UK demand. By the mid 1990s, if not earlier, we are likely to move into net deficit.

5. There are well known arguments for imposing production cuts:

i) this is the only means of significantly reducing the hump of production in the 1980s in the interests of longer term security of supply;

ii) now is the most propitious time to cut production, given the expectation of continuing slackness in the world oil market;

iii) conservation of "associated gas" would be likely to be enhanced.

6. I am less impressed by the argument that, on balance, the real sterling value of oil left in the ground can be expected to rise faster than 5% p.a (the public sector discount rate). This turns on assumptions about the future of oil prices and the exchange rate which inevitably are little more than guesses. Moreover, production cuts would have clear-cut adverse consequences, notably:

i) cuts of 5 million tonnes in 1982 and 10 million tonnes in 1983 would increase the PSBR by about £600 million in 1982-83 and about £1.7 billion in 1983-84, endangering our wider economic objectives;

ii) receipts from the privatisation of BNOC's and BGC's oil production assets could be depressed;

iii) adequate continuing further investment by the oil industry in the North Sea could be discouraged.

I attach particular weight to this last point - more than the authors of the report - particularly given that Geoffrey Howe and I are agreed that we cannot go as far as the industry would like in meeting their very real concerns about the North Sea fiscal regime.

7. Despite the energy arguments for enhanced security of supply, I am bound to conclude that we should decide against imposing production cuts.

8. I would propose to announce this decision in terms of the positive features of our existing oil depletion policy, which lays stress on the need to create conditions which will encourage a sustained high level of production from the UK Continental Shelf; and to say it will hold good at least for the lifetime of this Parliament.

9. I should be glad of your agreement that, in the absence of dissent from colleagues, I should proceed as set out above.

10. I am copying this minute to the Foreign Secretary, the Chancellor of the Exchequer, the Secretaries of State for Industry and Scotland, the Attorney General and to Sir Robert Armstrong.

NL.

Secretary of State for Energy
20 January 1982

DEPARTMENT OF ENERGY

WORKING GROUP ON DEPLETION POLICY

REVISED 1981 REPORT ON OIL PRODUCTION CUTS

31 December 1981

DEPARTMENT OF ENERGY

WORKING GROUP ON DEPLETION POLICY

REVISED 1981 REPORT ON OIL PRODUCTION CUTS

SUMMARY

(a) The Varley assurances which constrain the Government's freedom to cut oil production on the United Kingdom Continental Shelf (UKCS) begin to expire on 1 January 1982. This report seeks a decision in principle on production cuts in the second half of 1982 and throughout 1983. If the decision is in favour of cuts detailed discussions on its implementation will be necessary with the oil companies concerned. (paras. 1-4).

(b) The Ministerial Committee on Economic Strategy agreed on 11 March 1980 (E(80)9th Meeting, Item 1) that it was in the national interest to prolong high levels of UKCS production to 2000. It agreed that this objective should be sought through a case by case approach to development delay, gas flaring and upward profile variation. It noted the need for future decisions on production cuts. The Government's decisions were announced by the Secretary of State for Energy on 23 July 1980 (paras. 5-7).

(c) Relevant developments since the July 1980 statement include:

(i) a delay of two years in the development of the Clyde field;

(ii) an increase of 2 1/2 m. tonnes in approved production from the Forties field has been agreed for 1981: but British Petroleum (BP) subsequently reduced production in response to market conditions,

(iii) the decision on the gas gathering pipeline;

(iv) the decision to privatise the oil production assets of the British National Oil Corporation (BNOC) and the British Gas Corporation (BGC),

(v) a continued slackening of the world oil market;

(vi) reductions in forecast (UKCS) production and UK demand;

(vii) the introduction of supplementary petroleum duty and changes in petroleum revenue tax leading to strong oil industry representations against the UKCS fiscal regime (para. 8).

(d) The world oil market is slack, and barring accidents may well continue so until the mid 1980s. Pressures on the market are likely to increase in the second half of the 1980s and intensify in the 1990's with the possibility of a doubling of the real price of oil between 1980 and the end of the century (paras 9-12).

(e) UKCS production is likely to exceed UK consumption by 17-28 million tonnes in 1982 and by 24-37 m. tonnes in 1983. Production should continue to be substantially above demand throughout most of this decade. The outlook beyond 1990 is uncertain. Much will depend on the extent of new discoveries and how quickly they can be brought into production. On pessimistic assumptions we could become net importers by the middle of the decade. If things go well the UK could remain net self sufficient in oil until towards the end of the century. But it is prudent to assume that even allowing for new discoveries the UK could well move into a position of significant annual net deficit by the end of the century (paras. 12-16).

(f) The practical scope for production cuts is up to 5 million tonnes in the second half of 1982 and up to 13 million tonnes in 1983. This is less than half the net surplus expected in the second half of 1982 and about half the minimum net surplus expected in 1983. To impose cuts would effectively mean refusing any renewed BP application to increase Forties production by up to 2 1/2 million tonnes a year. A decision against cuts would not necessarily imply that such a request would be granted. (paras. 17-20).

(g) The primary considerations involved in the decision on production cuts are security of supply, macro-economic factors, micro-economic factors and the effect on the oil industry's willingness to invest in the UKCS (para. 21).

(h) Prolonging net self-sufficiency would improve UK security of supply both in tight market conditions not severe enough to trigger the allocation scheme of the International Energy Agency (IEA) and if the IEA scheme were implemented. It would also enhance although not guarantee security of supply in a severe crisis in which the IEA scheme was triggered or if that scheme broke down. (paras. 22-25).

(i) Macro-economic factors argue against production cuts in 1982 and 1983. The decisive factor is the worsening fiscal prospect since Ministers considered depletion policy in March 1980. A reduction in output of 5 million tonnes in 1982 and of 10 million tonnes in 1983 would increase the PSBR by about £0.6 billion in 1982-83 and by £1.7 billion in 1983-84. The effects of reduced production on the exchange rate and the longer term macro-economic effects are unclear. (paras. 26-31).

(j) The assessment of micro-economic factors depends on highly uncertain assumptions about movements until 2000 in the world price of oil and the real £/$ exchange rate and on the discount rate used (currently 5%). If as is perhaps most likely the oil market remains slack for some years but thereafter the real price of oil increases sharply so as to double between 1980 and the end of the century deferment of production could yield significant resource gains. On the other hand, if the real price of oil increases smoothly or by less than an average of 4% a year, deferment of production could mean resource losses (paras. 32-35).

(k) The oil industry is opposed to production cuts. The levels of cuts suggested in this report would not of themselves unduly damage company cash-flows. But if they came at about the same time as adverse decisions on the oil industry's representations on the UKCS fiscal regime future investment could be affected. Clear guidance that depletion measures would not continue beyond the end of the 1980s could help to maintain confidence (paras. 36-38).

(l) Secondary considerations in the decision on production cuts include gas conservation, effects on final oil recovery from reservoirs; effects on the offshore supplies industry; the possible international reaction; and the effects on BNOC/BGC privatisation measures. The most important is the effect on the conservation of gas. This factor points towards production cuts. The other factors are not decisive provided a decision in principle to cut production is carefully implemented on a field by field basis in consultation with the oil companies and with our partners in the IEA and the European Community (paras. 39-48).

(m) The scope for production cuts after 1983 is uncertain but it should be possible to reduce production in the mid-1980s by some 15 million tonnes a year. This would still leave surpluses of UKCS production over UK demand (paras 49-51).

(n) If the decision is in favour of cuts, it would be desirable to make clear in an early public announcement that cuts are likely to continue - although not necessarily at the same level - for most of the 1980s and that the deferred production will be recoverable in the early 1990s (para. 52).

(o) If Ministers decide against production cuts it would be desirable to make it clear that the decision will hold for the remainder of this Parliament unless there is a major change in circumstances (eg a sharp fall in the price of oil) (para. 53).

(p) A decision in favour of production cuts should be announced as soon as possible in a Parliamentary statement. The licensees and our EC and IEA partners should be informed immediately before the statement. There are also strong arguments for an early announcement of a decision against production cuts. But Ministers may wish to consider delaying the announcement of a negative decision until decisions on the UKCS tax regime are announced. This will probably be in the next Budget speech. (para 55-56).

(q) Ministers are invited:

(a) to decide in principle if they wish to implement production cuts in the second half of 1982 and throughout 1983.

<u>If the answer to (a) is "yes" -</u>

(b) to agree that discussions should be opened immediately with the licensees concerned and that detailed decisions should be taken field-by-field in the light of those discussions;

(c) to agree that an upward profile variation in the Forties Field should not be allowed in 1982 and 1983;

(d) to agree that there should be an early Parliamentary announcement of the decision and that this announcement should say that cuts are likely to continue - not necessarily at the same level - for the remainder of the 1980s with the deferred production being recoverable in the early 1990s;

If the answer to (a) is "no" -

(e) to agree that the decision will hold for the remainder of this Parliament unless there is a major change in circumstances;

(f) to decide whether an announcement should be made quickly or at the same time as an announcement of decisions on the UKCS fiscal regime;

(g) to agree that a decision on upward profile variation in the Forties field should be deferred until BP re-apply and gas utilisation studies have been completed;

In either case -

(h) to agree that the licensees and our EC and IEA partners should be informed of the decision immediately before it is announced in Parliament (para.57).

DEPARTMENT OF ENERGY
31 DECEMBER 1981

CONFIDENTIAL

DEPARTMENT OF ENERGY

WORKING GROUP ON DEPLETION POLICY

REVISED 1981 REPORT ON OIL PRODUCTION CUTS

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CONFIDENTIAL

INDEX (Contd) Paragraphs

I INTRODUCTION

1 In its 1979 Review of Depletion Policy (WGDP(80)1) the Working Group* recommended that the possibility of cutting oil production be reviewed in the first half of 1981 so that, if Ministers so decided, cuts could be implemented from January 1982 when the "Varley assurances" start to lapse. The Ministerial Committee on Economic Strategy generally endorsed the 1979 Review's conclusions on 11 March 1980 (E(80)9th Meeting Item 1).

2 In May 1981, the Working Group produced a report seeking a decision in principle from Ministers on whether they wished to implement production cuts in 1982. Ministers decided to defer a decision on production cuts until the autumn because of uncertainties about general economic prospects and future oil consumption and production (minute of 12 May 1981 from the Secretary of State for Energy to the Prime Minister and the Prime Minister's reply of 20 May 1981). This decision was announced by the Minister of State for Energy in a written Parliamentary Answer on 2 June 1981.

3 Production cuts are central to any strategy of deferring significant oil production from the 1980s. Oil production from the United Kingdom Continental Shelf (UKCS) will exceed demand in 1981 and the surplus is expected to rise steadily for the next five years or so before tailing off. Exploration policy cannot affect the pattern of production before the 1990s and development delays can make little or no difference to the mid-1980s. However, restraining production could have serious consequences for tax revenue and the Public Sector Borrowing Requirement (PSBR) in the next few years and thus for the achievement of the Medium Term Financial Strategy (MTFS). There could also be difficulties for particular companies and projects.

4 This revised report analyses the conflicting factors relevant to a decision on production cuts in the second half of 1982 and the whole of 1983. If Ministers decide in principle in favour of production cuts, urgent discussions with licensees will be necessary. Detailed decisions would be sought from Ministers in the light of those discussions.

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*The Working Group on Depletion Policy is chaired by the Department of Energy and includes representatives of the Treasury, Foreign and Commonwealth Office, Department of Industry, Scottish Office, Inland Revenue and Central Policy Review Staff.

II THE 1979 REVIEW AND SUBSEQUENT DEVELOPMENTS

(a) The 1979 Review

5 The 1979 Review estimated that, if no action were taken, there would be a "hump" in UKCS oil production in the mid-1980s yielding a total net exportable surplus of oil of 200-250 million tonnes (equivalent to 2 - 2 1/2 years' consumption) between 1981 and 1990. It recommended early action to defer production to later years when the UK is likely again to be a net importer. It considered the various instruments of depletion policy available to Ministers (production cuts, refusing upward profile variations, gas flaring controls and development delays), and identified production cuts as by far the most important.

6 The Ministerial Committee on Economic Strategy endorsed the recommendations on development delay, gas flaring controls, and upward profile variations, noted the need for future decisions on production cuts, and agreed that the Secretary of State for Energy should make a statement on depletion policy, after consultation with the oil industry and our European Community (EC) and International Energy Agency (IEA) partners.

(b) The Secretary of State for Energy's Statement

7. The main points of the Secretary of State's statement made on 23 July 1980 were:

- forecasts suggested significant surpluses of production over UK demand in the 1980s, turning into deficits from about 1990;
- on strategic and security of supply grounds it was in the national interest to prolong high levels of UKCS production to 2000,
- action was needed both to increase exploration and to defer some oil production from the 1980s;
- such action was fully consonant with our international commitments,
- close supervision of reservoir performance and of new development applications would continue;
- policy needed to be flexible to take account of future uncertainties,
- the Varley assurances would be respected,
- the Government would consider delaying the development of fields not covered by the Varley assurances;
- gas flaring controls would be tightened.

The Statement left open the question of production cuts when the Varley assurances expired. It also omitted reference to upward profile variation as British Petroleum (BP)'s application in respect of Forties was pending. (The full text of the statement is at Annex A).

(c) Developments since the 1979 Review

8 The main developments since the 1979 Review have been:

- development delay: The Ministerial Committee on Economic Strategy agreed on 16 December 1980 (E(80)44th Meeting, Item 2) to delay the development of the Clyde Field by two years. First production is now scheduled for 1987, and the bulk of Clyde's oil will not now come ashore until the 1990s.

- upward profile variations (upv): BP applied in May 1981 for permission to increase production from the Forties Field by 2½ m tonnes in 1981 and the three subsequent years. This request was granted for 1981 in the interests of increased revenue. In the event BP reduced production because of the weak market. Their application to increase production over the next three years is in abeyance, but may well be renewed if market conditions stabilise in 1982. No significant requests for changes in expected production levels for other fields are foreseen.

- Gas Gathering Pipeline: The Government's decision to look to private sector schemes to bring associated gas ashore will have no significant effect on oil production, although the Minister of State for Energy has said publicly that flaring controls will be tightened to encourage such schemes. New fields will not be approved for development unless licensees make satisfactory proposals for conservation of associated gas.

- Privatisation of Oil Production Interests of British National Oil Corporation (BNOC) and British Gas Corporation (BGC): The Secretary of State for Energy announced on 19 October 1981 the Government's plans to transfer BNOC's and BGC's oil producing assets to the private sector.

- Change in oil market: The world oil market is slack and may well remain so throughout the early 1980s.

- Slower growth of UKCS production: The growth of UKCS production has been slower than anticipated in the 1979 Review but this has been more than offset by reductions in forecasts of UK oil demand. On central projections, production will reach a maximum of 116 million tonnes in 1985. Demand is expected to be stable throughout the 1980s.

- Changes in the tax regime: Supplementary Petroleum Duty (SPD) and changes in tax allowances were introduced in the 1981 Budget. The oil companies allege that the UKCS is no longer attractive for new investment. Treasury and Energy Ministers are considering representations recently made by the United Kingdom Offshore Operators Association (UKOOA) and the Association of British Independent Oil Exploration Companies (BRINDEX).

III SUPPLY AND DEMAND FOR OIL

(a) The world oil outlook

9 The world oil market is slack and as the following table shows may well remain so throughout the early 1980s.

Free World Oil Supply and Demand
million barrels per day (mbpd)

	1979	1980	1981	1982	1983	1984
(a) Potential OPEC supply	31.6	28	27	27	28	29
(b) Demand for OPEC oil	30.0	26.4	23.2	(24 (25	24 26	24 27
Balance of a-b	1.6	2.4	3.8	(3 (2	4 2	5 2

10 This assessment assumes that Saudi Arabia will maintain relatively high production and that Iran and Iraq resume higher oil production in 1983/4. Little growth in oil demand is expected because of the likely weakness of the world economy and the effect of past price rises.

11. The longer term prospects for oil supply, demand and prices were examined by the Interdepartmental Group on Prospects for Oil Prices to the year 2000 (POP) which reported in the summer of 1980.* POP examined a number of scenarios. These were based on high and low economic growth rates and alternative possibilities for energy supply. They initally assumed that real oil prices rose by 2 per cent per annum from 1980 to 2000. The scenarios generated the following balances for the supply and demand for oil.

Free World: Excess of Oil Production
over Oil Demand (mbpd)

1985	1990	2000
+1.8 to -5.1	+2.5 to -5.7	-3.8 to -27.3

Emphasising the great uncertainty involved in such long term projections, the POP Report concluded that in order to close the imbalances in the world market by 2000, the real price of oil would need to rise by more than the initial assumption. The extent of the overall rate of rise required varied from projection to projection but the Report recommended that policies should be tested against a range of outcomes with an average annual growth rate of 4% p.a. as the central case.

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* NOTE

The report was circulated to the Ministerial Committee on Economic Strategy by the Chancellor of the Exchequer in August 1980.

12 Since the POP Report was prepared the real price of oil has risen more than 4% a year as a result of rises in crude oil prices and in the value of the US dollar. POP have recently reviewed their report in the light of the current weakness of the market. Further work is being done. However, POP's preliminary conclusion was that there was as yet no reason to change the range of price projections for the year 2000 although there were growing signs that some of the highest price projections could now be discounted. There is now less likelihood of a significant price increase before 1985. If the market remains slack the real price of oil could well drift between now and then to below the 4% path.

(b) UK Supply and Demand

(i) General

13 Forecasts of UK production and demand are subject to uncertainties which increase the further ahead one looks. Uncertainties about total UKCS production grow as fields now producing decline and as judgements have to be made about the timing, and amount of future production from discoveries which are not yet fully appraised and for which no approved development plans exist. By 1995 some 35% of estimated production is expected to come from fields in this category. It is also a particularly difficult time to assess future demand. Major changes may have occurred in the pattern of consumption. In 1980 oil demand in the UK fell by 15%, but heavy fuel oil consumption fell by 30%. UK oil demand has continued to fall during 1981 and in the year as a whole may be around 8% lower than in 1980. It is not yet clear to what extent this fall reflects a long run trend and to what extent demand will pic up with economic recivery. It is therefore advisable to consider ranges of likely outcomes rather than central estimates.

(ii) The Short-Term Outlook

14 Production for 1981 is expected to be 88 million tonnes compared with demand of 75 million tonnes. Thus the UK is already a significant net exporter. Production in 1982 is expected to be in the range of 89 to 105 million tonnes and consumption in the range 72-77 million tonnes, yielding a surplus of between 17 and 28 million tonnes. In 1983 a net surplus between 24 and 37 million tonnes is expected.

(iii) The Medium and Long-Term Outlook

15 The following table shows the difference between UK production and demand on the basis of a range of estimates for production and low, central and high demand forecasts. (The year-by-year production and demand forecasts on which the table is based are at Annex B). The figures shown make no allowance for production from future discoveries.* Some production could be expected from such discoveries before 1995. They could provide a significant contribution in the last five years of the decade.

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*NOTE The May 1981 Report allowed for production of up to 65 million tonnes from future discoveries between 1991 and 1995 and up to 165 million tonnes between 1996 and 2000. However further work on the methodology underlying these estimates suggests that they are so uncertain that it is better not to include a figure. But there will almost certainly be some production from new discoveries in the 1990's.

SURPLUS OF PRODUCTION OVER DEMAND
[DEFICIT] million tonnes

	Low Demand	Central Demand	High Demand
1982-1985	102-181	86-165	72-151
1986-1990	68-204	32-168	[1]-135
1991-1995	[62]-90	[113]-39	[165]-[13]
1996-2000	[177]-[11]	[247]-[81]	[315]-[149]

N.B. No allowance is made for production from future discoveries.

16 The main conclusions to be drawn from this table are:

(a) UK production should on all scenarios be substantially above demand until 1985. The expected surplus for the four years 1982-1985 ranges from a total of 72 million tonnes to 181 million tonnes.

(b) A significant net surplus should continue until 1990. The forecasts range from net balance to a surplus of 200 million tonnes.

(c) The outlook for the first half of the 1990s is unclear with scenarios ranging from a net deficit of 165 million tonnes to a surplus of 90 million tonnes. By 1995 production has fallen below demand on both the high and central demand scenarios.

(d) The scenarios for the second half of the 1990s show a net deficit ranging from 10 to over 300 million tonnes. But this is the period when production could be expected from future discoveries. Any such production will reduce the net deficit. Under some scenarios the UK could remain in a position of net balance until close to the end of the century. But it is prudent to assume even allowing for new discoveries that by the end of the century the country will have moved into a position of significant annual net deficit.

IV THE SCOPE FOR PRODUCTION CUTS

17 The Government's powers to control oil and gas production rates are contained mainly in the model clauses set out in Schedule 2 of the Petroleum and Submarine Pipe-lines Act 1975. They subject all production programmes to Ministerial approval and permit the Secretary of State for Energy to reduce previously agreed approvals subject to due consideration of licensees' financial or technical representations. The so-called "Varley assurances" (full text at Annex C) given by the then Secretary of State for Energy on 6 December 1974 and reaffirmed by the present Government contain the following voluntary constraints on the use of Government powers to control production:

- on development delay: None would be imposed on pre-1976 discoveries. There would be full consultation with companies to avoid premature investment in other cases.

- on production cuts: There would be none on pre-1976 discoveries until 1982 or four years after the start of production, whichever were later. No cuts would be imposed on post-1975 discoveries under first to fourth round licences until 150% of capital expenditure had been recovered. Full regard would be had to the technical and commercial aspects of the fields in question, implying generally cuts of 20% at most.

18 While 1 January 1982 is the first date at which fields become eligible for production cuts it is assumed that no cuts could now be arranged before 1 July 1982. By that date nine fields will be eligible for cuts; during the remainder of 1982 and in the course of 1983 a further four fields will become eligible. The following table gives estimates of the maximum scope for cuts in these thirteen fields assuming adherence to the 20% ceiling in the Varley assurances and negotiation with the licensees on the basis of realistic production forecasts.

	Potentially Deferrable Oil (1) (m tonnes)	
	1982 (July-December only)	1983
Fields eligible for cuts by July 1982		
Argyll	0.04	0.06
Auk	0.05	0.06
Beryl A	0.5	1.0
Brent	1.6	4.0
Claymore	0.4	0.8
Forties	1.9 (2)	3.6 (2)
Montrose	0.1	0.2
Piper	0.9	1.3
Thistle	0.6	1.0

Additional Fields Losing Protection by end-1983	1982	1983
Dunlin (August 1982)	0.3	0.8
Heather (October 1982)	0.04	0.2
Ninian (December 1982)	0.2	2.2
UK Statfjord (November 1983)	—	0.03
Totals	6.63	15.25

(1) Crude oil only, although small quantities of associated gas would also be deferred.

(2) Based on presently approved profile ie without upv.

19 On present knowledge Argyll, Auk, Montrose and Heather are too small or economically marginal to be worth cutting. Concessions would no doubt have to be made to licensees in negotiations about other fields. 5 million tonnes is probably the practicable maximum for the second half of 1982. This is less than half the minimum surplus projected for the year as a whole. The maximum for 1983 probably lies between 10 and 13 million tonnes, compared with the estimated minimum surplus of 17 million tonnes (The position in later years is discussed in paras 50-52).

20 Special considerations apply to Forties, the largest UKCS field. As explained in paragraph 8 Ministers agreed that output from Forties could be increased by 2½ million tonnes in 1981. A decision in favour of production cuts in the second half of 1982 and 1983 including Forties would imply that this concession would not be continued. On the other hand if Ministers decide against applying production cuts in 1982 and 1983 a separate decision will be needed if BP renew their request for an upward profile variation in the Forties field. This would need to take account of the results of gas utilisation studies that are in hand.

V FACTORS AND CONSIDERATIONS RELEVANT TO A DECISION

21 Four major considerations are crucial to the decision on production cuts - security of supply, macro economic factors, micro-economic factors and the effects on the oil industry's willingness to invest in the UKCS. This section examines these first. It then covers a number of other considerations which are relevant but, provided they are carefully handled, not crucial.

(a) Security of Supply

22 Security of supply considerations could become important in two sets of circumstances - first if oil is scarce but not to an extent which would trigger the allocation scheme of the IEA, and second in a crisis when that scheme is triggered.

23 About half of UK oil consumption is at present met by imported crudes. This allows a corresponding amount of high quality UKCS crude as well as any net surplus to be exported at premium prices. Since 1979 voluntary arrangements have been made with most UK marketing companies with access to UKCS crude to protect supplies to the UK in a tight market not triggering IEA sharing. Without these arrangements UKCS production would not necessarily contribute to UK security of supply because in periods of scarcity the international companies which supply 90% of the UK market often apply an "equality of misery" policy, sharing their total worldwide supplies among all affiliates or even giving a preference to the home markets of their parent organisations. If UKCS production can be maintained at a high level over a longer period security of supply in a tight market would b enhanced.

24 If the IEA allocation scheme were operating UKCS production would form part of the pool of oil available to member countries. However, the scheme's provisions give some advantage to oil-producing members. This advantage is at its maximum when domestic production is just below demand. So the longer we can stay close to net self-sufficiency the longer the UK will obtain maximum benefit from these provisions.

25 It is possible that in a severe oil supply crisis the IEA arrangements for sharing the available oil would break down and each Western country would seek to safeguard its own interests. While the UK is net self-sufficient in oil, it is relatively better placed than other Western countries (except Norway) to handle such a situation. From that point of view too the longer we remain net self-sufficient the better. But unless the Government of the day were prepared to stop all exports even net self-sufficiency would not give us complete security of supply.

(b) Macro-economic Factors

26 The 1979 Review concluded that macro-economic considerations pointed (albeit not clearly) to slower depletion. There have been two relevant developments since then. The real exchange rate rose considerably then fell back though to a level higher than it was in early 1979. But the relationship between depletion policy and the exchange rate is unclear. Secondly, the fiscal prospect has worsened considerably since 1979. The effect of production cuts on the fiscal prospect is clear and adverse.

27 The causes of the rise in the real exchange rate in 1979 and 1980 are not well understood, but oil-related improvements in the oil current account are not thought to have been among the most important factors. This suggests that depletion policy would not provide a useful or reliable means of influencing the exchange rate. Any downward pressure on the rate from reduced net oil exports would be at least partly offset by the higher interest rates or tightening in fiscal stance required to compensate for the corresponding loss

of Government revenues. Even if the direction of the effect could be predicted, the scale of production cuts envisaged in 1982 and 1983 suggest that any net change in the exchange rate would be very modest indeed.

28. Production cuts in 1982 and 1983 on the scale proposed would have a clear and damaging effect on the Government's budgetary position. Cuts of around 5m tonnes in the second half of 1982 and 10m tonnes in 1983 would increase the PSBR by about £600 million in 1982-83 and by about £1.7 billion in 1983-84, if nothing was done to make good the loss of revenue. The refusal to allow Forties upward profile variation would mean foregoing a reduction of £400m in the PSBR.

29. The fiscal prospect over the next two years is already very difficult. In the event of production cuts, with a resulting deferral of Government revenues, the achievement of the monetary targets set out in the Medium Term Financial Strategy without an increase in interest rates would require cuts in public expenditure plans now agreed or increases in the burden of non-oil taxation. The former would be difficult to achieve and the latter would add to the already sharply rising tax burden, with effect on incentives and on the Government's overall objectives for a reduction in tax. If the loss in North Sea revenues could not be made good, interest rates would have to rise above what is already a damaging level. Like increases in the burden of non-oil taxation, higher interest rates would, by inhibiting private sector investment and the efforts of industry to improve its competitiveness, worsen the prospects for recovery of the economy.

30. The calculations in Annex D assume that any cut back in oil production in the period 1982-87 would be recouped by increased oil production in the late 1980s and the 1990s. This deferred oil production may ease the macro-economic problems which could face the nation at a time when oil production is expected to be falling. However, the rate at which production will fall during the so-called "re-entry' period is rather uncertain and the macro-economic situation which will then face the country cannot be known. Also, in so far as production cuts in the early 1980s hindered economic recovery, the effects of this might still, at least in part, linger on into the 1990s. Finally, the decline in the value of oil production could be at least partly offset by rising earnings from investments financed by oil revenues.

31 The effect on the immediate fiscal prospect is the most important of the macro-economic considerations.

(c) Micro-economic Factors

32 Deferring oil production will result in resource gains to the UK if the net real sterling value of the deferred oil (its gross value less the incremental costs of producing it) increase faster than the discount rate used for assessing public investment - currently 5% a year.

33 The POP Report recommended that as a central case an average increase of 4% a year in the real (dollar) price of oil between 1980 and the end of the century be assumed. Future movements in real sterling exchange rates are also uncertain. A 3/4% a year decline from the mid-1980s is taken as a central assumption. Current forecasts, however indicate a stagnant real sterling price upto the mid-1980's. Together these assumptions mean a rise in the real sterling price pf UKCS oil averaging about 5% a year from the mid-1980's to the end of the century. This would result in neither losses nor gains if the price path was smooth (see Annex D Case 1).

34. In practice, prices are unlikely to rise by a smooth 4% a year to 2000. The micro-economic arguments thus turn on the judgement made on when price jumps occur and their size. If, as the current situation suggests, the oil market remains slack for some years but thereafter the real price of oil increases sharply so as to double between 1980 and the end of the century - not the highest possible outcome - deferment of production to the 1990s could yield significant resource gains. On the other hand, if the dollar price of oil increases smoothly or by less than an average of 4% a year deferment of production could mean resource losses.

(d) Attitude of the oil industry

35. The industry's long-standing opposition to production cuts have been confirmed in the companies' evidence to the Select Committee on Energy, who are now studying depletion policy. In their 15 October 1981 submission to the Chancellor of the Exchequer on the UKCS fiscal regime, UKOOA took the view that if the Government required further revenue in the period 1981-85 it should be obtained by maximising production in those years and proposed a changed fiscal structure which (on the industry's figures) would reduce Government revenue by £800-900m a year from the middle of 1982-83 and lesser amounts thereafter. The conclusions of an inter-departmental working party on these proposals are being reported to Treasury and Department of Energy Ministers.

36. The effect on less profitable fields was a constraint on this year's tax increases, production cuts applied to these fields would worsen this position further. Broadly revenue-neutral variants of UKOOA's proposals would reduce cash flows of PRT paying fields (eg Forties and Piper) by about 10% on average but by almost 25% in 1983 for these two fields. Production cuts in the short to medium term reduce cash flows by 20% for these fields (and up to 50% for others) though the cash flow effect of production cuts plus broadly revenue-neutral variants of the UKOOA tax proposals would be significant. However these fields have IRR's approaching 30% in constant prices, with annual cash flows of £320-380m up to 1985 for Forties and £75-175m for Piper.

37. The UKCS remains a secure and generally profitable investment area. Production cuts have long been foreshadowed. They could be applied selectively to those fields most able to bear them and, at the levels suggested in the report, would not in themselves self-evidently ruin company cash flows. The effects of cuts on confidence in future investment would depend to some extent on Ministers' decisions on taxation. But these effects might be less if clear guidance could be given that depletion measures would not continue beyond the end of the 1980's.

(e) Other considerations

(i) Gas conservation

38 Where there are reasonable prospects for a technically and economically feasible outlet for associated gas, a tight flaring regime will continue to be applied. In the application of any production cuts to individual fields the effect on future gas supplies will be one of the important aspects that will need to be considered in setting the level of reduction. For example, in the short-term, if the commissioning of the FLAGS pipeline is likely to be further delayed, cutting Brent's oil could yield additional gas and NGL savings. Equally, the application of production cuts to Forties would materially increase the likelihood that an economic method of recovering the associated gas could be identified for the future.

(ii) Technical Considerations

39. The future behaviour of reservoirs is always subject to uncertainty especially in the North Sea. The costs and physical difficulties of working in the harsh environment mean that pre-production appraisal drilling is less extensive than it would be onshore. Reservoir knowledge is therefore sketchier. Either too rapid or too slow depletion of a reservoir can reduce final oil recovery. So production cuts would need to be considered and monitored carefully field by field to ensure that ultimate recovery was not impaired. There is a present a serious shortage of the technical staff required for this task in the Department of Energy. It would be technically prudent to recover deferred production as early as possible and it would anyway be economically unattractive to extend field lives beyond those planned by operators. These lives could in some cases be constrained by the limited physical endurance of production installations.

40 Full development of an oil field extends over a number of years. Production cuts could therefore reduce fields' short-term production capacity by causing the deferral of development expenditure. New wells needed to sustain production, for example, are unlikely to be drilled any earlier than necessary. Operators would expect the Government to be as clear as practicable about its future intentions on cuts and particularly on the retrieval of deferred oil. Reasonable clarity for future production planning will be in the Government's own interest. Clearly production cuts could be reversed fairly quickly if this was needed within a few months of their implemntation. However, if cuts are operated for a longer period new constraints arise. The speed with which production could be increased would then depend on:-

(i) the extent of notice that can be given to operators to enable them to put the necessary work in hand;

(ii) the particular situation of individual fields and operators at the time a request to increase was made;

(iii) how attractive oil prices were at the time.

Depending on circumstances it could take from a few months to a year to restore full production.

(iii) Legal and Practical Considerations

41. The model clauses contained in Schedule 2 of the Petroleum and Submarine Pipe-lines Act 1975 give licensees affected by proposals for production cuts the right to make technical and financial representation to the Secretary of State. This means that:-

(i) the Government cannot necessarily impose a common formula on all licensees, even though UKOOA have in the past asked for this;

(ii) the achievment of a particular level of cuts cannot be guaranteed in advance.

42. No formal understanding has been reached with licensees on the precise modalities of cuts on the early fields. The baseline from which the Varley 20% maximum might be deducted could be contentious because most fields are at present producing under 3 or 6 months "consents" and far below levels initially contemplated for the early 1980s. It was, however, made clear to licensees

early on that production slippage would not be permitted to nullify the Government's depletion powers. Calculations in paragraph 19 of the potential for cuts assume that they would be deducted from a realistic assessment of what fields could actually produce in the second half of 1982 and in 1983.

43. Licensees' rights to make representations (paragraph 41) could lead to protracted negotiations in difficult cases. How protracted it is difficult to specify in advance. This would be the Government's first use of its powers in this area, and the technical resources at its disposal in the Department of Energy are limited. Barring mishaps, it should be possible in the time available to July 1982 to satisfy most licensees that their representations had been properly considered and that cuts had been implemented in a reasonable manner.

44. In some instances the Varley assurances have been formally incorporated into agreements between the Government and the banks on field financing and supplemented by assurances that the Government will not reduce production below the level in the approved development programme without consultation with the banks with a view to ensuring that repayment of their loan would not be prejudiced. Oil price rises since the agreements were concluded have made most loans more secure than they were when they were granted. In the case of possible candidates for production cuts in 1982 and 1985, the assurances given are unlikely to inhibit the Government's ability to make cuts but consultations with the banks as well as the oil companies, on the commercial aspects would be required for Ninian, Claymore and Heather.

(iv) Offshore Supplies Industry

45. Production cuts would not have such a serious impact on the offshore supplies industry as other measures of depletion policy, particularly development delay. But they could have some impact on the overall work programme of the industry.

(v) International Considerations

46. The Secretary of State for Energy's statement of 23 July 1980 aroused little interest either among our partners in the IEA and EC, or among the oil producing countries. Adverse reactions to a decision to cut production are not likely to be strong during the present slack oil market. Indeed, such a decision would fit with the consensus of opinion in the IEA and EC that the present relaxed state of the oil market is no occasion for complacency and that action is needed now to reduce future dependence on imported oil. From the international viewpoint, there is hardly likely to be a more propitious moment for introducing production cuts.

(vi) Privatisation of North Sea oil Assets

47. The imposition of production cuts affecting BGC's equity interests in Beryl and BNOC's interests in Thistle, Dunlin, Beatrice, Murchison and Statfjord seem likely to reduce the worth of the assets to private investors. The extent of such reduction will depend upon the market's view of oil prices, its choice of discount rate and its expectations of profitability in the light of uncertainties surrounding such factors as production costs and the level of taxation.

(viii) Effect on BNOC

48. Production cuts of 15 million tonnes overall from mid-1982 to end 1983 would not in practice adversely effect BNOC's already limited capacity to divert crude in support of national objectives, even though privatisation of BNOC's oil producing business in 1982 will result in its trading aim losing control of some 3-4m tonnes a year. This is because, although in theory cuts at this level could reduce the availability of BNOC's participation oil by 7½m tonnes, they are likely to affect fields where much of this oil is sold back to the producers. BNOC's equity oil (assuming cuts of around 10% in the fields in question) would be reduced by about 0.5m tonnes.

VI PRODUCTION CUTS AFTER 1983

49. The scope for production cuts will grow slightly after 1983, up to 15 million tonne a year during the middle-1980s. It will later be reduced by the natural decline in the production capacity of the earliest fields. Cuts of 15 million tonnes a year in the mid 1980s would still leave sustantial surpluses after meeting the UK commitments to the IEA and EC to achieve net exports of 5 million tonnes in 1985.

50. A decision to impose cuts over the 18 months to end-1983 would create a strong presumption that cuts would be continued over all the surplus years of the 1980s. There could, however, be scope for relying on development delays, which are economically preferable to cuts, from 1988 onwards. Deferred production could be recovered in the 1990s. An early statement that this is intended would be desirable to maintain confidence in new developments for production starting in 1990 onwards and to ensure that the necessary work would be done to recover deferred oil then. The statement should also indicate why production cuts were necessary, stress that the established level of cuts to end-1983 was the minimum level necessary to achieve the Government's objectives, and avoid implying that later cuts would necessarily be at the same level. It might be possible to give more specific guidance on the Government's intentions when decisions on particular fields were taken following detailed discussions with licensees.

51. A decision against cuts in 1982 and 1983 need not in theory commit the Government for later years or even prevent a reversal of policy in 1982/3. In practice there would be advantages in making it clear that the decision would hold for the lifetime of the present Parliament barring a major change in circumstances (eg a sharp fall in the price of oil). This would help maintain the confidence of the oil industry particularly if their representations on the fiscal regime are rejected.

VII TIMING OF ANNOUNCEMENT

52. The Minister of State for Energy's statement of 2 June 1981 said that the position on production cuts would be reviewed in the autumn. Questions are already being asked about the outcome of the review. A positive decision would need to be followed by a six month period of field-by-field negotiations with licensees, deferring the start of cuts to the second half of 1982. In that case an early announcement of the Government's general decision would be essential.

53. If Ministers decide against production cuts they will wish to consider whether to announce their decision immediately or to delay it until the announcement of the Chancellor of the Exchequer's decision on the oil industry's representations on the UKCS fiscal regime. This would probably mean deferring an announcement until the Budget. The latter course has presentational advantages. But delay will prolong uncertainty and lay the Government open to continued questions about its intentions.

54. The licensees and our IEA and EC partners should be told of the Government's decision immediately before the Parliamentary announcement.

VIII QUESTIONS FOR DECISION

55. The analysis in Parts III to VI shows that it should be possible by production cuts to reduce UKCS production below what it would otherwise have been by up to 5 million tonnes in the second half of 1982 and up to 13 million tonnes in 1983. Deferring significant production from the 1980's would require at least the partial implementation of cuts. It is difficult to foresee an oil market more favourable for reducing production than that likely on present prospects in 1982 and 1983. EC and IEA criticism is unlikely. Reductions of 5 million tonnes in 1982 and 13 million tonnes in 1983 could be absorbed without pushing production below the level of UK demand. Security of supply considerations point towards early action to reduce production. Micro-economic considerations probably point in the same direction: but the analysis is subject to major uncertainty.

56. On the other hand, production cuts in 1982 and 1983 would worsen still further the fiscal prospect. A reduction in production of 15 million tonnes in the 18 months to end 1983 would increase the PSRB by about £0.6 billion in 1982/3 and £1.7 billion in 1983/4. There would be difficult implications for the North Sea tax proposals made by the industry, which would regard cuts and a decision against tax concessions as a double blow. Cuts would also somewhat depress the receipts from the privatisation of BNOC's & BGC's oil production assets.

57. Ministers are therefore invited:

(a) to decide in principle if they wish to implement production cuts in the second half of 1982 and throughout 1983.

<u>If the answer to (a) is "yes"</u> -

(b) to agree that discussions should be opened immediately with the licensees concerned and that detailed decisions should be taken field-by-field in the light of those discussions (para 4);

(c) to agree that an upward profile variation in the Forties Field should not be allowed in 1982 and 1983 (para 20);

(d) to agree that there should be an early Parliamentary announcement of the decision and that this announcement should say that cuts are likely to continue - not necessarily at the same level - for the remainder of the 1980s with the deferred production being recoverable in the early 1990s (para 52);

<u>If the answer to (a) is "no"</u> -

(e) to agree that the decision will hold for the remainder of this Parliament unless there is a major change in circumstances (para 51);

(f) to decide whether an announcement should be made quickly or at the same time as an announcement of decisions on the UKCS fiscal regime (para 53),

(g) to agree that a decision on upward profile variation in the Forties field should be deferred until BP re-apply and gas utilisation studies have been completed (para 20);

In either case

(h) to agree that the licensees and our EC and IEA partners should be informed of the decision immediately before it is announced in Parliament (para 54).

Department of Energy
31 December 1981

THE SECRETARY OF STATE FOR ENERGY (MR DAVID HOWELL)'S STATEMENT OF OIL DEPLETION POLICY 23 JULY 1980

The following statement was made by the Secretary of State for Energy on 23 July 1980:

"We expect that from later this year UK oil production will regularly reach a level equal to UK consumption. Thereafter on present forecasts production would rise to a peak in the mid-1980s giving a significant suplus over UK consumption in the 1980s as a whole. We are likely to become net importers of oil again about 1990.

"Recent events underline the fragilities of the world energy scene. The Government believes that on strategic and security of supply grounds it is in the national interest to prolong high levels of UKCS production to the end of the century. This requires action to increase exploration, which we have already taken, and to defer some oil production from the 1980s. Such action accords fully with the recommendations to maximise indigenous hydrocarbon production on a long term basis and with our other international commitments including net exports of 5 million tonnes in 1985 as agreed in the Community and the International Energy Agency.

"There are of course, major uncertainties about future levels of North Sea production and UK consumption. There can therefore be no rigid plan. We shall continue close supervision over reservoir performance at existing fields and scrutinise new applications for field developments to ensure good oil field practice consistent with optimum oil and gas recovery in the national interest. We shall also continue to take decisions on a case-by-case basis, but giving greater emphasis to the need to limit the sharpness of the peak in production. We shall, of course, honour the assurances given by the Rt Hon Member for Chesterfield (*) on 6 December 1974 on the basis of which heavy investment has been undertaken by the oil companies.

"In particular the Government will consider delaying the development of fields discovered after the end of 1975, which are not covered by the assurances given by the Rt Hon Member for Chesterfield. The Government will also continue to tighten control on gas flaring.

"The Government has taken no decisions on whether to have production cutbacks which, under the assurances given by the previous Administration, cannot be made before 1982.

"I believe that this flexible approach is the right one and takes account of both the needs of those involved in the difficult business of oil production and, more important, the long term national interest."

(*)Rt Hon Eric Varley MP

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UK OIL PRODUCTION AND DEMAND FORECAST

(Million tonnes)

	PRODUCTION			DEMAND		
	Lower Limit	Upper Limit	Central Expected	Central Projection	Lower Range	Higher Range
1981	79	96	88	75	74	76
1982	89	105	100	75	72	77
1983	95	115	106	75	71	78
1984	100	122	113	75	71	79
1985	102	123	116	75	70	80
1986	98	120	112	76	70	81
1987	89	115	105	76	70	82
1988	82	110	96	76	69	83
1989	75	105	89	77	69	84
1990	70	100	83	77	68	85
1991	65	95	77	77	68	86
1992	60	90	72	77	68	87
1993	55	85	67	78	67	88
1994	50	81	63	78	67	89
1995	45	76	58	78	67	90
1996	40	72	54	79	66	91
1997	35	67	49	79	66	92
1998	30	63	46	79	65	93
1999	25	59	40	80	65	94
2000	20	55	34	80	65	95

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ANNEX C

THE SECRETARY OF STATE FOR ENERGY (MR ERIC VARLEY)'S STATEMENT OF NORTH SEA OIL DEPLETION POLICY 6 DECEMBER 1974

"In my Statement to Parliament on 11 July on U.K. offshore policy, I said that the Government proposed to take powers to control the rate of depletion of oil. I already have power to decide on the timing, nature and extent of future licensing rounds, and in the forthcoming petroleum legislation I shall be proposing powers to control the rate of production.

"How or when such powers may be used in the 1980's and 1990's will depend on the extent of the total finds, on the world oil market and on the demand for energy: on all these points great uncertainty prevails. Policy will also be influenced by our general economic situation and, in particular, the outlook for our balance of payments. The Goverment cannot therefore be expected to define, before any oil has come ashore and when large parts of the sea remain unexplored, a long-term production pattern.

"On the other hand, these powers may be needed in the future to safeguard national interests. However much oil we find, it is limited and can be used only once. This and future Governments must therefore ensure that this vital national resource will be used at a rate which secures the greatest long-term benefit to the nation's economy and, in particular, to Scotland, Wales and other parts of the U.K. in need of development.

"We propose therefore to take powers of control for use in the future, but it remains the Government's aim to ensure that oil production from the U.K. Continental Shelf builds up as quickly as possible over the next few years to the level set out in paragraph 4 of the White Paper (Cmnd. 5696). This will help our balance of payments, contribute to Government revenues, stimulate our industries and make our energy supplies more secure. It will also be an important British contribution to the development of the indigenous energy resources of the industrial world.

"I wish therefore to assure the oil companies and the banks to which they will look for finance, that our depletion policy and its implementation will not undermine the basis on which they have made plans and entered into commitments. Our future policy will be based on he following guidelines:

(a) No delays will be imposed on the development of finds already made or on any new finds made up to the end of 1975 under existing Licences, if it should prove necessary to delay the developmen of finds made in 1976 or later, there will be full consulation with the companies so that premature investment is avoided.

(b) No cuts will be made in production from finds already made, or from new finds made before the end of 1975 under existing licences, until 1982 at the earliest, or until four years after the start of production, whichever is the later.

(c) No cuts will be made in production from any field found after 1975 under an existing licence until 150 per cent of the capital investment in the field has been recovered.

(d) If we later need to use these powers we will have full regard to the technical and commercial aspects of the fields in question; and this would generally limit cuts to 20 per cent at most. We shall be consulting the industry on the period of notice to be given before any reduction in production comes into effect.

(e) In deciding on action to postpone development or limit production, the Government will also take into account the needs of the offshore supply industry in Scotland, Wales and other parts of the U.K. for a continuing and stable market.

"Longer term conservation strategy is being and will be formulated as progressively more information becomes available. At this stage, the regime for depletion of any finds made in the Celtic Sea should not be regarded as settled. The British National Oil Corporation, to be established by Petroleum Bill next year, could have an important role to play in exploring areas yet to be licensed, and in establishing potential fields whose reserves could be husbanded or developed quickly in accordance with the widest national interest. This for the future, and does not affect present licences: but I think it right to state our more immediate intentions now."

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Illustrative Assumptions for Oil Prices up to 2000 and Resultant Resource Gains and Losses from Imposing cuts of 20% in Production from 1982-87 (with deferred oil produced thereafter).

		Approximate Net Gains (+) or losses (-) per tonne of Oil Deferred. (£1980)	
		Present Value, applying a 5% Discount Rate	Undiscounted value
1	Central Price Assumption (world (marker crude) oil price of $65/barrel in 2000; sterling declines at 1% p.a. after 1985.	0	+50 to +90
2	Low Price Assumption (world 2000 price of $55/barrel).	-5 to -15	+35 to +65
3	High Price Assumption ($87.50/barrel in 2000)	+5 to +10	+55 to +120
4	Central Price in 2000 reached by a 45% increase in early 1980's (1983); 2% per annum increase other years.	-10 to -15	+30 to +70
5	Central Price in 2000 reached by 55% increase in late 1980's (1988) 2% per annum increase other years.	+20 to +30	+80 to +130
6	High price in 2000 reached by an increase of 35% in the early 1980's and a 50% increase in the early 1990's, 2% per annum other years.	+10	+50 to +140
7	Low price in 2000 reached by a jump of 30% in the early 1990's, 2% per annum increase in other years.	+5	+40 to +100
8	Central price in 2000, sterling declines more sharply as production falls in the late 1980's/early 1990's.	+10	+50 to +110

[Mr. Edwards]

that they were available, and I congratulate the GOC Wales on the arrangements that he made to ensure that troops were provided.

Pressurised Water Reactor (Sizewell)

3.46 pm

The Secretary of State for Energy (Mr. Nigel Lawson): With permission, Mr. Speaker, I wish to make a statement about the public inquiry into the application by the Central Electricity Generating Board to build a pressurised water reactor at Sizewell in Suffolk. As the House will know, the Government are committed to holding a full and wide-ranging inquiry into the Sizewell application. In a written answer on 22 July last year, my predecessor set out the issues which the Government regard as relevant to consideration of this application. My right hon. Friend also announced the appointment of Sir Frank Layfield, QC, as inspector to the inquiry.

I wish to give interested parties the earliest notice of the date of the inquiry. I also wish members of the public and their representatives to have adequate opportunity to study the extensive information and documentation which will be provided. I therefore propose that the main hearing of the public inquiry should begin early in January 1983.

I have reached this view following recent consultations with those on whom the burden of preparing the principal documentation rests. The chairman of the CEGB has told me that the board expects to publish its pre-construction safety report at the end of April. Dr. Walter Marshall, as chairman of the PWR task force, will continue to co-ordinate the efforts of all the parties involved in the preparation of the report and will keep me informed of progress. The CEGB also intends to issue at the end of April a full statement in support of its application.

The Nuclear Installations Inspectorate of the Health and Safety Executive has told me that it expects to publish a report on safety issues by the end of June. There will, therefore, be an extended period for the study of both CEGB documentation and the NII report.

Earlier preliminary hearings will be held by the inspector at which those parties that wish to put their views before him on the general arrangements for the conduct of the inquiry and the scope of the evidence can do so at a time well before the main inquiry begins. The main hearing, and at least one of the preliminary hearings, will take place in Suffolk. I hope that arrangements can be made for the main hearing to be held within easy reach of the Sizewell area. An announcement on this will be made soon.

The Government are convinced that nuclear power has an increasingly important role to play in electricity generation in Britain. Nevertheless, any specific proposal has to be judged on its own merits. The arrangements for the Sizewell inquiry which I have just described will ensure that the CEGB's application is thoroughly and properly examined.

Mr. Merlyn Rees (Leeds, South): The House is aware that the Select Committee on Energy published a report nearly a year ago on the Government's statement on the new nuclear programme and that the Government's response was published six months ago. Given today's statement, is it not a pity that there has not been a debate on those documents, which are relevant, both in general and in particular to the inquiry into the proposed PWR at Sizewell? Whenever a debate takes place—and it should be soon—it will be in the context of today's statement, but

same levels of aid as those given by the Labour Government in 1978. Conditions now are far different from what they were then. In 1979 we did not face such severe weather conditions, and local authorities and others were not expected to meet the same problems.

Throughout Wales there is a feeling that the right hon. Gentleman has been less than generous. Those words were used to describe the Government's proposals by the Tory deputy leader of the Mid-Glamorgan county council. Will he confirm that that council will have to spend the equivalent of a 2½p rate before it receives any Government assistance? Should not that matter be reconsidered when up-to-date figures are available?

Wales has been concerned about the water supply, and I am glad to receive the semi-assurances of the Secretary of State. They are only semi-assurances because he cannot possibly know every individual aspect of the water position, and nor can the Under-Secretary. Is the right hon. Gentleman satisfied that the water authority has sufficient staff and resources to restore a full supply as soon as possible?

Will the right hon. Gentleman tell us how he proposes to spend money from the EEC fund? Will it be given to individuals and local authorities? Finally, will he tell the House of the effect of the bad weather conditions on industry in Wales?

Mr. Edwards: The level of aid depends on the extent of the damage and the total costs. The Government have made it clear that they will pay 75 per cent. of the cost of the emergency over and above a 1p rate inclusive of grant. If the costs are large, the Government's contribution will be that much larger. We will pay an appropriate share, and that seems right. It also seems right that local authorities should make some contingency provision every year for emergencies that always arise. That is the basis of the provision in regard to aid in excess of 1p rate inclusive of grant. That is exactly the system employed by the Labour Government in 1978-79 and local authorities needed to have no doubts about it, because it was clarified in a circular in December 1980. The product of a 1p rate inclusive of grant in Mid-Glamorgan is about £950,000.

The water authority is quickly restoring supplies. I am satisfied that its resources are adequate and I see no problems arising from that.

As for EEC aid, it would be right to have a detailed assessment of where costs have fallen and who has suffered most before we make final decisions on the distribution of EEC assistance. It would be useful to know the level of the assistance before making those decisions. We shall certainly look at the precedents and see what is the best way of distributing help if we obtain it.

Several Hon. Members *rose*——

Mr. Speaker: Order. I remind the House that this is a private notice question and not a statement. It is an extension of Question Time. Exceptionally, I will call two more hon. Members before we move on.

Mr. Dafydd Wigley (Caernarvon): Is the Secretary of State aware that many of those who have suffered additional costs need money urgently? Can he give an assurance that money for farmers will be forthcoming quickly and that local authorities will know exactly where they stand—with no chance of a cash cut-off—before they set the rates for next year, bearing in mind the legislation affecting rates that is going through Parliament?

Is the right hon. Gentleman aware that, as well as farmers and local authorities, many individuals and families have suffered, particularly pensioners who have had to incur additional heating costs? Will he look at ways of helping them as well? As all eight counties in Wales had extremely severe incidents in a difficult period, we could have had a national state of emergency in Wales. Did he consider declaring such a state of emergency, as a Welsh Parliament would certainly have done, and did he approach any international agencies, apart from the EEC, for aid?

Mr. Edwards: I am interested in the hon. Gentleman's view of what a Welsh Parliament would have done. Local authorities know their responsibilities perfectly well. For a considerable period, they have laid snow emergency plans with the Government. Those plans are ready for implementation at any time and the responsibility for implementing them lies with local authorities. The one lesson that clearly emerges from the emergency is that it is right that the responsibility should be at a local level and the Welsh Office should primarily carry out the role of a centre of communication and information, directing resources when specifically asked for. One of those in charge of a county emergency department made it clear to me that even the emergency headquarters had to act in that way and that decisions had to be taken close to the ground.

Farmers understand that they have to accept the general burdens falling on them from adverse weather conditions, but I have agreed to see the NFU later this week to discuss the issues. Sir Richard Butler has confirmed to me that it is much too early to make any assessment of the costs falling on farmers. I confirm that the additional financial assistance from the Government arising from the emergency is not cash limited.

Dr. Ifor Davies (Gower): The Secretary of State is aware from his flying visit, for which I thank him, that no area suffered greater damage than the Gower peninsula, which was cut off for nearly 10 days, but is he aware that the provision of foodstuffs was ensured only by sea landings through the valiant efforts and initiatives of local people? Is he aware of the general feeling that much damage would have been avoided if the help of the forces had been ensured earlier? I hope that the right hon. Gentleman will learn the lesson that in any future crisis direction and leadership from the centre are necessary. The right hon. Gentleman has acknowledged the help given by local authorities, but that is not enough. Help and direction are needed from the centre, and that involves the Welsh Office.

Mr. Edwards: While expressing sympathy for the hon. Gentleman's constituents who suffered severely, I should say that the first task of the Welsh Office was to establish at the start of the emergency that troops would be available whenever required. I was in touch with the GOC Wales on the Saturday morning and we were in continual touch throughout. Whenever a local authority asked for them, troops were made available, as were Service men generally. However, the responsibility for asking for troops lies with local authorities, which know whether help is needed. Officials in Cardiff cannot know whether troops are needed in a village in Gower. When a local authority asked for troops the Welsh Office ensured

it will be too late. For example, a section of the report deals with the public inquiry and we have not discussed it.

I note with satisfaction the right hon. Gentleman's concluding words that any specific proposal must be judged on its merits, for there is a strong case for having another AGR rather than a PWR. Does he not agree that American experience of the PWR is a cause for concern and that experience in the United States ought to be considered carefully during the inquiry?

Will cost factors be included in the inquiry, including environmental costs? Does the right hon. Gentleman regard the written answer of 22 July last year as carrying out the recommendation of the Select Committee—that he should publish the issues relevant to his consideration of the application? Is that what it was meant for? Does he accept that, because of the nature of nuclear power, with its horrific military antecedents and hazards that are intangible and invisible, the standard set should be far higher than for other industries? Will the CEGB statement include design details?

Mr. Lawson: I agree with the right hon. Gentleman that it would be desirable to have an early debate. I am sure that that is also the view of my right hon. Friend the Leader of the House. I disagree that this will be too late. Indeed, I believe that it will be more valuable because it will take place after the Government have made their statement. As a result, we shall be able to take into account both the Select Committee's report and my statement. In making my statement, I have taken into full account the views of the Select Committee in its report.

Cost factors, including environmental costs, will certainly be taken into account by the inquiry. My predecessor who replied on 22 July made it clear that the three main areas to be covered by the inquiry as he envisaged it would be safety, environmental and economic.

The right hon. Gentleman somewhat inappropriately linked the military nuclear question with nuclear power. They are separate issues. Indeed, it is significant that much of the early impetus behind the desire to have a peaceful nuclear power programme was the desire of those involved in the war to beat swords into ploughshares—a wholly commendable endeavour. Indeed, that is what nuclear power can promise this and many other countries.

Of course, it is vital that our own high standards of safety should be fully satisfied. As I said a moment ago, that will be one of the main matters at issue in the inquiry.

Mr. Michael Ancram (Edinburgh, South): Many Conservative Members will welcome my right hon. Friend's announcement of the date of the inquiry. Does he not accept that, in the light of the tragic smelter closure at Invergordon, and the apparently disastrous miscalculations on the cost of AGR-produced power, there is now an urgency to look at safe and cheaper ways of producing power, both in the interests of domestic consumers and, perhaps more importantly, of industry?

Mr. Lawson: I entirely agree with my hon. Friend. May I hark back briefly to a further point made by the right hon. Member for Leeds, South (Mr. Rees) which I did not answer? He asked "Why a PWR application rather than an AGR application?" In the context of what my hon. Friend has just said, we felt it sensible to develop the option of an economic and safe nuclear alternative to the existing gas-cooled reactor.

Mr. Tony Benn (Bristol, South-East): Will the Secretary of State give a clear undertaking that before the inquiry takes place he will publish all the information available to him, some of which was available to me as Secretary of State, including serious doubts about the inherent safety of the PWR design? Will he make all that information available? Secondly, will the inquiry be broad enough to allow people to argue that the money involved would now be better spent on insulating homes which would create jobs, save lives and save more energy than a PWR—even if it worked, which I doubt—could generate in the programme that he has in mind?

Mr. Lawson: The right hon. Gentleman's prejudices are well known. I am delighted to see him in the Chamber, particularly as he was unfortunately unable to be present yesterday when we debated a matter close to his heart.

A massive amount of documentation will be available—the pre-construction safety report, the NII report and the CEGB's statement of case. I believe that together they will provide a greater weight of documentation than has ever been provided before. All the other matters the right hon. Gentleman mentioned will be part of the subject matter of the inquiry.

Mr. John Hannam (Exeter): Does my right hon. Friend accept that one of the reasons why it is vitally important to preceed with nuclear power for electricity generation is the whole question of providing electricity at low cost to industry? Has not the French experience shown that they are able to undercut us because they have embarked on a nuclear power programme? Will he therefore ensure that there are no long delays in the inquiry and in any subsequent follow-up to the building of a PWR if it is shown to be safe and cheaper to construct?

Mr. Lawson: My hon. Friend is right. The world has more experience of operating PWRs than any other reactor type. We must see whether this technology can be harnessed to our own domestic requirements, including our own high safety standards. I do not know whether my hon. Friend meant that we should get the inquiry over as quickly as possible. If so, I understand his views, but I cannot share them. In any case, it is for the inspector to decide how long it is necessary to take in order to have a full and thorough inquiry. He will take as long as is necessary for that purpose and no longer. I cannot say what will happen thereafter, because that would prejudge the outcome of the inquiry.

Mr. David Penhaligon (Truro): Will the Government give financial aid to those who will object in order to ensure that they do not lose their case through lack of funds?

Mr. Lawson: We have no plans to do so, and I know of no precedent for it. I am quite sure that there will be a full opportunity for those who object to make their case and have it fully and properly judged.

Mr. Nigel Forman (Carshalton): I welcome the Government's deliberate and cautious approach to this matter. Will my right hon. Friend say more about the NII? Is he now satisfied that it has enough qualified manpower to fulfil the vital safety tasks involved in such a project?

Mr. Lawson: Yes, I am satisfied. My hon. Friend may like to know that I understand the NII will be making a statement later this afternoon.

Mr. Peter Hardy (Rother Valley): Should not the right hon. Gentleman's statement have been made either during or after the House had debated the Select Committee's report? When can we have that debate? Either then or before, or even now if the Secretary of State is prepared for it, will he say what the surplus capacity of the CEGB is?

Mr. Lawson: I thought that I had answered the hon. Gentleman's first point when I replied to the right hon. Member for Leeds, South. Both I and my right hon. Friend the Leader of the House recognise that there is a case for an early debate and that the House would welcome it.

It is not for me to prejudge the economic case. That is one of the matters to be discussed in the inquiry. We are looking some way ahead and a number of existing power stations will be coming to the end of their lives by that time.

Dr. J. Dickson Mabon (Greenock and Port Glasgow): Is the Secretary of State aware that the announcement of the date is fair, in view of the timetable prior to the inquiry, for all the representations to be made, not only by the governmental agencies but by other bodies, some voluntary and some private?

The Government, if they are still in office, will presumably follow the precedent set by the Labour Government and have a debate—with, I trust, a free vote—after the publication of the report and before a final decision is made. As that will be some time ahead—perhaps as long as two years or 18 months—will the Secretary of State reconsider the question of the House having a debate on the report of the Select Committee? It is important to have clarification.

Mr. Lawson: I think that there has been a slight misunderstanding. I appreciate the right hon. Gentleman's endorsement of the timetable that I have announced. He speaks with some knowledge and expertise in these matters. Although it is not a matter for me, I shall bear in mind the right hon. Gentleman's suggestion of a debate. I have already told the right hon. Member for Leeds, South that we shall have a debate on the Select Committee report as soon as possible.

Mr. T. H. H. Skeet (Bedford): As the Secretary of State is aware, there will be an open-ended inquiry, possibly followed by a debate in the House of Commons, followed by a seven-year construction period, which will bring us into the 1990s. Will the Secretary of State bear in mind the urgency for nuclear power? We shall have to move on to compete with France, as my hon. Friend the Member for Exeter (Mr. Hannam) pointed out.

Mr. Lawson: I am keenly aware of the urgency of the matter. A sad element of all this is the years wasted by the Labour Government. Nevertheless, however great the urgency, I am not prepared to foreshorten the time needed for the consideration of the papers that will be published, nor am I prepared to rush the inquiry, which must be full, fair and thorough.

Several Hon. Members *rose*——

Mr. Speaker: Order. If hon. Members will be brief, I shall try to call all those who have risen.

Mr. Arthur Lewis (Newham, North-West): The Minister announced the chairman but not the members of the committee of inquiry. Will he let us know who the members will be? Will he consider Mr. Joe Gormley as one of them?

In addition to the safety of the establishment itself, will the inquiry consider the question of danger from terrorism, in view of what has happened in France in the last couple of days? It is important that we realise that an installation such as this is a sitting duck for terrorists.

Mr. Lawson: It is up to the inspector to decide whether a detailed examination of the issue of terrorism would be appropriate to the inquiry. He may or may not so decide; it is up to him. The hon. Member will be aware that there have been no such terrorist incidents in the United Kingdom.

As to whether Mr. Joe Gormley should be a member of the inquiry, there is one difficulty: there is no committee of inquiry and therefore there are no members of it. There is an inspector—Sir Frank Layfield—who has a secretariat.

Mr. Keith Stainton (Sudbury and Woodbridge): As the Member for the constituency immediately adjacent to the proposed site, I feel obliged to press the Minister for a firm commitment to a parliamentary debate before he reaches any conclusion on the matter. A clear precedent for that is the Windscale inquiry. My understanding, as a result of correspondence that I have been having almost continuously for the past 12 months with his Department, is that such a debate will ensue, but the Minister has rather avoided the specific obligation this afternoon.

I am disappointed and concerned at the lack of funding for objectors. I well understand that there is no precedent for this, but I put it to the Minister that his ingenuity is such that it might be possible to find a way of funding via the CEGB, perhaps through a board of trustees. Not only must justice be seen to be done, and not only will this be a long, complicated and highly technical inquiry, but unless the matter is disposed of with some certainty at Sir Frank Layfield's hearing it will raise its head on each successive occasion that other PWRs are proposed.

Mr. Lawson: I fully recognise my hon. Friend's concern for his constituency. I have had representations not only from him but from my hon. Friend the Member for Eye (Mr. Gummer), who has been deeply concerned with the issue.

I shall bear in mind my hon. Friend's request for a debate before the final decision is taken, although, as I said earlier, it is not a matter for me. I appreciate the force of my hon. Friend's case.

With regard to funding, my hon. Friend mentioned the CEGB. It is for the CEGB to say whether it is prepared to do it. I was asked earlier whether the Government were prepared to do so. We have no such plans.

Mr. Bob Cryer (Keighley): Is not the inquiry to be started because of the CEGB's application? Knowing that the Government are extremely sympathetic towards a Three Mile Island type PWR, is it not absurd to embark on this path when the CEGB has a vast over-capacity for electricity generation, when it is closing down plant after plant which are coal-fired, and when we have between 300 and 400 years of coal supply? Is it not nonsensical for the Government even to contemplate embarking on a further

programme of nuclear electricity generation, with all the potential dangers which this involves? Is it not really a first step in carrying out the Government's nuclear policy?

Mr. Lawson: The Government are interested in seeking to provide the cheapest possible electricity for our people. I am sorry that that is not an objective shared by the hon. Gentleman.

Mr. Norman Atkinson (Tottenham): Has not the CEGB already decided to fund people attending the inquiry? Therefore, will the Minister reconsider his answer about the objectors who will be going to the inquiry? He is incorrect in suggesting that there are no precedents. There are precedents for funding objectors at public inquiries. It was suggested by an overwhelming majority of the participants in the debate in this House that that funding should be available. As I understand the position, the Minister's predecessors have also made recommendations about financial assistance being given to some of those who will be attending the inquiry as objectors.

Does the Minister agree that if the Government are to establish confidence in their nuclear programme they should be seen to be holding inquiries of this kind with the widest possible base, and that such inquiries need funding?

Mr. Lawson: I am not persuaded by the hon. Gentleman's argument but, as I have already said, it is my hope that there will be an early debate. I am sure that this question will be much discussed during that debate.

Mr. John Ryman (Blyth): Does the Minister contemplate that this will be one of a series of inquiries? He will be well aware that the CEGB is contemplating an application to build a similar power station at Druridge Bay, Northumberland? Does he envisage a situation in which no final decision will be made by him and the Government, as a result of the recommendation by the inspector in the Sizewell inquiry, before other inquiries relating to applications in other parts of the country have been completed?

Mr. Lawson: As I see it—I hope that this will reassure the hon. Gentleman—the first step will be to conduct a thorough inquiry into the Sizewell application. Only after the outcome of that inquiry will further decisions fall to be taken.

Mr. Dennis Skinner (Bolsover): Is the Minister aware that, in addition to the points that have been made so well by my hon. Friend the Member for Keighley (Mr. Cryer) and other hon. Members, there is a large and rapidly growing body of opinion—not confined to the mining industry, in which I have a deep and abiding interest—in favour of running down our dependence on nuclear power rather than uprating it, as would happen if the proposed PWR were to go ahead? Would it not be more sensible, when we have more than 3 million unemployed, to concentrate on those areas where we have plenty of energy, especially in the pits, where there are vast reserves of coal and where more people could be employed provided that subsidies were on a par with those in West Germany and Belgium? If that were so, we could produce energy more cheaply for industry and therefore help in the fight against inflation. If that sort of attitude were adopted by the Government, it would be more welcome to the country at large and would reduce our dependence on nuclear power.

Mr. Lawson: The Government are satisfied that a safe and economic nuclear power programme is in the interests of the people of Britain and in the interests of employment. That is also the view of the trade union movement—even though the hon. Member is characteristically idiosyncratic.

Mr. Cryer: How can the right hon. Gentleman know? He has not had the inquiry. He is prejudiced.

Mr. Tam Dalyell (West Lothian): In answer to my hon. Friend the Member for Blyth (Mr. Ryman), the Secretary of State said that this would be the first step and that various events would follow. What is the time scale envisaged? The Secretary of State must know very clearly that the nuclear manufacturing industry has a great problem in relation to time for orders. This affects not only the construction industry but many of our technological and science-based industries.

Mr. Lawson: The nuclear industry is not in as healthy a state as it might be, largely due to what happened in the wasted years under the Opposition, to which I referred earlier. Indeed, the announcement I made today will be welcomed by the nuclear power industry.

Mr. Dalyell: What is meant by "first step"?

BILL PRESENTED

Stock Transfer

The Chancellor of the Exchequer, supported by Mr. Secretary Biffen, Mr. Nicholas Ridley, Mr. John Bruce-Gardyne, Mr. Adam Butler and Mr. Malcolm Rifkind, presented a Bill to amend the law relating to the transfer, registration and redemption of securities, and for purposes connected therewith: And the same was read the First time; and ordered to be read a Second time tomorrow and to be printed [Bill 50].

Data Protection

4.11 pm

Mr. Michael Meacher (Oldham, West): I beg to move,

That leave be given to bring in a Bill to make provision for the protection of data in accordance with the European Convention.

The Bill would enable in particular, the setting up of an independent data protection authority as recommended by the Lindop committee in 1978.

The need for control over the collection and use of personal information has grown enormously over the last decade. I pay tribute to my many hon. Friends who have been active in this cause over several years and, in particular, to my hon. Friends the Members for York (Mr. Lyon) and Nuneaton (Mr. Huckfield), both of whom have presented Bills to meet this need.

A previous White Paper revealed that no fewer than 220 different functions of Government involve computerised personal information about identifiable individuals. Most of these computerised Government data banks contain anything from 10,000 to 1 million names. In addition, as the records become computerised, separate systems can be linked so that, for example, Government officials could have almost instant access to all the information now held separately on one individual—for instance, information about family relationships, previous and present addresses, criminal records, income tax and VAT returns, medical treatment including any history of mental ill-health, credit rating, social work reports, political and trade union activities and so on. I submit that legislative controls are needed to ensure that any Government, present or future, do not abuse the new technology in the name of efficiency or security.

That is, however, by no means the only danger. Computerised data banks are particularly vulnerable to espionage, eavesdropping and error. However, manually stored data banks can equally threaten the individual's privacy in several disturbing ways. Information on him may be collected unlawfully, by underhand means or without his consent. The information may be inaccurate, incomplete, out of date or irrelevant. Other people may have access either to some or all of this information that he thought was stored confidentially and that they ought not to have. Information given for one purpose, wholly legitimately, may be transferred without his consent, and perhaps even without his knowledge, for an entirely different and perhaps highly embarrassing and damaging purpose.

This matter is serious because a person may suddenly find that, for totally unjustifiable reasons of which he may not even be aware, he is suddenly prevented from acquiring a credit card or he may be denied hire-purchase facilities. More seriously, information about criminal records going back several years, an investigator's report based on malicious gossip, or speculation about an individual's politics or sex life can suddenly block promotion or lead to abrupt dismissal.

Worst of all, simply wrong information being fed in, against which the individual at present has no defence, can do irreparable damage. I quote the case, recently reported in the newspapers, of Mrs. Jan Martin. While she and her husband were motoring on the Continent, a lorry driver saw them at a cafe in Holland and thought that he recognised Mr. Martin as a member of the Bader-Meinhof gang. The lorry driver reported this to the Dutch police, who passed the information to London. Shortly afterwards, Mrs. Martin suddenly found herself barred from a job with a film unit under contract to a company that had by one means or another gained access to the information. It was only because her father happened to be a senior police officer with contacts at Scotland Yard that the whole truth came out.

I would add only that the National Council for Civil Liberties, to which I pay a warm tribute for its long-standing campaign for the right to personal privacy, has dozens of individual case histories of persons who have had similarly damaging experiences but have not had the benefit of such high-level and fortunate contacts.

One other relevant matter to which I draw particular attention is the police national computer, which now holds over 36 million entries, and the Scotland Yard computer, which by the middle of the 1980s will store information equal to that on one-fifth of the population of the whole Metropolitan police area. As hon. Members will know, there have recently been several highly damaging leaks reported from these records.

It is interesting to see what the Lindop committee said about this. It was denied access by the Home Office to the plans for the Metropolitan police special branch computer. The Committee concluded:

"We do not have enough evidence to give a firm assurance . . .that the public need not be unduly alarmed by the use of computers for police purposes."

Its scepticism has been corroborated by the report a week ago that persons were being entered on special branch files in Devon and Cornwall and, I presume, everywhere else, for such wholly inappropriate reasons as that they were anti-nuclear campaigners, that they opposed blood sports, or that they were members of the anti-apartheid movement. While, of course, one must insist that individuals cannot have access to criminal intelligence and genuine security files, I believe that we should consider the Swedish system whereby a duly authorised security-cleared person could inspect such files to ensure that they do not contain improper data.

Against this background, the Bill would aim to remedy the major threats against privacy which arise from several sources. For example, the use of most bugging devices and telephone taps is not at present illegal. It is not a criminal offence to obtain confidential information by deception or to release that information to others who should not have it. There is almost no right to bring an action for damages against an invasion of privacy. There is, with one exception, no legal right for the individual to see files kept on him or her, and criminal records are far from being entirely secure against the intrusions of private agents or employers.

Not only personal privacy but Britain's economic interests need safeguarding. The commercial director of Lucas Industries has recently been reported as saying that unless the Lindop committee recommendations are implemented urgently, British industry will be unable to move computer data freely between Britain and abroad and, therefore,

"The British balance of payments will suffer dramatically."

For those reasons alone it is vital to bring Britain up to international standards in this respect

The Bill would do that because it is wholly in line with the Council of Europe convention for the protection of

ORAL STATEMENT

PWR INQUIRY

With permission, Mr Speaker, I wish to make a statement about the public inquiry into the application by the Central Electricity Generating Board to build a Pressurised Water Reactor at Sizewell in Suffolk.

As the House will know, the Government are committed to holding a full and wide-ranging inquiry into the Sizewell application.

In a Written Answer on 22 July last year, my predecessor set out the issues which the Government regard as relevant to consideration of this application. My Rt Hon Friend also announced the appointment of Sir Frank Layfield QC as Inspector to the Inquiry.

I wish to give interested parties the earliest notice of the date of the inquiry. I also wish members of the public and their representatives to have adequate opportunity to study the extensive information and documentation which will be provided. I therefore propose that the main hearing of the public inquiry should begin early in January 1983.

I have reached this view following recent consultations with those on whom the burden of preparing the principal documentation rests. The Chairman of the CEGB has told me that the Board expect to publish their Pre-Construction Safety Report at the end of April.

Dr Walter Marshall, as Chairman of the PWR Task Force, will continue to co-ordinate the efforts of all the parties involved in the preparation of this Report and will keep me informed of progress. The CEGB also intend to issue at the end of April a full statement in support of their application.

The Nuclear Installations Inspectorate of the Health and Safety Executive have told me that they expect to publish a report on

safety issues by the end of June.

There will therefore be an extended period for the study of both CEGB documentation and the NII Report.

Earlier preliminary hearings will be held by the Inspector at which those parties that wish to put their views before him on the general arrangements for the conduct of the Inquiry and the scope of the evidence can do so at a time well before the main Inquiry begins. The main hearing (and at least one of the preliminary hearings) will take place in Suffolk. I hope that arrangements can be made for the main hearing to be held within easy reach of the Sizewell area; an announcement on this will be made soon.

The Government are convinced that nuclear power has an increasingly important role to play in electricity generation in Britain. Nevertheless, any specific proposal has to be judged on its own merits. The arrangements for the Sizewell inquiry which I have just described will ensure that the CEGB's application is thoroughly and properly examined.

Energy Policy

cc Mr Gow

PRIME MINISTER

Sizewell Inquiry

Mr. Lawson gave an effective and convincing performance in the House this afternoon.

Leading for the Opposition, Merlyn Rees wanted to know why, 12 months after the Select Committee's report on the new nuclear power programme, and six months after the Government's reply, this announcement was still coming before there had been a Debate in the House. Mr. Lawson replied that he knew that the Leader of the House was anxious to find time (in practice next Monday), but that the Debate might be all the better for this announcement.

Peter Hardy and Dickson Mabon echoed Mr. Rees' concern about a Debate. On the Government's side, Michael Ancram welcomed the announcement, John Hannam pressed for faster progress on nuclear power, adding that it is clear that the French were taking advantage of their headstart, and Nigel Forman wanted reassurance that the Nuclear Installations Inspectorate now had the necessary staff levels.

For the Liberals, David Penhaligon wanted to know whether objectors would get financial assistance to help present their case.

There were predictable interventions from Arthur Lewis, Dennis Skinner and Tony Benn. Mr. Been asked that, before the Inquiry, the Secretary of State should make available all the information available to him - some of which had been available to Mr. Benn as Secretary of State - which threw light on the very serious risks involved in PWR technology. He suggested that the money could be better devoted to a job creating home insulation programme.

In general, the House took the announcement in a relaxed way, with Mr. Lawson well on top.

MAP

20 January 1982

DM

Energy Policy

Lpp

cc AD
JV

overtaken
HCS 21/1

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/10389/82

Your ref:

20 January 1982

Dear David

PWR ANNOUNCEMENT

Energy to HCS 19/1/82

You copied to me your letter of yesterday's date enclosing a copy of the proposed statement on the PWR Inquiry together with background notes.

My Secretary of State has two points to make - one on the statement itself and the other on the background. He thinks that the first sentence of the last paragraph of the statement is liable to be seen as indicating a Government bias in favour of the proposal and that it would be better to conclude with a simple statement on the lines of 'I believe that the arrangements which I have described will ensure that this highly important proposal by the CEGB is thoroughly and properly examined before a decision is taken on it'.

So far as background is concerned, my Secretary of State thinks that the issue of grant aid for objectors is likely to be raised. He understands that this issue has been under further examination in the Department of Energy following representations from the CEGB themselves but he thinks that if pressed at this stage on the point it would be necessary to make clear that the Government have no present proposal for such aid.

I am copying this to Michael Scholar.

Yours sincerely,

Helen Ghosh

MRS H F GHOSH
Private Secretary

David Lumley Esq

✓c AD
Press Office
MAP

(1)

Prime Minister

Content with the statement?

Yes MT

MCS 19/1

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

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

19 January 1982

MCS
I have told D/En.
MAP

Dear Michael

PWR ANNOUNCEMENT

As you know the Prime Minister agreed last Wednesday that the timing of the Public Inquiry into the proposed Sizewell PWR should be announced by means of an oral statement on Wednesday 20 January. Accordingly I am enclosing the planned statement, together with background notes identifying the likely main lines of attack, and outlining how such attacks will be handled.

I am sending copies of this letter to Nick Huxtable in the Lord President's Office and Helen Gsosh in the Secretary of State for the Environment's Office.

Yours ever

David Lumley

DAVID LUMLEY
Private Secretary

ORAL STATEMENT

PWR INQUIRY

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I wish to give interested parties the earliest notice of the date of the inquiry. I also wish members of the public and their representatives to have adequate opportunity to study the extensive information and documentation which will be provided. I therefore propose that the main hearing of the public inquiry should begin early in January 1983.

I have reached this view following recent consultations with those on whom the burden of preparing the principal documentation rests. The Chairman of the CEGB has told me that the Board expect to publish their Pre-Construction Safety Report at the end of April.

Dr Walter Marshall, as Chairman of the PWR Task Force, will continue to co-ordinate the efforts of all the parties involved in the preparation of this Report and will keep me informed of progress. The CEGB also intend to issue at the end of April a full statement in support of their application.

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There will therefore be an extended period for the study of both the CEGB documentation and the NII Report.

Earlier preliminary hearings will be held by the Inspector at which those parties that wish to put their views before him on the general arrangements for the conduct of the Inquiry and the scope of the evidence can do so at a time well before the main Inquiry begins. I hope that the main hearings (and at least one of the preliminary hearings) will take place in Suffolk, but in any case there will be local sessions in the Sizewell area.

~~The Government are convinced that~~ nuclear power ~~has~~ is playing an increasingly important ~~role to play~~ part in electricity generation in Britain and in other countries. ~~Nevertheless, any specific~~ But new proposals have to be judged on ~~its own~~ their merits. The arrangements for the Sizewell inquiry which I have just described will ensure that the CEGB's application is thoroughly and properly examined.

BACKGROUND NOTE

NUCLEAR POWER STRATEGY

1. The Government's nuclear power strategy recognises the need to develop the option of an alternative to the Advanced Gas Cooled Reactor (AGR). The recent White Paper (Cmnd 8317 published in July 1981) re-affirmed the Government's belief that, subject to necessary consents and safety clearances the next nuclear power station ordered should be a PWR.

Sizewell public inquiry

2. It does not, however, follow that the Government is committed to allowing a PWR to be built at Sizewell in Suffolk at the present time. Ministers have consistently stated that they wish the Public Inquiry into the CEGB's application to be full and wide-ranging; and to deal with safety issues, while preserving the statutory responsibility of the Nuclear Installations Inspectorate (NII) for licensing under the Nuclear Installations Act 1965.

Proposed statement by Secretary of State for Energy

3. This will:

a. Announce the intended date for the inquiry - January 1983;

b. announce the timetable for publication of key safety documents i.e. CEGB's Pre-Construction Safety Report and NII's report for the Inquiry;

c. stress that objectors will have ample time to study the safety documentation before the start of the Inquiry.

Main lines of attack

4. a. With electricity demand falling why do we need a new power station?

New stations needed to replace those reaching the end of their economic life; nuclear offers the prospect of cheaper electricity; strategic case for nuclear to lessen dependence on expensive imported oil - and coal. For CEGB to make the specific case for Sizewell.

b. Hasn't CEGB's approach to nuclear power already been discredited? (i.e. the recent MMC and Select Committee criticism about the Boards forecasting/investment appraisal techniques).

We have made it clear to the Board that we expect to see improvements. I believe the lessons have been learned.

c. Is the PWR safe?

More PWRs operating safely in the World than any other type of nuclear reactor. Need to establish whether feasible and economic to build a version here which meets our own high safety standards.

d. Friends of the Earth claim that safety will not be thoroughly considered at the inquiry. Is this true?

No. Thorough examination of safety promised: will be based on CEGB's Pre-Construction Safety Report and the NII's commentary on it; more safety documentation than for any previous public inquiry of this type.

e. Will the NII report for the inquiry clear the station for safety licensing?

NII an independent agency; cannot, and have no wish to, dictate to it how it will report; NII's scrutiny of the station and licensing role does not stop when the consent to start construction is given; they continue through construction to operation. Clearance for the plant to operate could not be given unless NII was completely satisfied with all aspects of safety.

f. In fixing the date of the inquiry are you giving NII enough time to assess safety?

Yes. The timetable has been arranged in the light of their advice. They are confident of their ability to produce their safety report for the inquiry by the end of June.

g. Why not an AGR?

Need to develop option of alternative to AGR.

DEPARTMENT OF ENERGY

18 January 1982

Rees — Why not debate yet on Sec Comm report on nuclear prog, + Govt response – 12 mos, 6 mos ago.

Agree judge any proposal on merit

AG R case

US PWR experience

Cost to be included for enquiry?

Does he accept standards set for nuclear must be especially high?

N-L

Amerom

Benn

Before ~~study~~ eng, make available all information available to him, some of which I had as SofS, throwing ~~some~~ light on various risks

Money better devoted to a job creating home insulation prog.

Get on with it – ~~for~~ ahead.

Hannam

Pendaligon

Financial aid to objectors, to help presentation?

NL No plans: no precedent

Forman Will staff situation

NL Will statement later today

P Hardy. This statement shd come after debate on Sel Comm report

Mabon. Debate

Lewis Members of enquiry?

Skinner

SUBJECT
cc Master

FILE Energy BK

10 DOWNING STREET

From the Private Secretary

13 January 1982

Dear Julian,

Sizewell 'B' PWR Project

The Prime Minister held a short meeting this morning with your Secretary of State and with the Secretary of State for the Environment about the Sizewell 'B' PWR Project.

Your Secretary of State said that the CEGB's draft preconstruction safety document had been delivered on Christmas Eve. There should, therefore, be no obstacle to the Nuclear Installations Inspectorate publishing their status report on the safety of the design by the end of June. On this basis it should be possible to start the main hearings of the inquiry in late October or early November 1982. If the NII's report slipped, he recognised that it would be necessary for the inquiry to start commensurately later. He hoped to make a statement to Parliament early next week about this timetable. It was vitally important to keep up the momentum, as he was proposing.

After discussion, it was agreed that the best course would be to announce that the inquiry would start at the beginning of January 1983. This would allow a clear year between the Secretary of State's announcement next week and the commencement of the inquiry. The Secretary of State would also announce that the NII had told him that they would be publishing their safety report by the end of June. The gap between June 1982 and January 1983 would evidently be in excess of the four month period recommended by the Select Committee on Energy for consideration of the NII report - even taking account of summer holidays. The overriding objective must be to avoid action which might prejudice the PWR programme; to this end there must be no ground for an accusation that the Government were attempting to push the Sizewell inquiry through hastily. Taking a realistic view of the time the inquiry would take, it was recognised that the issue might well be unresolved in the autumn of 1983 as the next General Election approached.

It was agreed that the Secretary of State for Energy should make an oral statement to Parliament on Wednesday 20 ~~June~~ January.

I am sending copies of this letter to Michael Collon (Lord Chancellor's Office), David Heyhoe (Lord President's Office), David Edmonds (Department of the Environment) and Murdo Maclean (Chief Whip's Office).

Yours sincerely,

Michael Scholar

Julian West, Esq.,
Department of Energy.

Energy

file

ds

RESTRICTED

10 DOWNING STREET

From the Private Secretary

22 December 1981

The Case for Exporting Gas

I enclose a paper by Sir Alistair Frame and Mr. Allen Sykes on the above subject which Alan Walters received earlier this month. I understand that the document, which is marked 'strictly private & confidential', has been sent to the Secretary of State for Energy. I think it might also be of interest to the Foreign and Commonwealth Office, in particular because of the European aspect.

If in due course you wish to offer any comments on the paper, I am sure they will be of interest to Alan Walters.

A. J. COLES

Francis Richards, Esq.,
Foreign and Commonwealth Office.

RESTRICTED

10 DOWNING STREET

Mr Coles.

AW. is away for a couple of weeks.

I'm sure it OK to copy to FCO, who are AW's natural allies on this subject. The paper has already gone to Nigel Lawson.

Frame is the chief executive of RTZ.

MD Agnew.

22/12.

John

Copy for FCO attached

CS 22/12

MR. COLES

SIR ALISTAIR FRAME AND ALLEN SYKES - THE CASE FOR EXPORTING GAS

1. The enclosed paper by Frame and Sykes has been sent to Nigel Lawson. I am sending a copy to you because I think it has important European aspects to it.

2. The present gas regime prohibits exports of gas, even though this would be in both the oil companies and the national interest. This has prevented Britain supplying gas to Europe. And the Europeans in turn have turned to the Soviet Union for supplies.

3. When Mitterand visited No. 10 in September, I saw his Chief Economic Adviser, Monsieur Attoli. It was difficult to talk very frankly at the time since the issue of the North Sea Gas Gathering Pipeline had not been settled. But M. Attoli said that France would be enormously interested in any change in our gas regime. He implied there would be a ready market, not merely in France, but also in Germany. I believe I sent a memo to Mr. Alexander at the time.

4. In my view, it is clearly best to have a completely free regime and allow the oil companies to export gas if they find it to be profitable. I suspect that the free regime would produce very much more gas and very substantial export earnings. It would also be useful to show that Britain was being a good European, and would serve to offset some of the dangers from excess reliance on Russian gas.

AW

10 December 1981

ALAN WALTERS

Mr. Walters

Apologies for delay. I have read this with interest. At first sight I am very sympathetic to the case. I agree with you that the European angle is important. May I send a copy to the F.C.O.? (Where Frame and Sykes?).

A.J. Coles 22/12

STRICTLY PRIVATE & CONFIDENTIAL

MAXIMISING BRITAIN'S BENEFITS FROM OFFSHORE GAS

The case for giving offshore gas the same competitive regime that has been so successful for oil, including the right to export.

By Sir Alistair Frame and Allen Sykes

30 November 1981

CONTENTS

1. The Welcome Government Determination to Introduce Competition

Since mid September, with the cancellation of the government sponsored gas gathering scheme and the 4th November Queen's Speech promise of new legislation to abolish the British Gas Corporation's monopoly buying rights plus allowing oil companies access to the UK industrial gas market via the BGC's pipeline system, the economic environment for offshore gas has certainly improved. All these steps face BGC and political opposition, but the government has accepted the case for introducing competition in the supply and marketing of gas.

The question arises whether these new policies of introducing competition go far enough to achieve the intended results of a much healthier and expanding offshore gas industry. To informed opinion within the oil industry, and outside it, the answer to this question is no. Unless the government takes the vital further step of permitting gas exports, hitherto banned regardless of the higher available prices, then there is little likelihood of a major increase in offshore gas activity which is so much in the nation's interest. In the more bracing competitive economic climate of the last few months, the one major argument left against allowing exports is the fear that Britain's offshore gas reserves are sufficient only for British needs. This concern is not generally shared by the oil industry for the good and sufficient reason that there would be no shortage of proven gas reserves once gas can be exploited as freely as oil. The BGC buying monopoly and the ban on exports combined have given the oil industry no incentive to look for gas in British waters since the late 1960s. To judge the availability of gas reserves after a dozen or more years of having no incentive either to look for or to exploit gas inevitably means taking a misleadingly conservative view of what could be there. If the

oil industry could be given the right incentive there should be more than enough gas for Britain's own needs into the foreseeable future as well as providing for major exports to the Continent. Further, and most importantly, the freedom to export gas, particularly if allied to wise and energetic co-operation with Norway, could result in a major increase in offshore gas activity far in excess of that which will be provided by the government's recently introduced policy changes necessary and welcome though they have been.

In connection with the effect of allowing exports on exploration activity and reserves it should be borne in mind that until Australia allowed exports of iron ore in the early 1960s, and Alberta allowed gas exports to Eastern Canada at a similar time both products were locally held to be in scarce supply. They are now huge prosperous industries. The same looks likely to happen to Australian LNG since exports were permitted a few years ago.

2. Background Factors

a) No Incentive for Gas Exploration

Oil companies actively explore for oil but not for gas in UK waters, a situation that has persisted since the late 1960s. The reasons are that oil effectively sells at the world price and some exports, while controlled, are permitted. Gas, in contrast, must be landed in Britain and can effectively be sold only to the BGC. Gas exports are effectively prohibited. Many long term gas contracts were signed between the oil companies and the BGC in the late 1960s to take the output from the Southern Basin gas fields off East Anglia. These

were in essence on fixed price terms with minimal escalation clauses such that their prices are now typically only between 15% and 25% of the going free market European gas purchase price. The oil companies have been so discouraged by these early contracts that virtually no further new gas contracts from British waters have been signed with the BGC in the last dozen or so years. The exceptions are such cases as the Brent gas where the gas concerned is a by-product ('associated gas') of oil production. The oil production is usually so valuable that it pays to develop the oil even if the profit on the gas is very low or even negative. But no gas fields - i.e. fields whose revenues derive solely or mainly from gas - have been developed in the British North Sea this past decade. (The Frigg gas field which straddles the boundary line - roughly one third in UK waters - is the partial exception.)

b) No Justification for treating Gas differently from Oil

There is no good reason for making a distinction between the treatment of oil and gas on economic grounds. Oil (hydro-carbons in liquid form) have always been sold at the world free market price and oil exploration and production has flourished, at least until recently when the government has imposed too high a tax burden. By contrast, gas (hydro-carbons in vapour form) has hitherto had only one market outlet, the nationalised BGC, which can and does set its own restrictive price terms. For the past decade the oil industry have not explored for or developed gas fields in British waters and has been reluctant to enter new contracts even for any associated gas, the automatic by-product of most oil production. Yet this distinction of treatment between the two forms of hydro-carbons is a physical not an economic distinction. The oil policy has succeeded in developing our oil: the

gas policy has largely failed to develop our gas reserves to their full potential, and in particular gas in gas or gas condensate fields.

3. The Correct Context for Judging Policy Changes

a) The Need for a Wide Perspective

For most of the last decade the gas prices charged to British consumers have been low in comparison with alternative energy sources. The price paid to the oil industry for supplying gas from British waters has been particularly low because of the effective monopoly bargaining position of the BGC. The oil industry have made it clear that they cannot develop new sources of gas at anything like the existing gas supply contract prices but must have realistic and preferably energy-related prices, the basis on which Western Europe mainly buys gas. The government hope that by allowing the oil industry to use the BGC's distribution network that competition between oil companies and the BGC will result in much more gas exploration and development and a better deal for industrial consumers. This is possible, but could take a long time to come to pass. Further, it seems unlikely that simultaneously gas prices to industry can be lowered and the gas prices to the offshore oil industry substantially raised. The likely truth, which should be squarely faced, is that much further British gas over and above existing supplies has a higher value sold to Western Europe than to British industry. This being so the sense or otherwise of changed economic policies cannot be judged solely or mainly in the context of what is best for existing UK industrial customers. Within so narrow a context it is unlikely that the nation's best interests will be apparent.

In addition to the oil industry, the BGC, and industrial consumers, the interests of the rest of UK industry, the balance of payments, and the Treasury tax and royalty take should all be considered. It would be sensible also to consider the interests of both Norway and our EEC partners. In the context of this widened constituency there is no doubt that the best interests of Britain would be served by allowing gas exports.

b) Validly Judging Britain's Gas Reserves

Since the late 1960s there has been a marked reluctance in the oil industry to look for gas in British waters. Such gas that has been found has arisen mainly from the search for oil. Even when found it has not paid the industry to go in for extensive proving, still less for development because there was little likelihood of a profitable sale to the BGC. To judge the total possible UK gas reserves after a dozen or so years of these conditions is to say the least difficult and indeed unreasonable. It will be possible to judge the likely UK gas reserves realistically only when economic conditions have for some years freely encouraged the same unrestrained search for gas as has always existed for oil.[1.] If the government want gas to be the same success as oil has been then the course of action is clear: they must give exactly the same economic conditions which means free exports. Can anyone suppose that we would have had a flourishing offshore oil industry if for the last 15 years a BNOC had been allowed to buy all British produced oil without competition or exports, and entirely on its own price terms? The answer is obvious.

1. Consider the experience of Alberta gas and Australian iron ore mentioned in Section 1.

4. The Case for Unified Development of North Sea Gas Reserves

a) The Wasteful Restrictions of the Boundary Lines

An examination of known gas reserves in the North Sea, and particularly in British and Norwegian waters, reveals that the majority of gas and gas condensate fields, plus oil fields with significant quantities of associated gas, cluster round the boundary line between the British and Norwegian sectors. Every serious observer of the North Sea scene over the last ten years has lamented the effect of this artificial dividing line and the accompanying policies of both governments. These have caused, and continue to cause separate and thus non-optimal development. There can be little doubt that if the two nations could co-operate they would both gain substantial advantages, but this can only happen if both countries have a free economic regime (Norway needs one too) and are determined to act in a way that maximises their joint gains. This means that the North Sea should be developed in a much more unified fashion than existing short sighted policies have allowed. The cheapest way to transport gas for long distances is to use landlines wherever possible as these costs are typically considerably lower than for offshore lines. If the oil industry had a free hand in British and Norwegian waters then it is very likely that there would be joint schemes for bringing British and Norwegian gas to Western Europe, certainly by offshore lines but possibly by at least some landlines.

The recent cancellation of the government supported gas gathering line is currently resulting in the oil companies taking several separate initiatives to bring gas (mainly associated gas) ashore to Britain. If the export ban is lifted then similar initiatives would be very likely to happen with international gas pipeline systems involving not just associated gas, but mainly gas in gas and gas condensate

fields. It is wasteful for the Norwegians to have to take their gas and gas liquids by their own offshore pipeline system across the deep Norwegian Trench merely to land liquids in Western Norway to promote industrial development, and then to take the dry gas back again across the same Trench on the route south to Germany and Holland.[1] It is equally wasteful that any Norwegian pipeline should be denied any British gas which can more easily and economically flow into it. Similarly, it is undesirable that Norwegian gas which could more sensibly flow to Britain should be compelled to use the Norwegian system. Patently present restrictions are unnecessarily disadvantageous to both nations. It should also be noted that an international pipeline network would both provide flexibility and permit advantageous 'swap' agreements, thus minimising gas transport costs.

b) The Reasonable Requirements of Norway for Unified Development

Before considering the very considerable advantages to Britain from unified development it is necessary to consider the needs of Norway which must be met as a precondition to such development. Until the Norwegians develop further separate gas pipelines to the Continent (there is only one such at the moment - Ekofisk) they have been compelled either to sell their gas to the BGC or to await other export opportunities. The Norwegian government is, of course, well aware of the economies to be had from marketing its gas in Western Europe via British offshore and land pipelines, but they have been understandably

1. Wherever the gas landed the liquids could be economically sent back to Norway as happens with Ekofisk.

reluctant to agree to such lines because of the control this would give to the BGC (the only possible owner of at least the land part of such lines under present British law) over any future Norwegian gas supplies which should be huge. If Norway's understandable and indeed reasonable reluctance is to be overcome there must be a radically new and more open approach to them. It will be obvious that the only way to get their involvement in a pipeline system in British territory is if they own a substantial part of its, perhaps half, and if it in no way restricts market opportunities for their gas. In these conditions they should welcome lines in British territory because they would greatly enhance their marketing possibilities. Not only would they be given cheaper access to the massive Continental market but, thanks to the government's recent policy changes, they should also have additional possibilities of selling their gas to British industry as well as to the BGC. Thus, with the appropriate safeguards, it should be possible to meet every reasonable Norwegian objection and simultaneously give them greater opportunities for marketing their gas on profitable terms.

c) The Gains to Britain

The gains to Britain from unified development would be equally impressive. But freeing British gas for direct export to the Continent (which would require waiving the requirement of first landing it in Britain) even without further Norwegian co-operation would bring very substantial gains. The first gain is that the oil industry would now have the appropriate incentive to look for gas because the marketing restraints of the last dozen years would be entirely removed. Second, this in

its turn would cause a major offshore gas exploration effort. Existing gas indications would be investigated and proved up, and new gas reserves would be actively sought. This would happen throughout British waters and certainly in all promising areas of the British North Sea. It would cause an early and major expansion in offshore activity and thus in the industries supplying goods and services to them. Third, as and when new gas reserves were ready for development a few years hence, there would be major opportunities for platform building (few British yards have significant orders at present), offshore pipelines and, of course, land pipelines, nearly all of which could be done by British firms and presumably supplied by British Steel.

The outcome of all this activity would be greatly enhanced reserves of gas and their optimal development in partnership with Norway with whom our economic and political relationships would be much improved. Apart from the clear and major gains to both countries there would be a major new source of politically secure energy for our EEC partners in Western Europe, a benefit Britain could obviously turn to major political and economic advantage. Had this policy been implemented many years ago perhaps the present Soviet gas line would have been prevented or at least delayed. While it is now being started it is in fact a huge and complicated project which accordingly could well be subject to serious delay, and in the event of political upsets (it has already had to be rerouted around Poland through Czechoslovakia) to cancellation. Whether this happens or not, Western Europe needs as much North Sea gas as can be made available.

5. Conclusions and Recommendations

a) The government's recent and welcome changes in introducing more competition in the supply and sale of offshore gas to industrial consumers is not sufficient to provide the optimal national benefits - that requires lifting the ban on exports.

b) The principal argument against allowing exports is the fear that there may be insufficient gas for British needs, an argument not accepted by those most likely to know, the international oil industry. There has been no incentive to look for gas for a dozen years, or to prove up any gas found. No sound judgment of likely maximum reserves is possible in these conditions. If the oil industry are given the same economic conditions for gas as have always existed for oil then the proving up of known gas reserves and the active exploration for more gas would soon dispel any misgivings, as it has done in similar circumstances in other countries.

c) To maximise the nation's benefit the government should consider its offshore gas policies in the widest context, embracing not just UK consumers, but the whole UK economy, and our economic and political relationships with Norway and the EEC. If this is done the case for allowing exports is very strong. The general gains to industry and employment, the increased tax and royalty earnings of the Treasury, the enhancement of export earnings, and the benefits to our allies should all be very substantial.

d) The major gains from these recommended policies require the most imaginative approach to the Norwegian government, including the unqualified offer of joint ownership in any gas pipeline systems in Britain or British waters which transport Norwegian gas. Such systems must freely permit Norway open acess to West European markets as well as to the BGC and British industrial consumers.

e) Perhaps the Treaty of Rome will compel Britain to allow exports to EEC countries when the oil industry is free to sell direct to UK industrial customers. How much better it would be to take the initiative and freely offer exports, plus the hope of helping to get Norwegian gas more cheaply to the Continent. The economic benefits, and the greater supply of politically secure gas to Western Europe would be widely welcomed.

It is hoped that the government, having gone so far to introduce competition in gas, will take the further step and allow exports thus reaping very major additional benefits. Gas has a contribution to make to Britain second only to that which has hitherto been restricted to oil.

Ms Stephens

Many thanks

MCS 9/12

10 DOWNING STREET

From the Private Secretary

M. Scholar

Sizewell B
Nuclear Power Station

S/Env: & S/Energy will be available at 1615 on Wed: 13th January. Yes to

CJ.

9/12

CONFIDENTIAL

Energy. NB

bc: Duguid
Walters
Vereker
Terry Matthews, CS, HMT.

10 DOWNING STREET

From the Private Secretary

7 December 1981

Sizewell 'B' PWR Project

The Prime Minister was grateful for your Secretary of State's minute of 26 November about the Sizewell 'B' PWR Project. She was also grateful for the Secretary of State for the Environment's minute of 4 December on the same subject.

The Prime Minister has commented that in view of the Parliamentary difficulties which have been encountered in relation to the Armitage Report we may expect further difficult on the environment front which will bear directly on the Sizewell 'B' project. The Prime Minister feels that if we try to hasten this inquiry and telescope the "safety" timetable, the whole future of the PWR programme may be prejudiced. She accordingly wishes that there should be a discussion of your Secretary of State's proposals, and I will be in touch with Sir Robert Armstrong's office to this end.

I am sending copies of this letter to Michael Collon (Lord Chancellor's Office), David Heyhoe (Lord President's Office), David Edmonds (Department of the Environment), Murdo Maclean (Chief Whip's Office) and David Wright (Cabinet Office).

MCS

J.D. West, Esq.,
Department of Energy.

CONFIDENTIAL

GJ

cc PRTA
B1

CONFIDENTIAL

PRIME MINISTER

SIZEWELL 'B' PWR PROJECT

The Secretary of State for Energy sent me a copy of his minute to you of 26 November about the timetable for considering the Sizewell project.

I am concerned about the tightness of the timetable envisaged. It allows for a period of only 3/4 months between the time when the report of the NNI is expected and the date of the public inquiry. The Select Committee on Energy recommended a period of 4 months for consideration of the NNI's report, and I reflected this view in my letter of 3 July to the Secretary of State for Energy when I indicated my agreement to the procedure he proposed.

If we adopt the timetable he now proposes we will be in a position where, even if all goes according to Plan, the time allowed will be shorter than was earlier thought desirable; and there is clear risk of slippage. I need hardly stress that the Sizewell inquiry is going to be a difficult and contentious one. I have no doubt that the air will be rife with accusations that the Government are already committed to the project and that they are trying to force the thing through with indecent haste. While therefore I understand the reasons for not wanting the date of the inquiry to slip, I do think it would be wise to postpone it by say a month to 6 weeks and thus reduce the risk of either prejudicing the atmosphere of the whole inquiry or of causing great inconvenience and abortive costs by a late adjournment.

I am copying this minute to the Lord Chancellor, the Lord President, the Secretary of State for Energy and the Chief Whip.

MH

MH

4 December 1981

CONFIDENTIAL

Cc BTA
BI

Ask about how long the new reactor lasts. 'Lean 2 lean'?

Prime Minister

Agree to Mr Lawson making a statement on these lines?

Or should we, in the light of Mr Heseltine's minute of 4/12, arrange a discussion? AT E?

PRIME MINISTER

I'm afraid we shall have to discuss it. The Lawson statement has already caused the pits on the environment matters. I feel that we ought to have time for consulting and weighing the safety timetable. Perhaps the whole future of P.W.R.s may be prejudiced [illegible]

SIZEWELL 'B' PWR PROJECT

As you know, we are committed to hold a public inquiry into the CEGB's application to build the first British Pressurised Water Reactor at Sizewell in Suffolk. I would hope to make a Parliamentary statement about the probable timing of the inquiry shortly before the House rises for Christmas.

You will recall that following difficulties with the preparation of a satisfactory design earlier this year a Task Force was set up under Dr Marshall, Chairman of the Atomic Energy Authority bringing together the CEGB, National Nuclear Corporation, Bechtel and Westinghouse, to oversee the timely development of a mutually acceptable design. Under Dr Marshall's chairmanship good progress has been made and the Task Force advises me that:

(i) a satisfactory reference design has now been evolved which the parties believe will meet the necessary safety standards and be competitive with other forms of electricity generation. The CEGB's endorsement of the design was announced in October;

(ii) the necessary safety documentation (the so-called preconstruction safety report) can be prepared and published by the CEGB by the end of April, together with the CEGB's formal statement of case.

The Nuclear Installations Inspectorate have been closely consulted on the design and have advised me that:

(i) they plan to publish their status report on the safety of the design by the end of June;

(ii) while this timetable will not permit them to satisfy themselves as to every aspect of the safety case, they will nonetheless be in a position to indicate whether they see any major obstacles to issuing a consent to start; on the basis of the work they have done so far they are confident that they will be able to say that there are no such obstacles, though there will be issues needing resolution as construction proceeds.

The Task Force has advised me on this basis that it would be realistic to aim to start the main hearings of the inquiry in late October or early November 1982. They are confident that the proposed timetable can be met and that they will be able to approach the inquiry with a sound and well-prepared case.

This timetable will be consistent with the recommendations of the Select Committee on Energy and will, by all past precedents, allow objectors and other potential participants a generous period of time to prepare for the inquiry, although they will not see it like that. The Inspector whom I have appointed for the inquiry, Sir Frank Layfield, has indicated to me that he would be content with the timetable.

In considering the Task Force's proposals I have had meetings with all the interested parties and examined with them all the risks attaching to this timetable. In particular,

(i) the timetable allows for practically no slippage. Adhering to timetables is not the industry's strong point but I believe that with the senior figures in the industry effectively staking their reputations on meeting the timetable, and with Dr Marshall overseeing the whole operation, there is a reasonable chance of serious slippage being avoided;

(ii) the NII will be obliged to indicate that they will wish to see the results of further work before they can be satisfied as to the safety of certain aspects of the plant. The NII are confident that given time all their reservations will be satisfied. But objectors will undoubtedly make the most of them;

(iii) the lack of completeness of the NII's safety assessment at the time of the inquiry will be contrasted unfavourably with expectations raised by earlier statements by the NII which they now accept were unrealistic;

(iv) objectors will attempt to make unfavourable comparisons between the safety of the earlier and abortive design and that which has now been developed.

In spite of these risks, which cannot lightly be brushed aside, I am satisfied that we should proceed on the timetable proposed and that this offers the best chance of establishing the PWR as a valid option. Indeed if we cannot start the inquiry in November 1982, the chances of making a start on construction of the Sizewell station before the next election will become very remote indeed.

Subject to your agreement, and that of colleagues, and to final confirmation of the timetable by all the parties I therefore propose to make an oral statement to Parliament before the House rises. This, in turn, will enable the Inspector to prepare for a preliminary hearing early in the New Year. It is the intention that the Chairman of the Task Force (Dr Marshall) should make a public statement at the same time about progress with the project, and that the NII should also make a statement about their role in the inquiry and its relationship to the licensing process under the Nuclear Installations Act.

If you agree, my office will be in touch with yours, and with the Lord President's, about the precise timing of my statement.

I am copying this minute to the Lord Chancellor, the Lord President, the Secretary of State for the Environment and the Chief Whip.

NL.

SECRETARY OF STATE FOR ENERGY

26 November 1981

4

H. O. Reinsch
President

Bechtel Power Corporation
Engineers—Constructors
Fifty Beale Street
San Francisco, CA 94105

CF Yours?

September 24, 1981

cc David Wright

Prime Minister

P29
RCF 30/9

MCSchott
1/10

The Right Honorable
Mrs. Margaret Thatcher, M.P.
Prime Minister and First
Lord of the Treasury
House of Commons, SW1
London, England

MT

Dear Mrs. Thatcher:

Thank you very much for the opportunity of seeing you during this past week to discuss with you, Dr. Marshall and members of your staff our progress on the PWR Project. It is my personal feeling that we are all now pulling together in the same direction, in a way which will achieve your overall objectives both in Great Britain and in the export market.

With your continued firm leadership, and the fine course that has now been set, we believe that the PWR Program can be realized within the UK in the safest, most reliable and economical manner, and that the possibility of working together abroad is a realistic objective. Please know that you will have my personal commitment to these principles, to your overall nuclear power program, and to you.

Respectfully,

Harry Reinsch

H. O. Reinsch

HOR:sc

Ref. A05489

MR. WHITMORE

You will shortly receive a letter from Dr. Walter Marshall, Chairman of the United Kingdom Atomic Energy Authority, conveying a request from the Presidents of Westinghouse and Bechtel, who will be in London early next week, for a few minutes of the Prime Minister's time while they are in London.

2. The background is as follows.

3. Earlier this year, there was a series of setbacks to the pressurised water reactor (PWR) programme. The design produced was much too expensive, and created some safety problems. The design had to be rejected and a task force was set up under Dr. Marshall to try to overcome the problems. Dr. Marshall will report to the Secretary of State for Energy on Tuesday 15th September. The task force has produced an agreed design, which promises to have solved the problems. The cost of the reactor will be 30 to 35 per cent less than that of a comparable advanced gas-cooled reactor (AGR); slightly higher than the French PWR because it will be built to more rigorous safety standards; and lower than the comparable German PWR. Dr. Marshall will say that the detailed specifications (if that is the right words) will be issued by May 1982; that the Nuclear Installations Inspectorate (NII) will report in July 1982, and will report favourably; and that the way is clear for the Secretary of State for Energy to arrange for a public inquiry in autumn 1982.

4. As to the organisation for this project, Dr. Marshall is writing to the Department of Energy to propose that it should be done as a joint venture between the Central Electricity Generating Board (CEGB) and the National Nuclear Corporation (NNC). He believes that this will produce the right combination of technical leadership and good working relations which will make sure that the project goes ahead as quickly and as smoothly as possible. Dr. Marshall says that this proposed organisation has been agreed with all the parties concerned.

5. Some months ago, Westinghouse wrote to the Department of Energy proposing a co-operative venture on the sale of PWRs in export markets. As our PWR programme was at that stage in disarray, no more than an acknowledgment

was sent. Westinghouse, and with them Bechtel, are aware of the work of Dr. Marshall's task force and approve the agreed design which it has produced. It makes them all the keener to co-operate with this country in joint ventures in export markets. What is envisaged is a consortium in which Bechtel provides the selling organisation, Westinghouse licenses the nuclear steam supply system, and British industry makes the reactor and the turbines. Countries in which joint ventures of this kind are contemplated include China, Finland, Mexico and South Africa.

6. With the agreed design established, Westinghouse and Bechtel are eager to get on with the establishment of these joint ventures. The matter has a degree of urgency because the President of Bechtel is visiting China next month on this subject. This is among the matters which the Presidents of Westinghouse and Bechtel will be discussing on their visit to London early next week.

7. Understandably Dr. Marshall is excited, both at having arrived at an agreed design and at the possibility of these joint ventures in export markets, with all that they would mean for the British nuclear industry and for jobs in Britain. He is, however, caught up on a difference of view between the Department of Energy and the Department of Industry. The Department of Industry have been committed to co-operation with the French on civil nuclear projects in China. There is thus an interdepartmental dispute to be resolved before a commitment can be made to a joint venture with the Americans of the kind envisaged by Dr. Marshall. He would very much like to find some way to sort out the dispute, so that a clear answer can be given before the President of Bechtel goes to China.

8. If the Prime Minister felt able to accede to the requests of the Presidents of Westinghouse and Bechtel for a short meeting, that would provide a basis on which we could ask for urgent advice from the two Departments and, if there was disagreement (as seems likely), bang their heads together and sort it out before the Prime Minister goes to Melbourne on 25th September.

9. I realise that the timing is not ideal. But the Presidents of Westinghouse and Bechtel are two very major figures in the nuclear business; and the issues at stake are obviously very big.

10th September 1981

ROBERT ARMSTRONG

T. P. Lankester, Esq.

?

CABINET OFFICE

With the compliments of

Sir Robert Armstrong KCB, CVO

Secretary of the Cabinet

Copy to Energy
March 80
HII problems.

70 Whitehall, London SW1A 2AS
Telephone: 01-233 8319

Energy

R

5/8

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

Ref. A05391

4th August, 1981

At a meeting of Ministers today, the Prime Minister enquired about progress on bringing the PWR nuclear generating system through its hoops to the construction stage. It was suggested that progress could be held up because of insufficient resources in the Nuclear Accident Inspectorate, and that in order to avoid this delay the NAI needed to recruit another 10 to 14 Inspectors. Douglas Smith said that this problem was being vigorously pursued. Various possibilities were being considered, including the possibility of moving people with suitable qualifications from other inspectorates.

The Prime Minister said that for various reasons we had lost many years in the development of our nuclear energy programme, and it was very important not to lose any further time. It would not be acceptable to hold up the development of the PWR and its bringing into construction for the sake of a dozen inspectors in the NAI. If necessary, people ought to be brought in on short-term contract for this purpose. She would welcome an early report on what steps are being taken to make sure that this delay is not allowed to occur.

I am sending copies of this letter to Ian Bancroft, Donald Maitland and Tim Lankester.

ROBERT ARMSTRONG

Sir Kenneth Barnes, KCB

Energy

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

MINISTER FOR LOCAL GOVERNMENT AND ENVIRONMENTAL SERVICES

Mr Patterson

My Ref: H/PSO/16329/81

23 July 1981

23/7

Dear David

SIZEWELL B PWR INQUIRY

Thank you for your letter of 14 July 1981 to Michael Heseltine.

I am content with the terms of your proposed arranged PQ and Answer. As to the generality of the issues, I would only re-emphasise that the Government will have to continue to be most careful to make it clear that it welcomes a continuing dialogue on nuclear policy and retains an open mind about Sizewell. This will be essential if our arrangements for public inquiries into major proposals of this kind are to remain credible.

I am copying this letter to the recipients of yours.

Yours

TOM KING

The Rt Hon David Howell MP

CC PUS
Mr Manley
Mr Lamont
Mr Kelly
Mr Henderson -
on File

01 211 6402

WM 23/7

The Rt Hon Tom King MP
Minister for Local Government
& Environmental Services
Department of the Environment
2 Marsham Street
London
SW1P 3EB

22 July 1981

Dear Tom

15/7/81

Thank you for your comments on our draft response to the Select Committee report. I am glad you are generally content with what we propose.

To take the points you made in order, I have considered your suggestion that the document should be more consultative in tone, and stress flexibility. This is in fact an aspect which the paper already stresses and I feel that any further emphasis in this direction would invite questions as to whether the Government was really serious about any sort of long term nuclear policy.

You also say you would like to see a sentence on the pollution aspects of fossil fuelled stations. While we recognise the problem, it is very much aside from the main thrust of the argument presented in the paper, and my view is that this would not be the right place to make a statement on it.

You rightly point out that the Secretary of State for Wales should be referred to in 9.01 in respect of disposal of nuclear waste; this has been corrected.

Finally, you suggest direct endorsement of the Committee's recommendation (paragraph 167) on issues to be covered at the inquiry. The context in which this recommendation is made suggests that the Committee would like it to be accepted that the NII's findings could be challenged at the inquiry. This is a misapprehension since the Nuclear Inspectors' grant of site licence will follow the inquiry rather than precede it. I think therefore, that direct endorsement should be avoided, but to meet your point I propose to add at the end of paragraph 10.03:

> "and for it to deal with safety issues, while preserving the statutory responsibility of the NII for licensing under the Nuclear Installations Act 1965".

This has the advantage of making it clear that the licensing of the PWR is a separate matter from the Public Inquiry process.

Yours ever

Dave

D A R HOWELL

Foreign and Commonwealth Office

London SW1A 2AH

15 July 1981

WM 17/7

Dear Julian,

SELECT COMMITTEE REPORT ON NUCLEAR POWER

The Lord Privy Seal has seen a copy of your Secretary of State's minute of 6 July to the Prime Minister, seeking agreement to the draft of a White Paper giving the Government's response to the Select Committee on Energy's report on the nuclear power programme.

We are generally content with the draft of the White Paper. This will be an important statement of the Government's policy, and of interest to a number of countries abroad. We would therefore be grateful if your officials would liaise with the FCO Joint Nuclear Unit, before the White Paper is published, about the preparation of appropriate guidance for overseas posts.

Yours ever

Stephen Gomersall.

S J Gomersall

Private Secretary to
The Lord Privy Seal

Julian West Esq
PS/Secretary of State for Energy
Thames House South
Millbank
London SW1P 4QP

cc: PS/Members of E Committee
Secretary of State for Scotland
Sir Robert Armstrong KCB
Mr R Ibbs

Energy

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
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Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)
From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

15 July 1981

WM 16/7

Dear David

I have seen your minute of 6 July to the Prime Minister enclosing your proposed response to the Select Committee Report on Nuclear Power.

I do not have any substantive comments to make but in view of the recent criticisms of the Government's policy on nuclear power, I agree that a firm response is called for, along the lines drafted, and that it should be published as a White Paper before the recess.

Copies of this letter go to the recipients of yours.

Yours ever

Nick

The Rt Hon David Howell MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON
SW1P 4QJ

CONFIDENTIAL

1 mr Lightfoot 2 Awaiting Mr Howell's response

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

MINISTER FOR LOCAL GOVERNMENT AND ENVIRONMENTAL SERVICES

My Ref: H/PSO/16059/81

15 July 1981

Dear David,

SELECT COMMITTEE REPORT ON NUCLEAR POWER

You sent Michael Heseltine a copy of your submission of 6 July to the Prime Minister about the proposed White Paper responding to the Select Committee's Report.

I am content with the course of action you propose, and in general with the White Paper itself. There are, however, a few points I should like to raise.

In Michael's letter to you of 3 July about the Sizewell PWR inquiry he welcomed the proposal for a White Paper which would provide an opportunity in advance of the inquiry for a debate at the national level on issues of nuclear power policy. For this reason, he suggested that the White Paper should have "green edges", and should invite interested bodies and individuals to put their views on policy to the Government. While I recognise that the White Paper says that the Government's position is flexible, I also feel that more should be done to stress this fact. I feel that it is very important for the credibility of the inquiry and of the inquiry system generally. It would also be better if paragraph 10.03 of the White Paper accepted quite specifically the Committee's wish that certain key issues should not be excluded from discussion at the inquiry.

Apart from these points, I have only two comments on the text of the White Paper. First, while agreeing with your general approach of not dealing with every point raised by the Select Committee, I think that something ought to be said in response to their conclusion on the pollution aspects of fossil-fuel electricity generation, particularly as this has been the subject of a study by the Commission on Energy and the Environment.

CONFIDENTIAL

If you agree, officials can work out a suitable form of words. Secondly, the first sentence of Chapter 9 should include a reference to the Secretary of State for Wales, who also shares responsibility for policy on the management of radioactive waste.

I am copying my letter to the Prime Minister and the other recipients of your submission.

Yours ever

Tom

TOM KING

The Rt Hon David Howell MP

1 Mr Lankester cc Press
2 Prime Minister 2

WR 14/7

Mr Howell is planning to announce by written answer the terms of reference of the PWR Inquiry.

~~Press Aton~~

01 211 6402

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London SW1

14 July 1981

MT 14/7

Dear Michael

SIZEWELL B PWR INQUIRY

Thank you for your letter of 3 July. It crossed my letter of 6 July to the Prime Minister about the draft White Paper in answer to the report of the Energy Select Committee on nuclear power policy. My letter stressed the flexibility of the Government's position, in particular the commitment only to authorise orders for further nuclear power stations as and when the Government were satisfied that a genuine need existed, and the draft White Paper itself refers to the Select Committee's contribution to public debate on the appropriate level of nuclear ordering, and on reactor choice. There is a lively public debate about nuclear energy; the subject receives a lot of media attention, and my Department deals with a steady flow of letters on it.

It is however important to distinguish between the Government's policy of continuing the development of nuclear power, and commitment to a specific project such as the Sizewell B PWR. I have of course emphasised the very great importance I attach to the Sizewell B public inquiry; I think it is clear that, while the Government has a general policy stance in favour of nuclear energy, there is no question of my going into the Sizewell B inquiry with my mind already made up.

Your suggestions about the timing of pre-inquiry meetings will be put to Sir Frank Layfield. My own feeling is that the end of this year might be too early for the first meeting.

I am grateful for your comments on my draft of a "Rule 6" statement, and am happy to accept your redraft. Although officials are still consulting the Council on Tribunals about the proposed Rules of Procedure for Electricity Acts inquiries, I think it would be right now to go ahead with a statement, even if it has to be formally repeated later under the Rules when they come into force. Parties considering their approach to the inquiry, as I believe the relevant local authorities are, would I am sure find an early statement helpful.

I agree with you that there is likely to be increasing pressure for Government financial aid to objectors at the inquiry, and that our response should be concerted. Our officials are of course in touch about the line to be taken in dealing with correspondence on the subject.

I enclose a draft of an arranged PQ and answer, which I intend to issue as soon as possible. You will see that I intend to combine the statement on terms of reference with the announcement of my appointment of Sir Frank Layfield as Inspector.

I am copying this letter to the Prime Minister, the Lord Chancellor, the Secretaries of State for Scotland and Wales, and the Secretary of State for Transport.

Yours ever

David

D A R HOWELL

DRAFT

Q. To ask the Secretary of State for Energy, if he is able to make a statement about the terms of reference for the Sizewell B PWR inquiry.

A. In considering whether the proposed power station should proceed, I will take into account the economic, environmental and safety aspects which would be involved, as well as planning aspects. On the information so far available to me it appears that the following points will be relevant:

a) the Central Electricity Generating Board's requirement for the power station in terms of the need for secure and economic electricity supply and having regard to the Government's long-term energy policy;

b) the safety features relevant to the design, construction and operation of the station and in particular the views of the Nuclear Installations Inspectorate on its licensability;

c) the arrangements for waste management, in the light of the views of the authorising Departments;

d) the implications of the proposed development (including both construction and operation) for:

1) agriculture and fisheries
2) local employment
3) water supply and disposal
4) transport requirements
5) coast protection
6) housing and public services generally
7) local amenities and in particular areas of special landscape value or nature conservation interest

I am pleased to announce that I am appointing Sir Frank Layfield QC to act as Inspector at the inquiry.

B/F

NEW ST. ANDREWS HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

CONFIDENTIAL

14 July 1981

Rt Hon David Howell MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON
SW1

Dear David

SELECT COMMITTEE REPORT ON NUCLEAR POWER

Thank you for copying to me your minute of 6 July and the attached draft response to the Select Committee on Energy's report on nuclear power. I have no comments to offer on the draft.

I am copying this to the Prime Minister, the other Members of E Committee, Sir Robert Armstrong and Robin Ibbs.

Yours ever,

George.

PA WR 14/7

Energy

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

From the Private Secretary

Julian West Esq
PS/Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON SW1P 4QJ

14 July 1981

Dear Julian

SELECT COMMITTEE REPORT ON NUCLEAR POWER

The Lord President has seen a copy of your Secretary of State's minute of 6 July and the draft White Paper giving the Government's response to the Select Committee on Energy's report on the nuclear power programme.

The Lord President is generally content with the draft of the White Paper, subject to one small point. The reference in paragraph 9.03 to relocation expenses for the Nuclear Installation Inspectorate implies that no assistance is provided. In fact, we are considering the possibility of raising the existing ceiling. We suggest that lines 14 to 16 should be amended as follows to make this clear:

> "The Government is therefore reviewing the Inspectorate's current salary levels and the ceiling on the reimbursement of expenses incurred by new recruits to the NII and other shortage grades on first appointment."

Copies of this letter go to Private Secretaries to members of E Committee, the Secretary of State for Scotland, Sir Robert Armstrong and Robin Ibbs.

Yours ever,

Edward Chaplin

E G M CHAPLIN

CONFIDENTIAL

R H

FILE

13 July,1981

Select Committee Report on Nuclear Power

The Prime Minister was grateful for your Secretary of State's minute of 6 July. She has also seen the Chief Secretary's letter of 10 July.

Subject to the comment made by the Chief Secretary, the Prime Minister is content with your Secretary of State's proposed draft reply to the Report of the Select Committee on the Nuclear Power Programme.

I am copying this letter to the Private Secretaries to the members of E Committee, the Secretary of State for Scotland, David Wright and Robin Ibbs.

W. F. S. RICKETT

J West, Esq
Department of Energy

CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG

Julian West Esq
Private Secretary to
Rt Hon David Howell MP
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1

10 July 1981

Dear Julian,

SELECT COMMITTEE REPORT ON NUCLEAR POWER

The Chief Secretary has seen a copy of your Secretary of State's minute of 6 July in which he seeks agreement to the draft of a White Paper giving the Government's response to the Select Committee on Energy's report on the nuclear power programme.

The Chief Secretary is generally content with the draft of the White Paper, subject to one small point. This is that paragraph 3.08 should be revised so as to omit the commitment to publish new energy projections during 1981-82. The Chief Secretary suggests this because there is always difficulty in deciding the assumptions (eg on GDP growth) which have to underlie such projections. He would therefore prefer that the Government was not committed to their publication, particularly before a specified time.

I am sending a copy of this letter to the Private Secretaries of the members of E Committee, the Secretary of State for Scotland, Sir Robert Armstrong and Robin Ibbs.

Yours ever

Terry Mathews

T F MATHEWS
Private Secretary

Energy cc A. Duguid

WM 11/7

CHIEF SECRETARY TO THE TREASURY

PRIME MINISTER

FAST REACTOR COLLABORATION

I have seen a copy of David Howell's minute of 3 July in which he reports the position on the discussions about fast reactor collaboration.

2. I recognise the reasons why it has not proved possible to produce the full evaluation of the three main fast breeder options which was agreed at E(80)46th Meeting, ie collaboration with the Europeans or with the Americans or taking a holding position to keep a core team to act as informed purchasers of fast reactor technology when the UK needed it. But I hope that further discussion of fast reactor policy will not be delayed too long. The Atomic Energy Authority is spending over £100 million a year on fast reactor research and depending on our decisions, some of this expenditure could be wasted. Decisions ought therefore in my view to be taken as quickly as possible.

3. I am copying this minute to the members of E Committee, Sir Robert Armstrong and Robin Ibbs.

L.B

LEON BRITTAN

10/7/81

cc Press

CONFIDENTIAL

Prime Minister

I understand the DoEnvironment may query whether a robust statement in support of our nuclear policy and the PWR is wise in the run up to the PWR Inquiry. But the nuclear industry, especially in its present state, needs a firm lead. The Treasury is content subject to one small point (attached). Agree our Howell's statement?

Flag A

Yes subject to Treasury point. MT

PRIME MINISTER

SELECT COMMITTEE REPORT ON NUCLEAR POWER

As you know, earlier this year the Select Committee on Energy published its report on the nuclear power programme. A summary of the main points is attached. My Department has been considering the report, in consultation with relevant bodies, including the Scottish Office and the CEGB. I now attach my proposed response, which subject to the views of colleagues I propose we should publish as a White Paper before the Summer Recess.

The response is divided into two sections. The first takes the form of a policy statement which re-affirms our belief that a nuclear ordering programme of sensible proportions is vital if the nation's longer term energy needs are to be met with confidence. The second section, which includes a number of specific undertakings on the Government's part (where action is, in all cases, already in hand), deals in detail with the main issues raised by the Committee. I believe this to be the right approach and that a robust statement is necessary in the light of recent criticisms of our policy.

At the same time, the response stresses the flexibility of our position, in particular our commitment to authorise orders for future nuclear power stations only as and when we are satisfied that a genuine need exists.

The Select Committee report was wide-ranging, and the response does not set out to deal with every point raised. However, I believe our response demonstrates that nuclear orders of the scale we envisaged in 1979 (up to an additional 15 GW by the end of the century) remain a reasonable prospect. The response makes

clear that we shall keep electricity demand forecasts under continuous review, taking account of the scope for energy conservation; that we are committed to safe nuclear power, fully compatible with the environment; and that an absolutely vital factor will be the industry's ability to build future nuclear power stations to time and within cost.

The response also takes account of the criticisms of the CEGB made independently by the Monopolies and Mergers Commission after the Select Committee had reported. However, it does not pre-empt full consideration by the CEGB of the MMC's findings - particularly the Commission's criticism of the CEGB's methods of economic appraisal. I will be dealing seperately with these points at an appropriate stage.

I hope this response will commend itself to my colleagues. As you know, replies to Select Committees are normally expected within six months at latest. Ian Lloyd is pressing us to publish this response before the summer recess, and I have told the House that we shall be so doing. I would hope we could find time for a Parliamentary debate in due course.

Officials in other Departments have been consulted in preparation of the draft. To enable the timetable to be met I would welcome my colleagues clearance of the draft by no later than Tuesday 14 July.

I am copying this minute to members of E Committee, the Secretary of State for Scotland, Sir Robert Armstrong and Robin Ibbs.

DG.

Secretary of State for Energy
6 July 1981

SELECT COMMITTEE REPORT ON THE NUCLEAR PROGRAMME - SUMMARY OF CONCLUSIONS

1 The report broadly endorsed the need for continuing nuclear power station orders, and specifically for the proposed PWR, on which a public inquiry is to be held next year. However the Report repeatedly questions the need for a 15GW nuclear programme, and calls for each proposed new nuclear station to be considered on its merits. The tone of much of the report and its 91 recommendations is critical of the Government and the Generating Boards. The report is concerned with policy on thermal reactors and not with the fast reactor.

2 Main points in the report are as follows:

a) Nuclear Programme

The Committee accept that a modest investment in nuclear power can probably be justified and recommend that the Government should adopt a programme of a single thermal reactor type as soon as the uncertainties have been clarified. But they are not convinced of the need for the full 15 GW programme, and argue that the case for each successive station should be evaluated on its merits.

b) Electricity Demand

The Committee conclude that the Department and the electricity boards are over-estimating future electricity demand. They recommend that the Government should review the 28% planning margin, that the Department should give more thought to the economics of conservation as compared to nuclear power, that the case for converting oil fired plant to coal should be examined, and that the CEGB and SSEB should integrate their planning.

c) Economics of Nuclear Power

The Committee recognise that nuclear plants built ahead of need could be economically attractive. But they stress the very large resources involved and the costs if things go wrong. They criticise the CEGB's attitudes on costs and their acceptance of higher costs in the UK than abroad and they point out that even if the PWR is the right choice for the UK we could still be at a disadvantage internationally unless the CEGB are able to reduce their costs. They recommend that the CEGB should publish objective appraisals of the economic case for each proposed nuclear station and that none should be ordered simply because they form part of the 15 GW programme.

d) Reactor Choice

The Committee accept that the Government are right to establish an alternative option to the AGR. But they say they have been struck by some of the evidence on the technical difficulty of analysing PWR safety. They criticise what they see as a failure to examine CANDU seriously or to give proper consideration to the possibility that the PWR will fail to gain acceptance and they recommend that Candu should now be assessed urgently. In view of Candu's uranium economy they also recommend a study of the implications for thermal and fast reactor policy of future uranium supply.

The Committee conclude that there was a case for not ordering both AGRs and criticise the Government for not making available the CPRS study.

They argue that at present both the AGR and PWR designs must be regarded as prototypes only and that the CEGB will not be able to make a reliable estimate of PWR costs until the first station is within sight of completion. They recommend that the CEGB should publish a detailed appraisal of the AGR and PWR construction programmes before the next station after the first PWR is ordered.

However the report also says that there should as soon as possible be a clear commitment to one reactor system for indigenous development so that the industry can focus its efforts in a single direction with a guarantee of continuity of work.

e) Uranium Supplies

The report comments that it would be inexcusable if a failure to examine in depth now the implications for thermal and fast reactor policy of future uranium supplies were to lead to the need for the UK to "change horses" to another type of thermal reactor in 10-15 years' time. The Committee therefore recommended that a thorough study of these issues should be made by the Chief Scientist at the Department of Energy, and published.

f) Power Plant Industry

The Committee casts doubt on the future economic viability of the fragmented UK power plant industry (given the likely level of future nuclear orders); suggests that this and the accompanying "Buggins turn next" in the placing of orders may add to the cost of plant; and by implication questions whether we should afford to maintain an independent domestic nuclear plant industry, or whether we should go for truly competitive tendering

on an international basis.

g) Isle of Grain

The Report comments on the Isle of Grain dispute, citing it as an example of the bad performance of British large site construction industry, and laying a large measure of the blame on CEGB. It expresses concern that similar problems might render future nuclear power station projects uneconomic, and strongly supports the implementation of the recommendations of earlier studies of this problem (Wilson 1969, NEDO 1980, and NEDO 1976) in particular with regard to industrial relations and project management.

k) Environment

The Report refers to the pollution effects of coal fired electricity generation and remarks that anti-pollution measures will affect the relative costs of coal-fired plant. However it also endorses the view of the Flowers Report that there should be no commitment to a substantial programme of nuclear power until waste disposal (and transport - which Flowers does not mention) problems can be managed safely.

l) Public Inquiry /Parliamentary Debate

The Report makes various suggestions about the conduct and scope of the Sizewell Inquiry including the need for an interval of 4 months between publication of the NII Report and the start of the Inquiry. It calls for an early Parliamentary debate on the December 1979 statement and suggests a further debate after publication of the Sizewell Inspector's report.

Department of Energy

2 July 1981

THE GOVERNMENT'S RESPONSE TO THE SELECT COMMITTEE ON ENERGY'S REPORT ON THE NUCLEAR POWER PROGRAMME

Introduction

The Government welcomes the Select Committee's report on the nuclear power programme as a valuable contribution to the public debate on the appropriate level of nuclear ordering and on reactor choice.

The Select Committee's report is wide-ranging; its recommendations cover many issues. This response is divided into two sections. The first deals with the Government's strategic approach to nuclear energy and comments on the main issues raised by the Committee. More detailed observations are in the second section.

SECTION 1

THE GOVERNMENT'S NUCLEAR ENERGY STRATEGY

Background

1.01 The starting point for the Committee's investigations was the statement by the Secretary of State for Energy on 18 December 1979. That set out the Government's view that a sizeable contribution by a nuclear power would be necessary to meet Britain's long-term energy needs.

The Government's Nuclear Strategy

1.02 The Government has a duty to ensure as far as possible that both now and in the future Britain has available at a competitive and economic price secure supplies of energy sufficient to sustain economic activity, to accommodate growth, and to provide for our people's personal welfare. At present this security comes from dependence on oil, gas and coal (largely our own in each case), and to a far lesser extent on nuclear power. A supply of energy from one source is subject to interruptions from time to time, so that it is prudent to establish as wide a range of options as possible. Furthermore, although as a nation we do not know exactly what reserves of oil and gas we may yet find or how demand will develop, we do know that our oil and gas resources are finite. We must therefore provide for the period when supplies begin to decline and extraction costs escalate. This may entail marked shifts in this country's pattern of energy consumption. For example, the Government would expect energy conservation to have a bigger impact on

the level of total demand, and would also expect that, in the longer term, coal will play a larger role than at present. But taking account of these changes, the Government still sees an important and necessary role for nuclear power, which will develop in years ahead as older electricity generating plants are retired. It would be dangerously short-sighted to ignore this reality now, especially after a quarter of a century of the safe development of nuclear power in this country.

1.03 The Government therefore welcomes the Select Committee's recognition of the need for continuing orders for nuclear power stations.

1.04 The Government is anxious that the country should have a reliable and cost-effective reactor system available for ordering as necessary. It also recognises that large industrial electricity consumers are concerned about the price of supplies in Britain compared with prices elsewhere in Europe. Nuclear power has the potential to produce electricity more cheaply than fossil fuels provided that new power stations can be built to time and cost. It will be difficult for the industries which supply nuclear power stations to keep their costs down unless they have reasonable prospects of future orders and achieve good performance. The orders placed in 1980 for the two Advanced Gas-Cooled Reactors (AGR) to be built at Heysham and Torness were the first domestic nuclear power orders for a decade, and the industry therefore faces a major challenge in securing their successful and timely completion.

The Existing Framework

1.05 The Secretary of State's 1979 statement recognised this need for a long term framework within which future nuclear orders could be planned. The electricity supply industry (esi) had advised that, even on cautious assumptions they foresaw a need to order at least one new nuclear power station a year in the decade from 1982 or some 15 gigawatts (GW) over 10 years, and the Government accepted that orders of this magnitude represented a reasonable prospect for planning purposes.

1.06 But, as the Select Committee observes, the statement did not represent a commitment to any fixed programme of nuclear orders. It pointed out that "the precise level of future ordering will depend upon the development of electricity demand and the performance of the industry". The Government keeps under review all the factors which were taken into account in assessing the likely need for orders. However, at the present time it does not believe that developments since 1979 justify any major policy reappraisal, subject as before to flexibility over the precise timing of individual orders.

1.07 The December 1979 Statement also recognised the need to develop the option of an alternative reactor to the AGR. The Government welcomes the Select Committee's agreement that it is right to establish an alternative for future orders.

Reactor Choice

1.08 The Government believes that this alternative should be Pressurised Water Reactor (PWR) and that the next nuclear station ordered should, subject to necessary consents and safety clearances, be a PWR. The world has more experience of operating the PWR than any other reactor type. Work is proceeding on the design and preparation of the safety case with a view to a public .nquiry in 1982.

1.09 In arriving at the choice of the PWR, the Government carefully considered other possibilities including the Canadian designed system. The starting point for considering the options was the Thermal Reactor Assessment (TRA) carried out by the National Nuclear Corporation (NNC) and submitted to the Department in July 1977. This report concentrated on the AGR, the PWR and the Steam Generating Heavy Water Reactor (SGHWR) and recommended that the SGHWR should be dropped - on the grounds that operational experience of a commercial size reactor could not be available for 10 years; that it was the most costly and that it would require considerably larger expenditure on development than both the AGR and PWR together. CANDU was not included in the TRA because it was considered that it had much in common with the SGHWR and the latter (using enriched uranium) was potentially a cheaper source of electricity. However, in parallel with the TRA, NNC undertook a study of CANDU which confirmed that capital costs would be considerably higher than of any of the other reactor types under consideration. This, and the fact that substantial and costly development work would be needed to adapt CANDU for operation in UK conditions, led the Government to conclude that the PWR was a more promising option.

1.10 Since then the industry has been concentrating its efforts on developing the design of a PWR nuclear power station (based on the Westinghouse Nuclear Steam Supply System) suitable for UK conditions and requirements. The Government thinks that the key to a successful nuclear programme is to concentrate effort and considers that the Select Committee's call for the adoption of a realistic programme of a single reactor type supports this view. It therefore regards as misconceived the Committee's suggestion that a further in depth assessment of CANDU should be undertaken prior to any final commitment to building a PWR at Sizewell, given the time that would be required, to bring CANDU to the same stage of development in relation to adoption in the UK as the PWR has now reached, the diversion of effort and potential dislocation of the existing thermal reactor programme that this would involve, and the relatively higher capital costs of the CANDU system.

Conclusions

1.11 The prospect of a further series of nuclear power station orders represents a necessary step towards ensuring the security of the nation's energy supplies over the longer term. However even the modest level of ordering envisaged in the 1979 statement is unlikely by the year 2000, to result in more than 30% of total electricity generating capacity being nuclear. The nation will therefore still remain heavily dependent upon fossil fuels.

1.12 The Government rejects criticism that a potential nuclear commitment of this order is excessive. However the approach is flexible. The Government will keep its strategy under review and does not propose to authorise specific new nuclear power station orders until it is fully satisfied that each is justified.

1.13 The Government welcomes the Select Committee's recognition of the important contribution that nuclear power can make to meeting our energy needs. It will use its best endeavours to secure an early opportunity for Parliament to debate the Committee's report and this White Paper.

SECTION II

DETAILED OBSERVATIONS ON THE SELECT COMMITTEE REPORT

2.01 This section sets out some of the more important considerations that have influenced Government strategy towards nuclear energy, and comments on some of the detailed views expressed by the Committee. The Government will take careful account of all the observations made by the Committee - whether or not directly commented upon here - as its policy continues to develop; and in the wider context of its overall energy strategy.

Summary

2.02 For convenience, a summary of the main points in the succeeding chapters of this section is given below:

Electricity Demand Projections (Chapter 3)

As has always been recognised, there are many uncertainties about electricity demand over the longer term. The Government will keep the projections under review. If a modest degree of economic growth is assumed, and allowance made for a good deal of success with life extension of existing plant, around 20 GW of new generating capacity could be required by the end of the century. This makes allowance for savings resulting from the successful application of energy conservation policies.

To ensure that a realistic approach to forward planning is taken, the Government is taking the following steps:

- it has asked the Electricity Council to undertake a study of the generation security standard in England and Wales, consulting representatives of electricity consumers in so doing.

- it is seeking advice from the Central Electricity Generating Board (CEGB) and South of Scotland Electricity Board (SSEB) on whether the scope for closer co-operation and co-ordination of investment planning might be likely to lead to the achievement of worthwhile savings;

- the Department of Energy will carry out further research into the relative costs and benefits of investments in energy conservation and energy supply.

Economics of Nucear Power (Chapter 4)

The Government notes the criticisms of aspects of the CEGB's approach to investment appraisal made by the Select Committee and the Monopolies and Mergers Commission. The CEGB have been asked for urgent proposals for improvement in this area.

The Generating Boards will continue to prepare economic appraisals of each new station as it is put to the Government for approval of the proposed investment.

The Government agrees with the Select Committee that as much information as possible about the economics of proposed future power stations should be made available to the public.

Thermal Reactor Choice (Chapter 5)

The Government welcomes the Select Committee's support for the establishment of an alternative option to the AGR for future nuclear station orders. It remains the Government's view that, subject to the necessary consents and safety clearances being obtained, the PWR is the appropriate alternative.

Uranium Supplies (Chapter 6)

A recent study of future uranium supplies by the Government,and a separate study by the 60 nation International Nuclear Fuel Cycle Evaluation (INFCE) both concluded that uranium supply should be adequate to meet realistic projection of demand to 2025. On the basis of these studies there is no evidence that the price or availability of uranium will require the UK to change to another thermal reactor type in 10-15 years.

Power Station Construction Performance (Chapter 7)

It is vital that future power stations should be built to time and cost.

Nuclear Industry Organisation (Chapter 8)

The Government does not consider major organisational changes necessary. However, it does consider that the National Nuclear Corporation (NNC) should evolve into a strong and independent design construction company. It is currently reviewing with both the Corporation and the Generating Boards how the Corporation's role in relation to the major financial risks involved in nuclear power station construction could be strengthened.

Safety and the Nuclear Installation Inspectorate (Chapter 9)

The Government attaches overriding importance to the need for safe nuclear power, fully compatible with environmental considerations, both in regard to power generation, and also in regard to the transport of irradiated fuel and disposal of nuclear waste. It endorses the Select Committee's view that the role of the Nuclear Installations Inspectorate, and the proper allocation of responsibilities for different aspects of safety, are crucial.

Sizewell PWR (Chapter 10)

As already announced by the Secretary of State for Energy, the Government is committed to a full and thorough public inquiry into the CEGB's application for consent to build this station.

Electricity Demand Projections

Electricity Supply Industry Forecasts

3.01 The electricity supply industry (esi) and the Department of Energy keep their respective projections of electricity demand, and the need for new generating capacity, under constant review.

3.02 As the Select Committee recognises, any longer term planning guidelines for the construction of nuclear power stations must be determined, among other factors, from a view of the need for new capacity as far ahead as 2000. This view, in its turn, must depend on expectations of future demand for electricity, and the rate at which existing capacity becomes obsolete or uneconomic. There are major uncertainties in any such forecasting, and the projections made by the industry and the Government therefore cover a wide range of possible outcomes.

3.03 However, as far as England and Wales are concerned the CEGB have examined a reference case of economic development and electricity demand up to the year 2000 which is basically an extension of the demand estimates adopted by the esi in October 1980. In this GDP is assumed to grow by 1.3% per annum to the year 2000, with a consequential growth in electricity demand of 0.9% per annum. Potential higher and lower demand scenarios are also considered ranging on the one hand from no economic growth and no growth in electricity

demand to an economic growth of around 2.6% p.a. with a 1.7% p.a. growth in electricity demand. The need for new generation is assessed against the reference case, taking account of various outcomes for the life of existing and committed generating plant; these range from the decommissioning of all fossil-fired plant after 30 years to the achievement of a 40-year life by all existing coal-fired units of 60MW and above.

3.04 The CEGB analysis concludes that:

i. The plant to be retired between now and the year 2000 (including all the 3.4 GW Magnox capacity) would be in the range of 15-35 GW, dependent upon the achievement of a 40 or 30 year life respectively.

ii. On the higher assumption about life extension i.e. a 40-year life for coal plant, 20 GW of new capacity would be needed by the year 2000 on the demand estimates in the reference case; this would be reduced to a minimum of about 8 GW on the assumption of no electricity growth and rise to around 30 GW for a higher demand growth. If plant life were only about 30 years, these requirements for new plant would be increased by up to 20 GW.

iii. The technical and economic feasibility of achieving a 40-year life for most coal-fired plant is a critical factor.

3.05 These projections are now the best part of a year old and will be subject to a regular review in the course of the normal CEGB planning process. In particular, the CEGB's continuing review of the evidence for extending the lives of existing generating sets is giving increasing confidence that the majority of large modern coal-fired units (500 MW and above) could approach a life of 40 years. However, no 500 MW unit has as yet run for longer than 15 years and it would therefore be imprudent at this stage to plan on the basis that all existing conventional plant will certainly attain a life of 40 years. It would also be unsafe to assume that electricity demand in England and Wales will remain static to the end of the century. If a modest degree of growth is assumed, and allowance made for a good deal of success with life extension, the new capacity required in England and Wales would be around 20 GW by the end of the century.

3.06 Department of Energy forecasts. In 1979 the Department of Energy completed a main projection of electricity demand in England, Scotland and Wales up to the end of the century; and this has since been supplemented by a lower growth sensitivity case. This last case assumed an average annual growth rate for GDP of about 1% compared with the 2.0% and 2.7% growth rates assumed for the two variant cases in the main exercise. In the main exercise, assuming normal rates of plant retirement (coal and oil at 30 years, nuclear at 25 years), it was estimated that up to a total of 40 GW of nuclear generating

plant would be required by the year 2000. This decreased to a total of some 25 GW in the lower growth sensitivity case.

3.07 The Department's analysis allows for a reduction in energy demand through energy conservation of about 20% by the year 2000.

3.08 The Department keeps its energy projections under review and will publish revised projections during 1981/82.

3.09 Private Generation. The Goverment intends to remove the statutory prohibition of the supply of electricity as a main business when a suitable legislative opportunity arises. Under existing legislation it is possible for private concerns to generate and supply the bulk or even the whole of their output of electricity to others provided it is not their main business. At present some 15% of the electricity consumed by industry is privately generated and some 7% of overall electricity demand is met by the private sector.

3.10 The proposed legislative change is not expected to lead to large changes over the planning period in the level of demand for electricity from the esi. If, however, it becomes clear that private generation is expanding more than expected, forecasts will be adjusted accordingly.

3.11 Economic and market factors will be paramount in influencing future development. Small-scale generation is more likely to be competitive with public supply where both heat and electricity are produced in CHP plants. The availability of capital will also be an important factor.

3.12 Security standards and the Planning Margin. The Committee argue that, because of the high resource cost of retaining a 28% planning margin indefinitely, the Generating Boards should give higher priority to achieving improvements in plant reliability with a view to reducing the planning margin to a much lower level as soon as practicable. In addition, the Government should review the standard of electricity supply security.

3.13 The Monopolies and Mergers Commission commented on security of supply and the planning margin in their report on the CEGB, published in May 1981. The Commission believes that the issue of security standards required further study by the Electricity Council, and that any future review should involve consultation with representatives of consumers. The Commision welcomed the CEGB's intention to reconsider the margin before it again becomes relevant to plant orders.

3.14 The Government has asked the Electricity Council to undertake a study of the generating security standard in England and Wales, in consultation with representatives of electricity consumers.

3.15 Co-ordination of Planning between CEGB and SSEB. The planning of investment in new generating capacity is in the first instance a matter for the Generating Boards and it is their primary responsibility to provide electricity supplies within their own districts. The Government has, however, noted the Select Committee's recommendation in favour of "fully integrated planning" by the two Boards. The latter have been asked for their advice on the scope for closer co-operation and in particular whether closer coordination of investment planning, taking account of the plant and load position on both sides of the border, might to lead to the achievement of worthwhile savings.

3.16 Scope for Converting from oil to coal. The Select Committee, while recognising the technical difficulties, considered that the possibility of converting the esi's new oil-fired capacity to dual-firing should be thoroughly investigated in order to make economic use of this substantial investment.

3.17 The high price of heavy fuel oil means that the esi have a strong incentive to reduce their oil burn: and oil has declined, for example, from roughly 25% of the CEGB's fuel-burn in the early 1970's to less than 10% in 1980. No oil fired stations in Great Britain are currently being used for base-load generation.

3.18 The Government keep this matter under review with the Generating Boards and are, in particular, discussing it with the CEGB in the light of the view, expressed in paragraph 5.168 of the Monopolies and Mergers Commission report, that reconversion should be urgently studied. A significant though uncertain factor is the future trend in real oil prices.

3.19 Energy Conservation. Paragraph 32 of the Select Committee's Report stated that "the Department of Energy has no clear idea of whether investing around £1300 million in a single nuclear plant (or a smaller but still important amount in a fossil fuel station) is as cost effective as spending a similar sum to promote energy conservation". It went on to recommend that the Department of Energy should assess in future, as it should have done in the past, the economics of public expenditure to promote energy conservation with the same rigour as that required for the appraisal of new generating plant.

3.20 The evidence on which the Committee's conclusion and recommendation were based (Evidence p617) made clear that the Department has carried out a continuing analysis of the relative costs and benefits of investments in energy conservation and energy supply. The analysis has involved a combination of investment appraisals of individual conservation measures and surveys to discover the potential application of such measures.

3.21 The results indicate a large potential for investment in energy conservation some of which is more cost effective from a national point of view than investment to increase energy supply. However the implications of this potential for either the energy supply industries investment programmes or the resoerces which should be devoted to Government promotion of energy conservation are not straightforward.

3.22 For the fuel supplier, the actual reduction in fuel consumption resulting from conservation investment reduces current and future demands for the fuel. This reduces both the immediate and future operating costs of existing capacity and the need to invest in increased capacity, so saving further capital costs. However, the implications of reduced energy demand for the energy supply industries' investment programmes are not clear-cut. The impact of energy conservation on the individual fuel supply industries depends on the size and timing of the reductions in consumption of individual fuels which the measures bring about. This is particularly difficult to assess because:-

i. it is difficult to allocate the savings from most types of conservation measures to specific individual fuels. For example, domestic insulation (see below) will result in a saving of all the fuels currently used for space heating. Even if the fuels used in particular circumstances were to be indentified, fuel substitution could result in many of these being changed over the planning and construction period associated with energy supply investment;

ii. most calculations of the cost effectiveness of conservation measures relate to total annual savings and cannot identify savings made at peak periods of demand (which are crucial to assessment of the need for increased capacity) or the consequences for base-load generation.

iii. in many cases fuel consumers may choose to take part of the benefits of conservation measures in increased standards of service provided by fuels, so that the full potential fuel savings included in the analysis of cost effectiveness may not be achieved in practice.

3.23 In this context it is worth pointing out that domestic space heating accounts for only a small share of total electricity demand: in 1978 it was estimated that only 7% of domestic heating was by electricity, which represents around 9% of total electricity demand. Thus, even if every electrically heated household could save 20-25% of their consumption by installing loft and other cost effective forms of installation, total electricity demand would be reduced only by about 2%. A reduction in demand on this scale would have little effect on the economic justification for new nuclear power stations.

3.24 Decisions on energy consumption and energy conservation are taken by individual energy consumers on the basis of their own perceptions of their individual circumstances. The Government cannot take these decisions but only influence them, and the Government believes that the strongest incentive to cost effective investment in conservation is through the economic pricing of all fuels. It also recognises the need to reinforce pricing policy with information and advice as well as regulation and financial incentives where these are appropriate. The need for new measures to reinforce the price mechanism is kept continuously under review.

3.25 As stated above (3.20) the Department of Energy also carries out regular assessments of the cost-effectiveness of various conservation measures. However, as was made clear in the Department's evidence to the Committee, the analysis is complicated. The work is not yet sufficiently advanced for detailed conclusions to be drawn. In an attempt to reduce some of the uncertainties involved the Department is commissioning further research and is analysing data.

3.26 However, on the basis of existing evidence, the Department does not believe that the choice is simply between investment in conservation and investment in new electricity generating capacity. Not only are there risks in underestimating future electricity demand through the non-achievement of expected energy conservation but, as stated above, it is also difficult to

allocate energy savings to individual fuels. Therefore, in the long-term, the Goverment concludes that the country needs both to invest in electricity supply and to improve steadily the efficiency with which all forms of energy are used.

3.27 Need for additional capacity - the Government's view. Against the background described in this chapter the Government considers that it is reasonable for the electricity supply industry to plan on the basis of a need for new generating capacity in England, Scotland and Wales of around 20 GW by year 2000.

3.28 Meanwhile the Government wishes to emphasise that each decision on new generating plant will be taken on its merits taking into account the need for fuel diversity, the economic assessment of the generation costs of different fuels, the development of electricity demand, the performance of the industry, and the extent to which extensions to plant life can be regarded as feasible and economic.

Economics of Nuclear Power

4.01 Past Performance. The Select Committee commented on the use of generating cost figures calculated on a historic cost basic. the Department of Energy's memorandum to the Committee [Evidence p4] made clear the Department's view that a comparison of the costs of generation from existing modern power stations does not provide an appropriate basis for decisions on investment in new capacity. This remains true whether or not such calculations take account of the effects of inflation, and also whether they examine the costs in one particular year, or over the life of the assets as any full appraisal should.

4.02 The CEGB figures quoted by the Department of Energy showed the actual money costs incurred in generating electricity from particular stations in a particular year using defined accounting principles. These are of course the CEGB's own figures. But to undertake a full appraisal of generating costs it is necessary to revalue capital costs and to take into account the effect of inflation on interest payments and the repayment of borrowing. It might also be argued that a full analysis should examine the effect on fossil fuel prices of not going ahead with nuclear,and the need to provide alternative generating capacity. All methods of presenting the results of previous decisions are open to debate. But the issues in this debate are not necessarily those which are relevant to the consideration of future decisions.

4.03 The Committee suggested in paragraph 117 of its report that there was undoubtedly a case for not ordering the two AGR stations at Heysham and Torness. The decision to order these stations was taken by the previous Administration and following a review was endorsed by the Government in April 1980. The main justification for the orders was that the additional nuclear capacity provided by these stations is expected to reduce the Generating Boards' costs and thereby help to contain electricity prices. The success of the stations clearly depends on their being completed so far as possible on schedule and within budget. With construction work now well under way and the major contracts largely concluded there appear to be good prospects of achieving this.

4.04 Economic Appraisal of New Capacity. In making their proposals for new generating capacity, whether to meet incremental demand or to replace high cost plant with lower capacity, the Generating Boards assess the economics of alternative ways of meeting their requirements against the background of the likely components of the generating systems as a whole. The total costs of the proposed new station over its life-time are calculated together with the savings which that station brings in the operating costs of the total system as a whole. The difference between these costs and benefits is the "net effective cost" of the station to the total system. The Boards conclude, on the basis of an appraisal of this kind, that nuclear power is the most economical source of new generation. The outcome of such an appraisal is by its nature, heavily dependent on key input assumptions concerning, for example,

capital costs, construction times and performance of stations, whether coal or nuclear, and the future course of the prices of both nuclear and fossil fuel, and in particular coal;it is therefore subject to a wide range of uncertainty.

4.05 The Government accept that it is appropriate to evaluate power station investment on this basis. The Government and the Boards also consider whether new stations are needed on capacity grounds. However, the Government notes that the Monopolies and Mergers Commission in their report on the Board published in May 1981 severely criticized some aspects of CEGB investment appraisal and, in particular, some of the assumptions made by the CEGB. The Secretary of State for Energy has asked the CEGB for their proposals for improvement, and the Board has in hand a programme of work on the development of its investment analyses and their presentation. This takes into account points made by the Commission on assumptions about coal prices and availability, power station construction times and costs, gas-cooled reactor performance and sensitivity analysis.

4.06 The Department of Energy carried out independent work on the economics of new power station investment in 1977; this led to the publication of Energy Commission paper number 6. This was used as the basis for further continuing work within the Department showing that if nuclear power stations can be built within cost and on time and if they then achieve satisfactory standards of performance, nuclear plant should be able to reduce the overall costs of power generation by displacing the use of fossil fuel stations in the system. This is an issue to which the Government attaches special importance.

4.07 The Boards will continue to submit economic appraisals of each new station when seeking Government approval for the proposed investment. This is in line with the Committee's recommendation. In considering these appraisals the Government will have in mind the wide range of uncertainty which surrounds the appraisals. The Government shares the Committee's view that as much information as possible about the economics of proposed future power stations should be made available to the public.

Reactor Choice

5.01 In 1974 the Government of the day published the report of the Nuclear Power Advisory Board on "The Choice of Thermal Reactor Systems". That report said "All members conclude that if the UK wishes to follow the heavy water route it would be better to continue with SGHWR, preferably in close co-operation with the Canadians, than to adopt CANDU. CANDU uses natural rather than low enriched uranium and requires much more heavy water; it is therefore a more expensive system in capital costs and one that would conflict with the UK's established position as an enriched uranium producer". In their statement accompanying the report, the Government said that in the light of the situation as then reported they "have decided that the Electricity Boards should adopt the pressure tube steam generating heavy water reactor for their next nuclear power station orders".

5.02 In 1976, Sir John Hill, then Chairman of the Atomic Energy Authority reported to the Secretary of State that in the opinion of his Board, in view of the change in circumstances since 1974, the development and construction of the SGHWR programme was no longer justified.

5.03 Later that year the Secretary of State asked the National Nuclear Corporation to undertake a comparative assessment of three reactor types - AGR, PWR and SGHWR. The National Nuclear Corporation's (NNC) report - the Thermal Reactor Assessment - which was submitted to the Secretary of State in July 1977 concluded that there was no case for adoption of the SGHWR.

5.04 Any reconsideration of the suitability of CANDU for UK conditions would therefore need to take account of the reasons for the 1974 preference for SGHWR over CANDU, the reasons why the development of SGHWR was later terminated and any intrinsic change in the relative merits of CANDU and SGHWR.

5.05 Comparison of SGHWR and CANDU. Ever since World War II those responsible for atomic energy development in the UK have maintained close contacts with developments in Canada. During the period from the late 1950's until 1977, whilst the Authority were pursuing the development of the SGHWR, there was an obvious close technical interest in pressure tube reactors and the intrinsic points of similarity and difference between SGHWR and CANDU were well understood. It was recognised that the use of enriched fuel and light water coolant in the SGHWR gave a greater degree of design flexibility, particularly in the demands on materials and a much reduced requirement for heavy water. On the other hand the natural uranium fuel of CANDU, although only giving a relatively short burn-up, gave savings in fuel cycle costs. UK studies always indicated an overall power cost advantage to the SGHWR. These factors were all taken into account in reaching the 1974 decision to prefer SGHWR.

5.06 Following the 1974 Government decision to proceed with an SGHWR programme technical links with Canada were strengthend and contacts involved the Nuclear Power Company (NPC) British Nuclear Fuels Ltd (BNFL), the Nuclear Installations Inspectorate (NII) and the Generating Boards as well as the Authority. Detailed discussions on engineering aspects took place between NPC engineers and their opposite numbers in Atomic Energy Canada Limited (AECL) Power Projects at Toronto. A team of AECL engineers visited the NPC to discuss design aspects in detail and comment on NPC proposals. The object was to ensure that AECL experience on the engineering of pressure tube reactors was being fully taken

into account in the design of the SGHWR. When the SGHWR came under review during 1977 it appeared, amongst other things, to be unattractive on grounds of cost. There was therefore no reason to believe that the potentially more expensive CANDU would appear to advantage in the Thermal Reactor Assessment and it was not one of the three systems recommended to and approved by the then Secretary of State for inclusion in the Department of Energy sponsored contract covering the Assessment work to be undertaken by NNC.

5.07 The Thermal Reactor Assessment advised against adoption of the SGHWR on the following grounds.

i. There would be no operational experience of commercial sizes for a decade.

ii. It would provide no chance of exports in the foreseeable future.

iii. It was clearly more costly than the PWR or AGR.

iv. It would require expenditure on development in the next 7 years considerably larger than both the PWR and AGR together in that period.

v. The import of heavy water would be a significant load on the balance of payments.

5.08 At the end of the Thermal Reactor Assessment in 1977 and 1978 NPC made a further review of CANDU which re-inforced their belief that all the above disadvantages with the exception of the first, applied even more strongly to CANDU, and therefore that CANDU would not have shown to advantage. The UKAEA also reviewed the situation and came to a similar conclusion.

5.09 It is relevant that the UK approach to safety requires that the Nuclear Installations Inspectorate must be satisfied that the plant to be built and operated is satisfactory and safe before they can grant first a construction and then an operating licence. This requires that a comprehensive fund of knowledge of the reactor system should be available and that design and development work on the system can provide the reassurance required. An important element in the 1976 recommendation not to proceed with SGHWR was the small programme of new stations likely and the trend to higher standards in a number of areas relevant to plant and operator safety. It proved difficult to justify the scale of the design and development programme needed to adapt the existing designs of SGHWR to the higher safety standards required.

5.10 Similarly, in the case of CANDU, the designs of the mid 1970s had not fully caught up with world trends towards tighter safety standards. In particular the CANDU design did not have a high pressure emergency cooling system. There were doubts concerning the amount of additional work that would be required to adapt the CANDU design for operation in UK conditions and the impact this would have on the costs. There was also the difficulty of the time needed for the NII to familiarise themselves with the system. The Inspectorate had

become familiar with the UK systems AGR and SGHWR by keeping in touch with their evolution. Two years had been invested in making a generic safety study of the PWR; thiswhich had been facilitated by the extensive information available internationally. There was little published information on the details of CANDU safety aspects and a corresponding uncertainty in foreseeing how long the familiarisation process might take.

5.11 In these circumstances, it seems doubtful whether a new technical assessment of CANDU could affect the overall conclusion reached following the Authority's recommendation of 1976 and the Thermal Reactor Assessment of 1977. Moreover, a full assessment would be a major undertaking. To talk of an "in depth independent" assessment is a contradiction in terms. The Thermal Reactor Assessment of 1977 was conducted by substantial teams of expert engineers within the NPC with 60-90 engineers deployed on each system. CEGB and Atomic Energy Authority staff also contributed and the NII were kept fully in touch with developments. Effort on this scale could not be reassembled without jeopardising the present thermal reactor programme; anything less, especially if conducted by "independent experts" i.e. outside the Industry, would not compare in depth with the work already committed to thermal reactor assessment and could be misleading. A reappraisal of the situation would need to explore safety related matters in some depth since it is known that AECL have in recent years pursued an extensive programme of safety development and have been progressively and continuously improving safety provisions in plants in operation or under construction.

5.12 Moreover the Government wishes to see the uncertainties about the choice of reactor type for adoption in the UK minimised. It believes that further reconsideration of CANDU at this stage, as a third possibility, would divert resources within the industry at a time when every effort should be made to validate the existing PWR and AGR options, and would lead to a much extended period of uncertainty before adoption of a single thermal reactor type would be contemplated. The Committee's own call for adoption of a realistic programme of a single reactor type as soon as possible seems to support this view.

5.13 The Government therefore concludes that there is no case for an in depth independent assessment of CANDU at the present time, and re-affirms the view that, subject to the necessary consents and safety clearances being obtained the PWR is the appropriate alternative to the AGR.

Uranium Supplies

6.01 The Select Committee commented that it would be inexcusable if a failure to examine in depth now the implications for thermal and fast reactor policy of future uranium supplies were to lead to the need for the UK to "change horses" to another type of thermal reactor in 10-15 years' time. The Committee therefore recommended that a thorough study of these issues should be made by the Chief Scientist at the Department of Energy, and published.

6.02 In 1979 the Government undertook a thorough study of future uranium supplies in consultation with BNFL, the UKAEA, the CEGB, the SSEB and the Institute of Geological Sciences. Leading UK mining companies and the Uranium Institute were consulted in confidence, about the review's conclusions. The group first met in March 1979 and reported in November 1979. Its report was endorsed by the Government last year. The principal conclusions of the study were:-

i world uranium resources were probably adequate to meet the lifetime requirements of all reactors likely to be installed by the end of the century; although physical availability of supplies might be constrained for any of a variety of reasons.

ii the excess of supply over demand was expected to increase during the mid to late 1980's. Supplies would probably tighten during the 1990's.

iii there seemed no insuperable difficulties in the way of the UK's meeting its uranium requirements up to the turn of the century. Stocks were sufficient to enable any sudden interruption of deliveries to be weathered, but some diversification of sources of supply was desirable.

iv UK procurement policy was sound.

v the balance of uranium supply and demand should be kept under review.

6.03 Some of the information fundamental to the study's conclusions was provided on the strict understanding that its confidentiality would be preserved for commercial reasons. It was therefore decided that the report could not be published. This consideration still applies.

6.04 A thorough study of the world-wide balance of uranium supply and demand was also made by the 60-nation International Nuclear Fuel Cycle Evaluation (INFCE), whose report was published in February 1980. INFCE's conclusions were similar to those of the UK Uranium Review for the period up to the year 2000. The Evaluation's comparisons showed the need for new sources of uranium production before the end of the century as well as the importance of fuel efficient reactor strategies. The overall conclusion was that uranium supply should in technical terms be adequate to meet realistic projections of demand to 2025 although there is obviously great uncertainty about the longer term projections of demand and of uranium production. Since the UK Uranium Review and the INFCE Report, projections of world uranium demand have decreased owing to delays and

cutbacks in nuclear programmes in many countries, and the INFCE conclusion that with advanced reactor technologies supplies should be adequate to meet world demand to 2025 still holds good. Judgements about the political availability of uranium, and about the uncertainties affecting supply and demand, may however affect the choice of reactor type, and INFCE studied the different ways of reducing uranium requirements.

6.05 One of INFCE's conclusions, which bears specifically on the Committee's recommendation, was that there are ways of reducing the uranium consumption of all thermal reactor fuel cycles. Uranium consumption in AGR's and PWR's could be reduced by modifications to allow increased fuel burn-up in the reactor, by recycling plutonium in the reactor fuel, or by extracting a higher proportion of fissile uranium in the enrichment process. With further development thorium cycles could also be used in these reactors. All these improvements have their costs and would only be attractive options at higher uranium prices than at present. The risk of short term interruptions in supply can be reduced by stockpiling and by diversifying sources. The important point is that changing to another type of thermal reactor would not be the only or necessarily the most effective response to rising uranium prices or politically aggravated shortages.

6.06 In the longer term the fast reactor, with its outstanding fuel economy, promises to be a vital new energy resource, but the timing of its full scale commercialisation depends on future development in world uranium markets and is still uncertain.

6.07 There is therefore no evidence on the basis of these studies that rising uranium prices or uranium shortages in the period before the fast reactor becomes economic will require a change to another thermal reactor type in 10-15 years. For these reasons the Government does not accept the need to set in hand a further study of the implications for thermal and fast reactor policy of future uranium supplies.

Power Station Construction Performance

7.01 It is vital, if nuclear power is to generate electricity economically, that future nuclear stadions should be built to time and within budget. Experience in the UK in recent years with the building of power stations (whether nuclear or otherwise) has not been favourable. The Monopolies and Mergers Commission commended the CEGB's efforts to bring about improvements, whilst recognising that it will be some years before it can be seen whether these efforts have worked.

7.02 The performance of the Mechanical Engineering Construction Industry over many years has lefd much to be desired. Delays and cost escalation, such as those recounted for dhe Isle of Grain, are not due only to industrial relations difficulties. The Committee's report recognises this. However, all parties in the industry recognise that an improvement in industrial relations practices and procedurec on large sites could make a substantial contribution to performance. In this respect the Government welcomes the Committee's support for efforts to obtain a National Site Agreement for the Mechanical Engineering Construction Industry. The Secretary of State for Employment, at the request of the National Economic Development Council, has been keeping in touch with, and assisting these efforts which, at the moment, are progressing well.

Nuclear Industry Organisation

National Nuclear Corporation

8.01 The Government welcomes the Committee's view that the steps it has taken in re-structuring the National Nuclear Corporation (NNC) and Nuclear Power Company (NPC) into a single-tier organisation are sensible and right. It remains firmly of the view that, for a successful and efficient UK nuclear industry to be created, NNC should evolve into a strong and independent design and consdruction company. The Government recognises that the process of evolution will necessarily take some time to complete. It is currently considering with both the Corporation itself and the Generating Boards how the Corporation's role in relation to the major financial risk involved in nuclear power station construction could be strengthened.

Atomic Energy Authority

8.02 The Authority, through their Chairman, are one of the main sources of advice to the Secretary of State on nuclear power matters. Many of the Secretary of State's function in bespect of atomic energy in the 1946 Atomic Energy Act were transferred to the Authority by the 1954 Act, and the Chairman must necessarily report to the Secretary of State on the conclusions drawn from R & D work undertaken and from the Authority's knowledge of the industry. The Authority are effectively the principal (but not the sole) source of advice to the Secretary of State on scientific and technical questions linked to their own expertise and area of work. But, on the wider issues arising from nuclear power's

developing role in the economy, the Authority are one among many sources of advice to the Government. There is no statutory duty on the Authority to tender advice nor on the Secretary of State to seek it from the Authority.

8.03 The Government notes that the Committee's description of the Authority's specific duties in respect of the future nuclear programme is broadly in line with the current position.

8.04 The Government cannot, agree with the Committee's suggestion that all fast reactor work should revert from the NNC to the AEA. There has been a consistent trend in nuclear power developments, generally endorsed by the industry and independend observers, towards passing responsibility for reactor concepts approaching commercial design to the industry. The Government does not believe this trend should be reversed, and is satisfied that the resources currently deployed by the NNC on this work are not at the expense of work on the thermal reactor programme.

8.05 Neither can the Government accept the Committee's proposition that the Secretary of State should direct the transfer of staff qualified in applied ultrasonics from the Authority to the NII. It should be recognised that there is a significant difference between the roles of the NII and the Authority, and it might not be appropriate for NII to recruit their experts in this field solely from the Authority's R & D laboratories. Furthermore, the Government does not believe that the Secretary of State's power of direction is as extensive as the Committee suggested (See also 9.04).

The Department of Energy

8.06 As is noted above, the Secretary of State for Energy does not regard the Atomic Energy Authority as his sole principal source of advice on nuclear matters except where scientific or technical questions arise related to the Authority's own expertise and area of work. Advice is also received from the NNC, the Generating Boards, the NII, the nuclear power plant industry and from many independent observers. It is the role of the Department to ensure that the Secretary of State has access to advice covering the whole spectrum of the nuclear industry. Within the Department it is the function of the Atomic Energy Division to ensure that the various strands of advice are coordinated and related to other aspects of Government policy. In addition, the Department's Chief Scientist provides advice on nuclear matters. The Government believes that the recommendation of the Committee that the role of the Chief Scientist should be expanded to cover advice on nuclear matters is misconceived. The Chief Scientist already has responsibility to advise the Secretary of State on nuclear matters as part of his overall responsibilities for energy R and D, and does provide such advice. In order to strengthen the Chief Scientist's support in this field a technical expert on nuclear energy is being added to the Department's staff.

8.07 The Government considers therefore that in view of the undoubted quality of the technical advice available to the Secretary of State from the sources described above, it would not be appropriate for the Atomic Energy

Division to seek to make technical reassessments of its own; that any strengthening of the technical resources of the Division in order to do so would create unnecessary duplication at considerable cost, and have questionable benefits as regards the advice available to the Secretary of State.

Safety and the Nuclear Installations Inspectorate

9.01 The Government attaches over-riding importance to the need for safe nuclear power which is fully compatible with environmental considerations, both in regard to power generation and in regard both to the transport of irradiated fuel and to the disposal of nuclear waste for which the responsibility lies with the Secretary of State for Transport in the first case and with the Secretary of State for the Environment and the Secretary of State for Scotland in the latter. The Government endorses the Committee's view that public acceptability of nuclear power will be very largely based on confidence in the organisation of safety in the industry, in particular, in the role of the Nuclear Installations Inspectorate (NII) which is part of the Health and Safety Executive. It wholeheartedly agrees that the independence and effectiveness of a strong inspectorate must be maintained.

9.02 The Committee's report refers to the need for a high standard of inspection of PWR pressure vessels and other components, and to the importance of establishing an inspection organisation capable of meeting that standard at an early date. The Government agrees entirely that this is an area to which the most careful attention must be paid. The problems of assuring pressure vessel integrity have been carefully scrutinised by the international scientific community since they were identified as a matter of significant public concern, and these are now better understood. On the advice available to it the Government is confident they can be surmounted. In conjunction with the other organisations concerned the Atomic Energy Authority are considering the extent to which the arrangements for pressure vessel inspection should be supplemented by validation procedure.

9.03 The Committee draw attention to the NII's current recruitment difficulties, recommending that the Secretary of State review the Inspectorate's position particularly with regard to salary levels, age of retirement, dispersal to Merseyside and resources. The Government fully recognises the importance of recruiting to the HSE adequately qualified Nuclear Inspectors, and is exploring in consultation with the Health and Safety Executive (HSE) possible means of easing recruitment. The Executive are at present developing a new salary and grading structure for all their Inspectorates, one aim is to remove certain internal anomalies to which the Committee draw attention. A continuous NII recruitment campaign has also been under way for some time. This together with the three new inspectors recruited internally has so far led to a small net increase (when account is taken of 4 resignations last year) in the total number of inspectors and as at June 1981 94 were in post. This increase, though welcome, is however insufficient to meet the NII's longer term needs. The Government is therefore reviewing the Inspectorate's current salary levels and the extent to which expenditure incurred by staff on first appointment might be re-imbursed. The purpose of this review is to examine whether improvements in the conditions of service would be justified in order to attract recruits of the right calibre.

9.04 With regard to the need for specialists in disciplines such as ultrasonics, civil engineering, flow and heat transfer, the HSE's view is that the NII need some expertise in these and other fields and must have access to additional specialist resources from time to time. The Inspectorate would not expect to carry out ultrasonic testing itself and the employment of practical specialists in the way suggested by the Committee would be a misuse of the limited expertise available nationally.

9.05 The HSE also point out that Nuclear Inspectors are not normally required to retire at 60 but may choose to do so. The only exception is the Chief Inspector who, as an open-structure Under-Secretary, is subject to the retirement rules of the grade.

9.06 The Select Committee refer to the planned dispersal of the HSE's Inspectorates to Bootle. The Government has decided to disperse the major part of the HSE, including the Head Offices of all the Inspectorates with a minimum number of essential staff to be retained in London to deal with main policy issues. The Government gave careful consideration to the NII's position and concluded, after consultation with all the bodies concerned and in the light of advice from the Health and Safety Commission that retention of the NII in London was not essential. A major element of the NII is already based in Liverpool and there is some long-term advantage in the two parts of the Inspectorate being more closely associated. There is also an advantage in the NII being located alongside all the other HSE Inspectorates. The NII will not move to Bootle until 1985, thus allowing the time for the dispersal to take place in an orderly and planned fashion.

9.07 The Committee recommended that swift action should be taken to remove the NII from the HSE if this were necessary to resolve the staffing problems it had identified. The measures being taken by the Government have been outlined above. The Government does not consider that to remove the NII from the HSE would alleviate the Inspectorate's recruitment problems and believes that it would be wrong to do so.

9.08 It will be recalled that the HSC and the HSE were created by Parliament under the Health and Safety at Work etc., Act 1974 with responsibility for determining, enforcing and developing health and safety standards in work places throughout Britain. A number of specialist individual Inspectorates, including the NII, were brought together under the HSE to enable the objective of the 1974 Act to be fulfilled. The result is that the HSE and its Inspectorate are now recognised by all concerned to be impartial arbiters in safety matters and fully independent of commercial, operational and political pressures. Also scarce and valuable resources can be used more effectively and consistently than if they were distributed amongst separate organisations.

9.09 Because it would be undesirable to return to the Secretary of State for Energy responsibility for granting nuclear site licences and controlling the NII's activities, detachment of the Inspectorate would mean the creation of a separate, independent nuclear licensing and regulatory body. It would also separate the NII from the mainstream of developing safety policies as envisaged by Parliament in passing the 1974 Act, and deprive it of a valuable source of expertise and support in relation to non-nuclear safety matters. There is no reason to believe that any such move would assist the NII's recruitment position.

Sizewell Public Inquiry

10.01 The Committee have made a number of recommendations on the form and scope of the inquiry into the proposed PWR station at Sizewell, Suffolk.

10.02 In particular, the Committee expressed the wish that costs and electricity demand projections should not be excluded from discussion at the inquiry; and that issues should not be excluded which are genuinely new to this country and which lie at the heart of popular concern about safety.

10.03 The Secretary of State for Energy has made clear on a number of occasions his intention to have a full and wide-ranging inquiry. He intends to publish a statement of the issues which seem to him to be likely to be relevant to his consideration of the CEGB's application. This will serve as Guidance to the Inspector and will enable the very full debate which the Secretary of State thinks essential to be held.

10.04 The Committee further request the Government to ensure that the maximum amount of information and documentation relating to the licence application is made available by the CEGB and the NII well in advance of the opening of the inquiry -four months is suggested. The Committee recommend that a time limit should be imposed on the length of the inquiry, albeit a generous one.

10.05 It is the Government's intention that there should be extensive information and documentation and that there should be time for study of the documentation so that interested parties can prepare their case. The exact timing

of the start of the inquiry will depend largely on the publication of the relevant safety documentation. With regard to the suggestion for a time-limit for the inquiry, the Government, while concerned to avoid unnecessarily long drawn out proceedings, wish to give participants the opportunity fully to deploy their cases. They have come to the conclusion that a time limit on the inquiry set in advance would not be desirable: the conduct of the inquiry will of course be a matter for the Inspector.

10.06 The Government has taken note of the Committee's recommendations that if a PWR programme is adopted, future public inquiries should be site-specific and not re-open the wider issues of principle covered at this first inquiry.

jfh

Energy

6 July 1981

The Prime Minister was grateful for your Secretary of State's minute of 3 July reporting the progress on fast reactor collaboration. She notes that your Secretary of State will be reporting more fully to colleagues later in the year.

WSFR

Julian West, Esq.,
Department of Energy.

k

Prime Minister

2

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

- 3 JUL 81

Dear David

Thank you for your letter of 27 March about the Sizewell 'B' PWR inquiry.

I welcome the timely consideration you are giving to this. The issue whether to have a PWR at Sizewell is likely to prove exceptionally controversial and attract widespread and strong objection. It is therefore essential that the arrangements should command public confidence.

I go along with your view that there should be a single-stage public inquiry in this case, but many influential groups will be arguing for a two-stage inquiry on grounds of the need for prior consideration of the more general issues. This point can be met only by providing an advance opportunity for debate at the national level on issues of nuclear power policy. For this reason I welcome your proposal for a White Paper, but I do think it should, so to speak, have green edges, and that interested bodies and individuals should be invited to put their views on policy to the Government. The sequel to this stage of the process could be a Parliamentary debate in which the Government indicated its broad conclusions on policy as a framework for the Sizewell inquiry. But it would be important to avoid expressing those conclusions so firmly as to appear to pre-empt all argument on the need for or safety of a PWR. I appreciate that from a procedural standpoint the Sizewell inquiry should be directed solely to the question of the appropriateness of a PWR at Sizewell, but it would be unrealistic to proceed on that assumption and it could well prove disastrous to confidence in the inquiry if we appeared to have decided in advance what to most objectors will be the central issues.

Assuming that we go for a single-stage inquiry, it is important for it to be carefully prepared; at least two, and possibly three, pre-inquiry meetings may be needed. The first of these might take place towards the end of this year to identify and introduce the main participants and establish their basic stance, to take note of statements of Government policy, and to identify

areas of agreement, matters requiring the production of evidence, further research, and so on. A second meeting in, say, early summer 1982 might introduce the report by the Nuclear Installations Inspectorate, pick up the further evidence identified as needed at the first meeting and enable the Inspector (if he wished) to produce an agreed list of issues to be discussed at the inquiry. It would then remain only to determine the order of appearances and other functional matters at, possibly, a third meeting shortly before the opening of the inquiry which will presumably take place after a sufficient interval to allow the parties time to consider the NNI report, (say 4 months after receipt).

I agree that after the Inspector has reported it might well be appropriate to arrange for a further debate in Parliament.

I am broadly content with the draft statement identifying relevant points for the purposes of the inquiry. I suggest however that one or two amendments are needed to fill it out. I attach a redraft incorporating them. Perhaps officials can discuss further any points of detail.

Finally, I note you do not raise the question of Government aid to objectors at the inquiry. I assume you do not consider there is a case for departing from the general policy of not aiding objectors; and I am disposed to agree. We can however expect pressure for this to build up; indeed there are signs of it already. We had better therefore jointly concert our response to any requests for aid.

I am copying this letter to the Prime Minister, the Lord Chancellor, the Secretaries of State for Scotland and Wales, and the Secretary of State for Transport.

Yours ever

MICHAEL HESELTINE

The Rt Hon David Howell MP

ANNEX

PWR INQUIRY: "RULE 6 STATEMENT"

In considering whether the proposed power station should proceed the Secretary of State will take into account the economic, environmental and safety factors which would be involved as well as planning aspects. On the information so far available to him it appears that the following points will be relevant:

(a) the CEGB's requirement for the power station in terms of the need for secure and economic electricity supply and having regard to the Government's long term energy policy;

(b) the safety features relevant to the design, construction and operation of the station and in particular the views of the NNI on its licensability;

(c) the arrangements for waste management, in the light of the views of the authorising Departments;

(d) the implications of the proposed development (including both construction and operation) for:

(1) agriculture and fisheries

(2) local employment

(3) water supply and disposal

(4) transport requirements

(5) coast protection

(6) housing and public services generally

(7) local amenities and in particular areas of special landscape value or nature conservation interest.

Prime Minister 2

not much progress, but probably inevitable given the undefined state of French and US nuclear policy. MT 3/7

Prime Minister

MT.

cc. A. Duguid

FAST REACTOR COLLABORATION

When this matter was discussed at E Committee (E(80)46th meeting) I was authorised to continue discussions on a non-committal basis with prospective parties in international collaborative deals. Colleagues may like to have a brief progress report.

At the time of our discussions it was clear that the Europeans (i.e. the consortium led by the French and Germans) were prepared to enter into substantive negotiations with us. We agreed, however, that it would be sensible to explore the possibility of collaboration with the Americans when the attitude of the Reagan administration to the fast reactor was known.

Following a visit which I paid to the US early last month a team of my officials, assisted by representatives of the Atomic Energy Authority, had exploratory discussions with the US Department of Energy. The Americans showed interest in the possibilities for collaboration between our respective nuclear industries. However, their thinking about their own fast reactor policy is still at the formative stage, and it will probably be the autumn before we can begin substantive dialogue.

Equally, before we can make a further judgement of the merits of a deal with the Europeans we need to know more about the new French Administration's views on nuclear policy.

My Department will be keeping in close touch with the position as it develops. I will aim to report fully to colleagues later in the year in the light of further discussions with the Americans, and developments in Europe.

I am copying this minute to the Members of E Committee, Sir Robert Armstrong and Robin Ibbs.

NG.

Secretary of State for Energy
3 July 1981

MG

R H

29 June, 1981

National Nuclear Corporation

The Prime Minister has read your Secretary of State's minute of 26 June, and is content that Mr Frank Gibb should be appointed Chairman of NNC on an interim basis. She is also content with the suggested draft statement on NNC's role in relation to the major financial risks involved in nuclear power station construction.

I am sending a copy of this letter to Godfrey Robson (Scottish Office).

T. P. LANKESTER

J D West, Esq
Department of Energy

Copy in Appointments.

Prime Minister

Are you now content with Mr Gibb's appointment as chairman, and also with the suggested statement on NNC's financial risks?

Agreed on an interim basis

Prime Minister

In his minute of 8 June your private secretary recorded your view that we should not decide on a future Chairman of NNC until the Company's shareholding is right. I have since seen the Secretary of State for Scotland's further minute on the question of NNC shareholding, and the SSEB's views about NNC's management.

There have been a number of recent developments in the nuclear field which have a bearing on these issues and which I am now reporting to you.

PWR

We are committed to establishing the PWR as a valid alternative to the AGR in this country. Our strategy for achieving this has been to press ahead as fast as possible with preparations for construction of a first PWR at Sizewell based on the Westinghouse design. We have been aiming for a start to construction in 1983; but development of the Westinghouse design to meet UK safety requirements and to take account of lessons learnt from the Three Mile Island incident, and the need to prepare for a wider-ranging public Inquiry before construction work can be authorised makes the timetable tight.

Progress with the design work has been slower than planned. It has recently become clear that the modifications proposed are leading to an over elaborate and excessively costly design. There seemed a serious risk that unless the work could be got back onto timetable, and the design problems sorted out, the public Inquiry and any decision to construct the Sizewell PWR would become an electoral issue and the cost advantages that we expect to get from the PWR would be lost. I therefore asked the industry to propose early corrective action.

Copy in Appointments.

Their advice to me is that:-

i. they propose major simplifications to the design, leaving it much closer to the Westinghouse concept but still meeting UK safety requirements;

ii. they should set up a joint task force consisting of the NNC, the CEGB and the UKAEA chaired by Walter Marshall - which would bring together the combined resources of the three organisations with a view to making rapid progress with the design;

iii. more use should be made of the experience of Bechtel and Westinghouse.

They see this approach as offering a reasonable chance of recovering lost time although, until they have been able to assess the work still needed on the design, they will not be in a position to give firm advice on the timetable.

I have accepted this advice and am announcing the setting up of the task force in an arranged PQ. Nonetheless I remain concerned about the PWR, which is an essential part of our strategy to revitalise the nuclear industry and provide us with cheaper electricity. In my view it is essential that the NNC which is in the lead on the design work should take a firm grip on the situation. This is one of my reasons for wanting to see the Chairman's job filled as soon as possible, and for approaching any ideas of changes in the shareholdings very circumspectly.

NNC shareholding and financial structure

As I said in my letter of 1 June to the Secretary of State for Scotland I had asked my officials to consider with NNC and CEGB how the problem of NNC's financial weakness might be overcome. Specifically I have set up a working group involving the NNC and the Boards to consider how the financial risks associated

with the building of nuclear power stations can be properly apportioned, consistent with NNC taking on responsibility for project management for the Sizewell PWR. The group has started its work. It is already clear that the possibility of greater financial commitment on the part of the shareholders, and the possibility of a change in the balance of shareholdings will have to be looked at. But we cannot assess the potential interest of new shareholders until we can say what financial commitments they will be asked to take on. When we come to this issue then we will certainly take account of the SSEB's wish to see GEC's shareholding and influence diminished, and that of such companies as NEI and MacAlpine to have a greater participation. We have made this clear to the various parties concerned.

But I do not regard the balance of the shareholdings as directly relevant to the present problem; I know Arnold Weinstock shares this view. As I understand it the SSEB and NEI in particular believe that the AGRs are given insufficient priority by the NNC as presently constituted. I do not believe this is the case. But they would like to see changes in the shareholding and in the representation on the Board to give the proponents of the AGR more of a say. There may also be an expectation that greater board representation will bring more subcontracts. In my view it would be unfortunate to encourage these notions by looking for ways of increasing NEI's or others' representation, particularly if this resulted in increased influence of factions opposed to the Government's policy with regard to the PWR.

If NNC is to become a strong freestanding company capable of taking on project management we need a strong independent board. We need to get away from the idea of the board being composed of the representatives of particular interests. But meanwhile there is a vacancy on the board and I am consulting the various interested parties on the possibility of appointing John Eccles. His experience in the nuclear field should enable him to make a useful contribution and his presence, albeit not as representing any particular group, might help to balance the board.

I should also like to put on record the existence of the working group on financial risks in such a way as to indicate that the shareholding situation will be looked at. The draft of my proposed statement is attached.

Mr Gibb's appointment

Against this background I propose that we should now appoint Frank Gibb as Chairman of NNC. My reasons are:-

i. the need for NNC to get a grip on the PWR situation; if the post is left vacant there will be continued speculation and uncertainty in the company, and the PWR itself will be endangered;

ii. I do not see any possibility of reaching quick conclusions on the financial questions - especially in view of the very strong position that GEC holds in relation to changes in the shareholdings;

iii. the appointment would not pre-empt decisions which we may wish to take about the shareholdings. Frank Gibb understands that his appointment would be an interim one, and that we would want to review it when we have reached a firm view about the financial risks and the shareholdings.

Conclusions

I would suggest therefore that the Secretary of State for Scotland can be satisfied that the question of changing the shareholding balance will be fully examined (with the active participation of the SSEB), and that Frank Gibb's appointment as Chairman in no way pre-empts decisions. I hope that you can now agree to this appointment.

I am copying this minute to the Secretary of State for Scotland.

DH.

SECRETARY OF STATE FOR ENERGY

26 June 1981

DRAFT STATEMENT

To ask the Secretary of State whether he will make a statement about NNC.

A. I have agreed with the Corporation and the Generating Boards that there should be a review of how NNC's role in relation to the major financial risks involved in nuclear power station construction could be strengthened. The views of all the NNC shareholders will be sought in course of this exercise.

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

From the Secretary of State

CONFIDENTIAL

1 Mr Langfelder
2 PA
WR 15/6

Terry Mathews Esq
Private Secretary to the
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
London, SW1P 3AG

12 June 1981

Dear Terry,

In his letter of 9 June to the Secretary of State for Energy, the Chief Secretary suggested that management consultants should be employed to examine the operating efficiency of the Atomic Energy Authority.

You will recall that my Secretary of State wrote to the Chancellor on 29 May expressing his reservations about proposals to use management consultants to investigate the efficiency of nationalised industries, when the MMC is already available for this purpose. He suggested that before any individual proposals were put to Ministers, the general principle should be discussed in the Official Committee on Nationalised Industry Policy; and the matter is now to be discussed at the Committee's meeting next Wednesday. The AEA is eligible for reference to the MMC under Section 11 of the Competition Act for an efficiency investigation and therefore I hope that a decision on the form of any independent examination of its efficiency can be delayed until after the discussion in NIP.

I am copying this letter to the Private Secretaries to the recipients of the Chief Secretary's.

Yours ever,

Nicholas McInnes

N McINNES
Private Secretary

CONFIDENTIAL

HOLD for Mr Howell's reaction.
GR 12/6

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Energy

MANAGEMENT - IN CONFIDENCE

PRIME MINISTER

THE NATIONAL NUCLEAR CORPORATION

I have seen the Secretary of State for Energy's minute to you of 5 June about the appointment of Mr Frank Gibb as Chairman of the National Nuclear Corporation and also your Private Secretary's minute to mine commenting on our earlier correspondence. I agree with you that there is no point in deciding on a future Chairman until NNC's shareholding is right. Although I have no personal knowledge of Mr Gibb or his qualities for the post I am well aware of the strength of feeling of the South of Scotland Electricity Board that action needs to be taken on the shareholding if NNC is to have an effective and independent role in the future.

As I have already explained, SSEB's major commitment is of course to ensure the successful construction and commissioning of the Torness AGR and it is their anxiety about that project which has prompted them to express their misgivings to me. They tell me that there is increasing evidence of a lack of commitment to the project by the NNC Board and they see no evidence that NNC is addressing itself to the need to strengthen its management and technical resources to deal with the project, SSEB also tell me that because of the difficulty they experience in dealing with NNC there have already been long delays in various phases of the work - for example in the design contract which took 18 months to conclude and in other important contracts such as that for graphite machining - and that other areas of work are now showing substantial slippages at a time when it is critical for the success of the project to get it moving on all fronts.

The problem is not primarily one of finance because that can no doubt be overcome by some form of agency agreement. The SSEB have put forward telling evidence about delays and strong arguments that the shareholding and Board membership of the NNC must be such that no one company can dominate the proceedings of the Board to block or delay executive action. As I pointed out in my minute of 20 May the SSEB's record in the field of power station construction entitles them to speak with some authority and the picture they paint is a most disturbing one which we cannot afford to ignore.

The Secretary of State for Energy's letter of 1 June concentrated very largely on the financial aspects of the problem but this seems to me to beg the more fundamental issues of the shareholding balance and of the

the apparent lack of commitment by the NNC to the AGR projects. In the meantime he should, I suggest, delay appointing a Chairman of the NNC until such time as all parties concerned in the nuclear reactor programme can discuss the whole question of shareholding, Board structure and the outstanding problem of finance and report their findings to Ministers.

I am sending a copy of this minute to David Howell.

(Approved by the Secretary of State and signed in his absence.)

12 June 1981

Energy

10 DOWNING STREET

Mr Lankester agreed
T. P.

The Chief Secretary thinks the AEA can come up with greater savings than they have proposed. He also thinks the Authority should be subject to scrutiny by management consultants. We should await Howell's response before putting to the PM, I think. I suspect they may make some gesture on savings to buy off the proposed scrutiny. The scrutiny might be difficult given the Department are considering the long term future of the AEA (eg whether it should be turned into an ERDA).

WPGR 10/6

Alan

NNC

Thank you.

I have kept the papers (which I had originally) about Mr. Rooney's departure & the question of a new Chairman. Otherwise, the rest are yours.

J.

10/6.

Treasury Chambers, Parliament Street, SWIP 3AG

Rt Hon David Howell MP
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1

9 June 1981

Dear David,

requested - below. dated 22/5.

FAST REACTOR EXPENDITURE 1981-82

Thank you for your letter of 23 May.

First, a general point. The Atomic Energy Authority are responsible for spending large sums of public money - their net expenditure this financial year will be over £200 million. They enjoy a considerable degree of independence over the way in which these resources are deployed. As a quango, they are not subject to detailed control by your Department, nor do they come within the scope of the normal CSD controls over manpower and complementing - indeed, I understand that they are planning to increase their staff numbers by about 1 per cent per year over the next 5 years at a time when our objective is to reduce civil service numbers and the size of the public sector generally. They are not subject to the competitive and commercial pressures of the market, even to the extent of the nationalised industries. In short, they lead something of a sheltered existence.

These facts lead me to conclude that the time has come for an independent examination of the efficiency with which the AEA carry out their existing functions, and the effectiveness with which they deploy their resources to meet current policy. I should emphasise that I am not proposing a policy review: that will have to await the outcome of the evaluation of fast reactor policy. Rather, scrutiny would concentrate on nuts and bolts matters, such as manpower levels, complementing, and control of stores etc. This would be consistent with the approach to non-departmental public bodies suggested in the letter of 6 April from the Private Secretary to the Prime Minister. I suggest that the review might with advantage be carried out by a firm of management consultants with appropriate experience of the public sector. If you agree, I propose that we ask our officials, in consultation with CSD and the AEA, to draw up suitable terms of reference.

Turning to your specific points, I understand that the current position following discussions between our officials and the Atomic Energy Authority is as follows. Agreement has been reached on a firm reduction of £2.4 million (at outturn prices) in expenditure on NNC design contracts. You are also offering savings of £2.2 million (£2 million at September 1980 prices) on the AEA's own fast reactor programme. I welcome these savings, which will be reflected in a reduction in the cash limit on Class IV, Vote 7 and incorporated in a Revised Estimate. In addition, there is potential for savings of a further £1 million on the NNC design contracts. The cash limit will not be reduced by this further £1 million which will be retained in your Estimate and PES division for 1981-82, but on the clear understanding that it will not be spent without prior agreement of the Treasury. Thus the total potential savings so far agreed are £5.6 million.

It is difficult to believe that this is all the savings that can be made. E Committee accepted last December that an independent UK CDFR was not among the main options. Surely therefore we should be concentrating the UK effort in those areas where our strengths lie, rather than maintaining a programme across the whole field of fast reactor technology pending the outcome of the evaluation of the fast reactor policy which your Department is carrying out. By staying on the second course, as the AEA apparently recommend, there is the risk of large sums of expenditure proving nugatory in the event of collaboration. This is clearly unsatisfactory. Furthermore, the AEA say that further savings in 1981-82 are not practicable at this stage because most capital expenditure has been committed and current expenditure contains a large element of fixed costs eg salaries. But it would be extremely surprising if - given will and determination - it was not possible to make further savings within a programme of this size eg a reduction in holdings of stores and materials. There might also be scope for deferment of capital projects not yet fully committed. I should be grateful, therefore, if you would ask the Authority to re-examine their figures with a view to producing more savings, for example by concentrating fast breeder work on those areas where our strength lies and deferring capital projects.

I am sending a copy of this letter to members of E and to Christopher Soames, Sir Robert Armstrong and to Robin Ibbs.

Yours

Leon

LEON BRITTAN

cc AD Duguid

CC PUS
Mr Lamont
Mr Manley
Mr Kelly
Mr Henderson
on file

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

CONFIDENTIAL

The Rt Hon Leon Brittan MP
Chief Secretary to the Treasury
H M Treasury
London SW1

22 May 1981

Dear Leon

FAST REACTOR EXPENDITURE 1981/82

I wrote to you on 4 February to say that I had asked the UKAEA and the NNC to review their expenditure on the Fast Reactor, in the light of the discussions at E Committee on 18 December. I have now had advice from both organisations which has been considered by my officials and yours.

NNC Design contracts

I understand that agreement has been reached between officials and the NNC and AEA that the 1981/82 design contracts should be reviewed on a basis which offers potential savings of some £3.2m in 1981/82.

UKAEA Programme

In this area I understand that officials have been unable to reach agreement. The AEA's expected expenditure in 1981/82 on fast reactor related areas totals £105.5m at September 1980 prices. The major part of this (63.6m) is concerned with continuing operation of the Prototype Fast Reactor (PFR) at Dounreay, and its fuel plants, and with the improved performance. The balance is more concerned with the Research and Development programme aimed at a Commercial scale fast reactor. But the two areas are closely inter-related with shared overheads.

In asking the AEA to review this expenditure, I have made it clear that we must not go beyond the decisions reached (at E Committee) in December; that any cuts should not in any way prejudice our bargaining position in any future international collaboration negotiations; and that, while the possibility of a UK CDFR has not been ruled out, the timescale of a start to a UK CDFR in 1985/86 proposed by the industry in December 1979, is no longer appropriate. In discussions with the Authority my officials have, rightly in my view, also made it clear that there is no wish on the part of the Government at this stage to

/see.....

see the PFR operation run down, or the Dounreay effort significantly curtailed. There was no suggestion at E Committee that we should contemplate this possibility; and any sign of doubts about Dounreay, before we have made up our minds about future policy, would create a major political storm here.

In responding to my request for a review the Authority have had all the these constraints in mind. In addition they have had to consider what cuts would be practicable given that we are now into the year in question, and that much of the expenditure for 1981/82 is committed.

The outcome of the AEAs review is an offer to reduce the non-PFR expenditure by £2m in 1981/82.

Points that need to be borne in mind in considering this figure are:-

a. The Authority's considered view is that any greater cut, even assuming it were practicable, would crucially undermine our credibility in international negotiations. Such cuts would almost certainly lead to withdrawal of the Authority from specific fields of research, and would be apparent to our potential partners. Indeed the US has already become aware of and reacted unfavourably to reductions of effort by the Authority in the safety field - through existing arrangements for exchange of technical information.

b. The level of expenditure on fast reactor now contemplated by the Authority is well below that needed for a 1985/86 start of construction postulated in 1979. Thus the realities of the possibility and timescale of a UK CDFR are already reflected in these figures.

c. E Committee in December 1980 did not decide on any change in policy; nor did it seek cuts in the Authority's programme.

It is very much a matter of judgement what is needed to maintain our credibility as international partners, but I have pressed the Authority hard on this, and their advice must be taken very seriously.

In the light of these considerations, I do not think it would be consistent with our remit from E Committee to seek further cuts from the Authority for 1981/82. The total potential savings produced by this exercise are of the order of £5m; and I hope you will agree that this is a useful contribution.

I am copying this letter to members of E, to Robin Ibbs and to Sir Robert Armstrong.

Yours ever

David

D A R HOWELL

CONFIDENTIAL

file KB

10 DOWNING STREET

From the Private Secretary

8 June 1981

NATIONAL NUCLEAR CORPORATION

The Prime Minister has read your Secretary of State's minute of 20 May and the Secretary of State for Energy's letter of 1 June on the above subject.

She has commented that there is no point in deciding on a future Chairman until NNC's shareholding pattern is right. However, her own information - based on a conversation she recently had with Sir Edwin McAlpine and Sir Francis Tombs last week - is that shortage of finance has not been the problem in NNC's management of recent contracts.

I am sending a copy of this letter to Julian West (Department of Energy).

T. P. LANKESTER

Godfrey Robson, Esq.,
Scottish Office.

Copy in Appointments filing.

CONFIDENTIAL

file Energy BK

cc: HMT
LPS
CO

5 June 1981

Your Secretary of State wrote to the Chancellor of the Exchequer on 3 June on the question of BNOC's pricing of oil. I understand that the Chancellor is content with their proposed reduction of $2 a barrel starting on 1 July. As I told you on the telephone, the Prime Minister is also content.

I am sending a copy of this letter to John Wiggins (HM Treasury), Michael Arthur (Lord Privy Seal's Office) and David Wright (Cabinet Office).

T P LANKESTER

Dr. David Lumley
Department of Energy

MM

PRIME MINISTER

In the wake of Mr. Rooney's resignation from the National Nuclear Corporation, Mr. Younger has minuted you (Flag A) with comments on NNC's performance in placing the contracts for Torness. He says there have been prolonged delays due to internal problems in NNC, which in turn he blames partly on the shareholding pattern. (you will remember that, when Ministers considered the reorganisation of NNC in 1979, it was decided - after all - to make no change in the shareholding).

Mr. Howell (Flag B) has written saying that NNC's financial weakness has proved a problem at both Torness and Heysham, and that it will cause problems for the PWR unless something is done. He has asked his officials to consider the problem with NNC and CEGB, and the Scottish Electricity Board and Scottish Office will be brought in on the discussions.

I think you can simply say that you very much hope that they will come up with a solution so as to improve NNC's performance.

Agree?

There is no point in deciding the future chairman until we have got the shareholding pattern right.

5 June 1981

From my dinner with McAlpine & Tomlin last week, I understand that shortage of finance is not the problem.

MT

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
TELEPHONE: 01-211 3000

01-211-6402

message on this transmitted to PM's party in Bristol. PM said content.

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

3 June 1981

PL
5/6

Dear Chancellor,

In my letter of 22nd May I warned that, if the OPEC meeting in Geneva failed to reach agreement and the market was left in much the state as before the meeting, BNOC would come under very strong pressure to reduce their prices. This has turned out to be so with pressure coming from all BNOC's customers. Esso, BP and Shell have separately made clear to the Department that in their view the price of North Sea crude is now unrealistic and must be reduced.

Philip Shelbourne, the Chairman of BNOC, has today advised me that it is the Corporation's view that, in the absence of any significant cut-back in North Sea production, they will not be able to dispose of all the oil available to them unless their prices for the third quarter (commencing on 1st July) are reduced by $2 a barrel. Without such a reduction, BNOC believe that they could find themselves with 100,000 barrels a day and possibly more on their hands which could only be disposed of at a significant loss on the spot market. Spot prices are currently some $6 per barrel below term prices. Disposing of some 100,000 barrels a day could well cause a further fall in prices and BNOC estimate that if they had to dispose of quantities of the order of 100,000 barrels a day on the spot market, they could incur losses of $1 million a day.

The Inland Revenue have warned that the addition of this extra volume to the spot market would bring with it a risk that companies would seek to have spot prices taken into account when valuations are made for the purposes of PRT. At present the valuation is effectively determined by term prices. This could result in additional and very significant losses which cannot easily be quantified at this stage.

BNOC's policy which we have endorsed has, as you know, been to follow the market, effectively the price set for comparable African crudes. The Africans have not so far reduced their prices but have cut back instead on production; in Nigeria the reduction is believed to be around 30%. BNOC believe that few new buyers will be willing to take these volumes at existing prices and there are reports that Nigeria is offering a $2 a barrel reduction. BNOC believe that their proposed reduction simply reflects the true market situation. They are also satisfied that a reduction now will not prejudice their increasing prices again when this is justified by an upturn in the market.

If a $2 per barrel reduction in the UKCS prices were to last until December of this year, I understand the loss to the Exchequer would be about £150 million for the financial year 1981/2 with a further £50 million in 1982/3 compared with present forecasts. The increase of the sterling price of oil in recent months as the dollar has strengthened is, I believe, likely to more than offset any losses arising from a $2 per barrel price decrease leaving the MTFS planning assumptions no worse off, although there are of course other factors such as production which affect overall revenues. You will nevertheless be concerned at a loss of additional revenue. I have therefore considered very carefully with BNOC whether there is any alternative to the course they propose.

A cut in production of the scale required to avoid a reduction in price is not practicable for the reasons I explained in my letter of 22nd May. Even if it were, we would attract a lot of criticism both here and abroad in cutting production to maintain what is now considered an unrealistically high price. The choice really therefore is between allowing BNOC to lower their prices in the light of the market or of asking them to act against their commercial judgement.

If we ask BNOC to try to hold prices against their judgement, they will almost certainly ask for a formal direction and compensation for the losses they will incur through having to sell substantial quantities on the spot market. Existence of the direction would bound to become public knowledge and we would no longer be able to rely on the argument, which we have so far consistently maintained, that the price of North Sea crude is set by the market and not by the Government.

These objections would also apply if, instead of asking BNOC to defend the price, we took the responsibility for doing so and made public our view that we did not wish to see any reduction in price. Some of BNOC's suppliers and customers might in these circumstances not wish to incur our displeasure by challenging the price. It might then be that much easier for BNOC to dispose of their crude. But there could

be no assurance about this. BNOC could still find themselves in the position where they had to dispose of most if not all of the 100,000 barrels a day on the spot market. And in the process we would have incurred considerable criticism from industry and our international partners. We would also have totally undermined BNOC's negotiating power for the future. All the pressure in fixing prices would henceforth come on us and not BNOC. This is something I am sure we must avoid.

I believe therefore that we should stick to our policy of allowing the price to be set by market forces and agree to the $2 a barrel reduction proposed by BNOC. In doing so, we could also win some credit, since once our price has moved down, the prospect of other producers, particularly Nigeria, also being forced to reduce must be increased. But, if we are to do this, we need to act quickly and for the price reduction not to be seen as something which we have conceded grudgingly.

BNOC need an answer preferably by the end of the week and by Monday morning at the latest. They have some 50 negotiations to conduct over the next three weeks and the longer they wait the greater the risk of their losing control over the situation. They would therefore like to start negotiations on Monday. News of the negotiations will inevitably leak. They would therefore propose to brief selected Press correspondents on Monday taking the line that the reduction was following market conditions and prices would move up again when justified by the market.

Your officials have been kept fully informed of BNOC's proposals. I hope therefore that you can, if possible, let me know by mid-day on Friday that you are content for me to inform BNOC that they may go ahead with their proposed reduction of $2 a barrel for the third quarter prices starting on 1st July.

I am sending a copy of this letter to the Prime Minister, the Lord Privy Seal and Sir Robert Armstrong.

Yours sincerely

David Lumley

P D A R HOWELL
(approved by the Secretary of State and signed in his absence)

B

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
TELEPHONE: 01-211 3000
211-6402

The Rt Hon George Younger MP
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
LONDON SW1A 2AV

1 June 1981

Dear George

NATIONAL NUCLEAR CORPORATION

I have seen your minute of 20 May to the Prime Minister in which you ask for my comments on SSEB's view that the delays in the placing of the contracts for Torness have been largely due to internal problems in NNC which have reflected the shareholding pattern.

It is my understanding that the delay over the placing of the Torness and Heysham II contracts arose over differences between NNC and the Boards as to the role that NNC was to play with regard to those contracts. It was CEGB's view that NNC had insufficient financial substance to act as principal and that therefore it should act, in effect, as agent of the Boards. The Monopolies Commission has since said that an agency role for NNC is appropriate. NNC thought this arrangement ran counter to the Government's express wish to see NNC's role strengthened with a view, in particular, to it taking on total project management responsibilities for the Sizewell PWR. The desire for a satisfactory solution was I believe shared by all NNC Directors and shareholders. The delay in placing the contracts was the result of a search for an arrangement which both provided NNC with a satisfactory role and protected the Boards financial position. It was incidentally my understanding that NNC regarded the arrangements agreed with SSEB as more satisfactory in this respect than those proposed by CEGB.

In discussion between the parties on this issue it has clearly emerged that the financial weakness of NNC is a major obstacle to NNC's taking on total management responsibility for the Sizewell PWR. I have therefore asked my officials to consider with NNC and CEGB how this problem can be overcome. My officials are keeping yours

informed and have agreed that SSEB and your Department should be associated with that discussion. Meanwhile they have, of course, noted the SSEB view as put forward in your minute.

I am copying this to the Prime Minister.

Yours ever

David

D A R HOWELL

TL o/R.

Energy

R

27/5

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

CONFIDENTIAL

The Rt Hon Leon Brittan MP
Chief Secretary to the Treasury
H M Treasury
London SW1

22 May 1981

Dear Leon

FAST REACTOR EXPENDITURE 1981/82

I wrote to you on 4 February to say that I had asked the UKAEA and the NNC to review their expenditure on the Fast Reactor, in the light of the discussions at E Committee on 18 December. I have now had advice from both organisations which has been considered by my officials and yours.

NNC Design contracts

I understand that agreement has been reached between officials and the NNC and AEA that the 1981/82 design contracts should be reviewed on a basis which offers potential savings of some £3.2m in 1981/82.

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In this area I understand that officials have been unable to reach agreement. The AEA's expected expenditure in 1981/82 on fast reactor related areas totals £105.5m at September 1980 prices. The major part of this (63.6m) is concerned with continuing operation of the Prototype Fast Reactor (PFR) at Dounreay, and its fuel plants, and with the improved performance. The balance is more concerned with the Research and Development programme aimed at a Commercial scale fast reactor. But the two areas are closely inter-related with shared overheads.

In asking the AEA to review this expenditure, I have made it clear that we must not go beyond the decisions reached (at E Committee) in December; that any cuts should not in any way prejudice our bargaining position in any future international collaboration negotiations; and that, while the possibility of a UK CDFR has not been ruled out, the timescale of a start to a UK CDFR in 1985/86 proposed by the industry in December 1979, is no longer appropriate. In discussions with the Authority my officials have, rightly in my view, also made it clear that there is no wish on the part of the Government at this stage to

/see.....

see the PFR operation run down, or the Dounreay effort significantly curtailed. There was no suggestion at E Committee that we should contemplate this possibility; and any sign of doubts about Dounreay, before we have made up our minds about future policy, would create a major political storm here.

In responding to my request for a review the Authority have had all the these constraints in mind. In addition they have had to consider what cuts would be practicable given that we are now into the year in question, and that much of the expenditure for 1981/82 is committed.

The outcome of the AEAs review is an offer to reduce the non-PFR expenditure by £2m in 1981/82.

Points that need to be borne in mind in considering this figure are:-

a. The Authority's considered view is that any greater cut, even assuming it were practicable, would crucially undermine our credibility in international negotiations. Such cuts would almost certainly lead to withdrawal of the Authority from specific fields of research, and would be apparent to our potential partners. Indeed the US has already become aware of and reacted unfavourably to reductions of effort by the Authority in the safety field - through existing arrangements for exchange of technical information.

b. The level of expenditure on fast reactor now contemplated by the Authority is well below that needed for a 1985/86 start of construction postulated in 1979. Thus the realities of the possibility and timescale of a UK CDFR are already reflected in these figures.

c. E Committee in December 1980 did not decide on any change in policy; nor did it seek cuts in the Authority's programme.

It is very much a matter of judgement what is needed to maintain our credibility as international partners, but I have pressed the Authority hard on this, and their advice must be taken very seriously.

In the light of these considerations, I do not think it would be consistent with our remit from E Committee to seek further cuts from the Authority for 1981/82. The total potential savings produced by this exercise are of the order of £5m; and I hope you will agree that this is a useful contribution.

I am copying this letter to members of E, to Robin Ibbs and to Sir Robert Armstrong.

Yours ever

David

D A R HOWELL

JH 180

CONFIDENTIAL

Energy
cc Mr Walters

WR 22/5

PRIME MINISTER

OIL DEPLETION POLICY - PRODUCTION CUTS

I agree that David Howell should inform Parliament that we have decided not to impose production cuts at the beginning of 1982. We can, as he proposes, reconsider the options in the autumn, weighing the industrial position and prospects on the one hand against the hazards, costs and inflationary risks of seeking to ease down the exchange rate further on the other.

2 I am copying this to the other recipients of David Howell's minute.

K J

22 May 1981

Department of Industry

CONFIDENTIAL

Energy Policy TL 2615

Copies to Mr Duffour
Mr Patterson

2

Prime Minister

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
TELEPHONE: 01-211 3000

01 211 6402

John Wiggins Esq
Private Secretary to the
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1

21 May 1981

Dear John,

Following the Prime Minister's and the Chancellor's own agreement with the proposal in my Secretary of State's minute of 12 May that we should defer a decision on production cuts until the autumn and make an early announcement to that effect, I now enclose the draft of a Parliamentary Question and Answer.

As you will see, the Answer merely refers to a review in the autumn and ends with a promise to give the industry proper notice of our intentions. The formulation which my Secretary of State suggested in the penultimate paragraph of his minute to the Prime Minister was, of course, rather more positive in affirming that we would not impose production cuts at the beginning of 1982. But Mr Howell now recognises that this would have given rise to presentational problems.

We are, I think, bound to get questions about the present draft. We would propose to deal with them by pointing to our promise to give the industry proper notice of any decision to impose cuts and to the practical considerations (eg the need for companies to unwind supply commitments), which make it unlikely that we could in any event start the process at the beginning of 1982.

I am copying this minute to the offices of the Prime Minister, the Foreign Secretary, the Secretaries of State for Industry and Scotland, the Attorney-General and Sir Robert Armstrong.

Yours ever,

John

J D WEST
Private Secretary

DRAFT PARLIAMENTARY ANSWER ON OIL PRODUCTION CUTS

To ask the Secretary of State for Energy whether the Government has decided to introduce oil production cuts.

No decisions have been made whether to impose oil production cuts. I shall review the position in the Autumn and I shall give the industry proper notice of my intentions.

Prime Minister,

CEGB. - Power Station Construction.

34

FUTURE ECONOMIES

For the future the Board will need to pay particular attention to power station construction and fuel costs. Together these constitute the major element of its costs. I cannot emphasise sufficiently that power stations must from now on be built to time and cost.

This message comes through very clearly from the MMC Report. It is of fundamental importance to future electricity costs and thereby to British industry.

Generating Costs

Provisional CEGB figures for the annual cost of generation in 1980/81 in power stations commissioned between 1965 and 1977 are in pence per kilowatt hour

Hinkley Point	AGR	1.4
Magnox		1.7
Coal		1.9

These are historic cost figures and do not provide a basis for future investment decisions.

MAP.

21 May 1981

Ian B.

MMC REPORT ON THE CEGB

NUCLEAR POWER

Q WILL THE GOVERNMENT ABANDON THE NUCLEAR PROGRAMME IN THE LIGHT OF SCATHING MMC CRITICISM OF THE CEGB'S FIGURES?

A Nuclear power's contribution to our energy supplies is necessary in an uncertain world. We have always made it clear that each power station order will be considered on its own merits including its economic merits at the relevant time.

Q WHAT ACTION IS THE GOVERNMENT TAKING TO IMPROVE THE CEGB'S INVESTMENT APPRAISAL?

A The Secretary of State for Energy has already asked the Board for urgent proposals for improvements. The Board has itself acknowledged the criticism and said that it is seeking outside advice on possible improvements.

Q WILL THE GOVERNMENT NOW TELL THE CEGB TO BUILD COAL FIRED POWER STATIONS?

A The Board already has plenty of coal-fired capacity. Their provisional accounting figures for 1980-81 show that the generating cost for nuclear electricity was cheaper than that for coal-fired electricity - though they stress that these historic figures are not a guide to future investment.

Q WILL THE GOVERNMENT NOW RECONSIDER THE HEYSHAM AND TORNESS AGRS?

A No. The Government considered industrial and energy policy factors as well as the economic aspects, when the decision was taken to allow the Generating Boards to proceed with these stations.

Q HAS THE CEGB MISLED THE GOVERNMENT OVER NUCLEAR POWER?

A The Government knows that there must be major uncertainties in assessing a long-lived investment like a power station. But the Secretary of State for Energy has already asked the Board for urgent proposals for improving their investment appraisal in the light of the MMC report.

PRICES

Q THE MMC SAY THE FINANCIAL TARGET IMPOSED BY GOVERNMENT WILL RAISE ELECTRICITY PRICES. WILL THE GOVERNMENT RELAX THE TARGET?

A The Government keeps the target under review in the light of changing circumstances, including the fall in electricity demand since the target was set in January 1980.

COAL

Q WILL THE GOVERNMENT BACK THE CEGB IN AN EFFORT TO IMPROVE ON THE TERMS OF ITS UNDERSTANDING WITH THE NCB?

A The understanding is a commercial matter for the two Boards.

Q WILL THE GOVERNMENT RECONSIDER ITS ACQUIESCENCE IN THE POLICY OF BRINGING COAL IMPORTS DOWN TO AN IRREDUCIBLE MINIMUM?

A NCB coal is and has been competitive with imported coal at all but certain coastal sites. The Government recognise that imports can be a valuable yardstick for NCB's competitiveness. That is why there has been no challenge to the CEGB's right to import, and arrangements to reduce imports have been worked out in a competitive framework. In the tripartite discussion, the Government have agreed to help the NCB and the CEGB with the costs of displacing imports: arrangements for doing so are now being discussed.

BACKGROUND

NUCLEAR POWER

The MMC find that in respect of their investment appraisal, with particular reference to nuclear power, the CEGB are pursuing a course of conduct against the public interest. The Commission accept that it is right to appraise power station investment on the basis of a discounted cash flow calculation of lifetime costs and benefits, taking into account the effects of the station on the operation of the system as a whole. However, they severely criticise the assumptions and judgements used by the CEGB in their assessment, and conclude that a major new programme of nuclear power investment is proposed on the basis of inadequate investment appraisal.

The Secretary of State for Energy has already asked the Board for urgent proposals for improvement in their investment appraisal. The Board themselves have said that they are seeking outside advice on possible improvements.

However, it is not the case that a whole programme of nuclear stations rests on current investment appraisal practice. The statement by the Secretary of State for Energy in December 1979 made it clear that the level of ordering of nuclear power stations would depend on the development of electricity demand and the performance of industry. Each project will be appraised on its own merits.

Provisional CEGB figures for the actual cost of generation in 1980-81 in power stations commissioned between 1965 and 1977 show lower costs for nuclear generation:

	p/kWh
Hinkley Point AGR	1.4
Magnox	1.7
Coal	1.9
Oil	2.6

These are historic figures, and do not provide a basis for future investment decisions.

COAL

The answers to questions summarize the position in the tripartite talks with regard to imports.

The NCB/CEGB understanding is a matter for the two Boards - but it is intended as a ceiling rather than a floor on coal price increases.

ELECTRICITY PRICES

The MMC report points out that coal has always been the CEGB's principal fuel, and concludes that, even if their recommendations were fully implemented, they offer no early prospect of comfort to the CEGB's customers by way of real price reductions, especially while all fuels are becoming dearer.

The Secretary of State for Energy will be inviting the Electricity Council to take the MMC's views into account in the review of the CEGB Bulk Supply Tariff (BST) which the Council is already undertaking at his request.

Electricity prices are set to reflect the cost of replacing capacity needed to meet continuing demand. The move to Current Cost Accounting (CCA) by the electricity supply industry is in accordance with general accounting standards and bring accounting costs more closely into line with the true costs of electricity supply on a continuing basis. The move to CCA was taken into account in setting the industry's financial target, and has not in itself led to any increase in electricity prices.

ECONOMIES BY CEGB

The MMC commended a number of aspects of the Board's operations - for instance, revenue cost control, cash management, and internal audit - and their report paid tribute to the dedication of the Board's staff.

In 1980-81 the CEGB achieved:

a) the lowest power station oil burn since 1963-64; oil purchases were sharply reduced, and flexible operation of oil-fired stations saved £5m.

b) winter availability of single shaft 500MW/660 MW units of 87.8% - substantially up on 1979-80.

c) highest ever thermal efficiency of fossil fired plant - 32.17% - to which the Board attribute a saving of £25m.

d) saving of £2m through a shift in the balance between security of supply and cost of production.

Six power stations were decommissioned in 1980/81; 22 more will follow this year.

A net reduction of staff of 2340 was achieved during the year, with a substantial number of these coming from Headquarters formations. This saves over £20m a year after taking into account redundancy and severance payments.

Maintenance costs were reduced by £60m over initial plans.

PRIME MINISTER'S QUESTIONS: 21 MAY

MONOPOLIES AND MERGERS COMMISSION REPORT ON THE CEGB

BRIEF

In her statement yesterday on publication of the MMC report on the CEGB, Mrs Oppenheim said that the Commission had "seriously criticised certain aspects of the Board's operations where there is significant scope for reductions in cost and for improved efficiency ....As levels of costs and efficiency are reflected in the prices paid by domestic and industrial consumers for electricity, it is important that improvements should be sought". Mr Glyn England, Chairman of the CEGB, is reported in today's press to have reacted sharply to this comment, saying "It was what she wanted the report to say, but it does not." ("The Times" 21 May 1981).

2. There is justification in the report for what Mrs Oppenheim said. The Commission found there were several respects in which costs had been higher than they might have been: ~~outstandingly~~ mainly because of deficiencies in power station investment appraisal and past forecasting of future capacity and additionally because of the Board's coal purchasing policies, and because of the Board's 'buy British' policy in the procurement of plant. There were in addition several comparatively minor matters where the Commission pointed to scope for improvement.

3. It is also true that the Commission commended the Board's behaviour in some respects, particularly in its day-to-day operational management. Mrs Oppenheim's statement acknowledged this.

LINE TO TAKE

I am satisfied that my rt hon friend's comments were fairly based on the content of the Commission's report.

Department of Trade

21 May 1981

file

ds

10 DOWNING STREET

From the Private Secretary

MR. IBBS
CPRS

Oil Depletion Policy

The Prime Minister was grateful for your minute of 15 May in which you argued that there was nothing to be gained by deferring discussion of this issue. However, in view of the strong views expressed by the Chancellor in his minute of 15 May, she has decided to go along with Mr. Howell's proposal.

I am sending a copy of this minute to David Wright (Cabinet Office).

T. P. LANKESTER

20 May 1981

cc

CONFIDENTIAL

ds

10 DOWNING STREET

From the Private Secretary 20 May 1981

Oil Depletion Policy

The Prime Minister has now considered your Secretary of State's minute of 12 May, and also the Chancellor of the Exchequer's of 15 May. She accepts his proposal that he should make an early announcement to Parliament that the Government has decided not to impose production cuts from the beginning of 1982, but will be reconsidering the position in the autumn.

I am sending copies of this letter to Francis Richards (Foreign and Commonwealth Office), Richard Tolkien (HM Treasury), Ian Ellison (Department of Industry), Godfrey Robson (Scottish Office), Jim Nursaw (Law Officer's Department), David Wright (Cabinet Office) and also to David Heyhoe (Chancellor of the Duchy of Lancaster's Office).

T. P. LANKESTER

Julian West, Esq.,
Department of Energy.

CONFIDENTIAL

MANAGEMENT IN CONFIDENCE

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

PRIME MINISTER

THE NATIONAL NUCLEAR CORPORATION

I have seen the Secretary of State for Energy's minute to you of 12 and 18 May about the change of Chairman at the National Nuclear Corporation (NNC).

NNC has a central role in the construction of the Torness AGR station currently being built by the South of Scotland Electricity Board. Since I am anxious to see Torness completed to time and within budget any measures to strengthen NNC and give it more purposeful direction will have my wholehearted support. I have no direct knowledge of the present difficulties within NNC, but I am aware of SSEB's views. I think I should draw these to your attention because they are strongly held and because the Board's record in the field of power station construction entitles it to speak with some authority.

SSEB was consulted over our reorganisation of NNC in 1979 and while it was in full agreement with the steps we took to strengthen the management of NNC it argued that to secure a strong and decisive organisation it was essential to alter the shareholding arrangements so as to reduce what it considered to be the unduly dominant position of GEC. In the event we decided to make no change in the shareholdings. SSEB believes that its views have been vindicated by subsequent experience and that the prolonged delays that have arisen over the placing of contracts for Torness have been largely due to internal problems in NNC which have reflected the shareholding pattern. The Board had already expressed concern to me, before the recent developments, that the lack of direction and co-operation in NNC would make it increasingly difficult to complete Torness on schedule.

As I have said, neither I nor my officials have the means to judge SSEB's version of events, but if there is any force in it, a change of Chairman in itself will be unlikely to transform NNC into the strong and independent concern we wish to see. I would therefore welcome the comments of the Secretary of State for Energy, to whom I am copying this minute, on the views expressed by SSEB. I understand that the question of the NNC shareholdings may in any case have to be reviewed because its small capitalisation has caused problems over the placing of contracts and I hope that SSEB and my Department would be involved in any such review.

G.Y.

20 May 1981

CONFIDENTIAL

Flag D

19 May 1981

ALAN WALTERS

PRIME MINISTER

OIL DEPLETION POLICY

I support the Chancellor's view that there should be no deliberate cutback in oil production over the next two years. The CPRS argument for production cuts hinges on:

a. the proposition that longer self-sufficiency will insulate us from either high prices or boycotts; and

b. the real value of oil is likely to rise so that it is best to leave it in the ground now to enjoy the benefit later.

The second proposition is a common assumption but, in my view, it is based on an inadequate assessment of both demand and supply responses to price. Over a 15-20 year horizon, I would expect that the real price of oil is as likely to go down as to increase. The supply response to the change in the real price of oil that occurred in the mid and late 70s has still a long long way to run. The lead times for exploration and exploitation are many years, probably an average of ten is correct. On the demand side every commentator has under-estimated and continues to under-estimate the cutbacks in demand in response to the higher real price of oil. And there is considerable room for adjustment of demand yet awhile, especially in the United States which has yet to reflect world prices at US domestic pumps.

The first argument, about security of supply against an oil crisis, probably could be better handled by retaining suitable stocks. In any case it is likely that the dispersion of supply we have seen over the past four or five years will continue at an even more rapid rate as new fields become productive. So the possibility of an oil boycott being effective becomes less likely as the decade progresses. In the 1990s it is likely to be small indeed.

/The economic

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The economic advantages stressed by the Chancellor of continuing with the planned production schedule are, of course, very considerable. The Government needs all the help it can get in order to bring the public sector accounts into balance during the next few years. My rough calculations confirm those of the Chancellor: the cutback would be equivalent to about a penny on income tax.

Politically there are good reasons for continuing the production programme. The argument that the Government is "frittering away" the proceeds of North Sea Oil by subsidising uneconomic industries, will not be rebutted by changing the production schedule. And there is the plausible case that the Government needs all the help it can get in putting right the manifest wrongs of these many past administrations.

Conclusion

No urgent production cuts are needed and the discussion of a depletion policy, as the Chancellor and the Secretary of State for Energy agree, could well be deferred until the autumn. In my judgment, the balance of both political and economic argument is to continue at the scheduled production rate.

I am copying this minute to Geoffrey Howe and David Howell.

AW

ALAN WALTERS

Mr Lankester

CONFIDENTIAL

19 May 1981

ALAN WALTERS

PRIME MINISTER

OIL DEPLETION POLICY

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I am copying this minute to Geoffrey Howe and David Howell.

AW

ALAN WALTERS

Prime Minister
Are you content with Mr Howell's proposal summarised at x below?
Yes pls
The Chancellor (Flag B) and Alan Walters (Flag D) strongly support it; the CPRS (Flag C) argue for a discussion now.

Ref. A04927

MR. LANKESTER

Oil Depletion Policy - Production Cuts

Flag A

X

The Secretary of State for Energy, in his minute of 12th May, proposes making an early announcement to Parliament that the Government has decided not to impose production cuts from the beginning of 1982, but will be considering the position in the autumn.

2. The main purpose of such an announcement would be to clear the air before the proposed BP rights issue. The Attorney General has advised that the Government should avoid taking and announcing decisions on depletion policy which could affect the share price either immediately before or for some time after the issue has been floated.

Flag B

3. The Chancellor of the Exchequer, in his minute of 15th May, finds the proposal to defer decisions on production cuts welcome on revenue grounds. I understand that the Foreign and Commonwealth Secretary is expected to go along with the Secretary of State for Energy's proposals.

Flag C

4. In his minute of 15th May, Mr. Ibbs has drawn attention to the long-term arguments in favour of slower depletion. These clearly have considerable force, and, if the Prime Minister is content to defer decisions for the time being, she will want to make sure that Ministers come back to them in the autumn.

RTA

ROBERT ARMSTRONG

18th May, 1981

cc Ad Inter

2 pps

CONFIDENTIAL

Qa 05368

To: MR LANKESTER

From: J R IBBS

15 May 1981

with PL?

Oil Depletion Policy - Production Cuts

Flag A

1. The Secretary of State for Energy in his minute to the Prime Minister dated 12 May recommends deferring until the Autumn a Ministerial discussion on whether to implement oil production cuts. This in turn delays the earliest date that oil production cuts could be implemented until mid-1982. It is, however, open to the Government to impose such cuts from January 1982.

2. Indigenous oil production currently exceeds oil demand in the United Kingdom. The Department of Energy's latest central projections for UKCS oil production and UK demand suggest that the net exportable surplus of oil in 1982 will be 23 million tonnes. Over the period 1981/93 as a whole the projected surplus will be equivalent to three years' total UK demand. Production cuts offer the only significant opportunity to reduce this surplus; but on the basis of the central estimates the surplus could not now be eliminated entirely. Given this limited scope for reducing the production surplus, it is at least arguable that the opportunity to cut production during the first six months of 1982 should not be so readily foregone.

3. When Ministers discussed the timing of the Clyde Oil Field Development last December (E(80)44th Meeting), the Prime Minister, summing up the discussion, said that development should be deferred by two years rather than five. This was on the understanding that, if necessary, production cuts would have to be implemented elsewhere to keep production in line with the Government's North Sea oil depletion policy and to avoid surpluses.

4. There are two strong arguments in favour of a firm depletion policy. First, it would prolong the period for which the UK was self-sufficient in oil; thereby extending the timespan in which the UK would

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have a large measure of security of supply against the possibility of a tight oil market or oil crisis. Second, oil left in the ground is likely to increase in value as oil prices rise in real terms.

5. The principal argument against production cuts is the short-term loss of income to the Exchequer in that oil not produced reduces the tax taken from the North Sea. A reduction in output of 10 million tonnes in 1982 would increase the PSBR by about £1 bn. in 1982/83.

6. The decision on production cuts is not an easy one. The CPRS recognises that if oil production is restricted it will be difficult to find alternative Government income to replace the revenue foregone. However, the long-term arguments in favour of slower depletion seem so strong that the CPRS believes this difficulty should be faced.

7. The CPRS does not believe that there is anything to be gained by deferring discussion by Ministers. Mr Howell argues that the economic outlook and oil consumption levels may be clearer by the Autumn thereby making decision-making easier. On the other hand, experience suggests that one uncertainty removed is only replaced by another. Moreover, deferring a decision will exclude the opportunity to cut production during the first half of 1982.

8. I am sending a copy of this minute to Sir Robert Armstrong.

cc Ashdown

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

PRIME MINISTER

OIL DEPLETION POLICY - PRODUCTION CUTBACKS

I have seen a copy of David Howell's minute of 12 May about the timetable for consideration of oil production cuts.

2. I do not dissent from David's proposal to delay decisions on production cuts until the autumn. But it is only fair to point out now that I see no scope for production cuts in the life of this Parliament. Cuts in Government take as a result of production cuts would require offsetting increases in tax or reductions in public expenditure in order to keep to the figures for the PSBR in the MTFS. As the report of the Interdepartmental Working Party indicates, cuts of between 510m tonnes in 1982 and of similar amounts in later years would have increased the PSBR by about £500m-£1,000m in 1982-83 and by about twice as much in 1983-84. Indeed, revenue losses in 1982 could be roughly equivalent to the increases in Government take from the North Sea brought about by the Budget tax changes. Certainly production cuts would defer production into the late 80s and into the 90s, but the natural process of slippage of production is already having that effect without Government action as the report makes clear. Furthermore, I will wish to argue that we should accept BP's application to revise upwards its agreed profil of production at Forties. Refusal would add some £200m to the PSBR in 1982-83.

/3.

3. But I am content that we decide all this in the autumn.

4. I agree with David that there should be an early announcement to Parliament of our intention to delay decisions until the autumn.

5. I am sending a copy of this minute to the Foreign Secretary, the Secretaries of State for Industry and Scotland, the Attorney General and Sir Robert Armstrong.

(G.H.)

15 May 1981

cc Alwalters

CONFIDENTIAL

Prime Minister

OIL DEPLETION POLICY - PRODUCTION CUTS

When I announced the Government's oil depletion policy on 23 July 1980 I made it clear that the Government had not taken any decision on production cuts which, under the assurances given by the previous Administration and confirmed by us, cannot be made before 1 January 1982.

The Interdepartmental Working Party on Depletion Policy under my Department's Chairmanship has been considering the issues involved in implementing production cuts in 1982. I attach a copy of their report.

There is certainly an argument for the Government to implement depletion policy by introducing some production cuts in 1982 and later years. The measures already announced will roll forward only a small proportion of the hump of net exportable surplus in the mid-1980s equivalent to some 2-3 years current consumption into the 1990s. If we do not implement production cuts we shall probably find ourselves net exporters on a significant scale from the second half of 1982 onwards - thanks to the far lower levels of domestic demand for oil than was previously foreseen. Indeed the central estimate for the net exportable surplus in 1982 as a whole is now some 20m tonnes, the equivalent of 25% of domestic consumption. There could be public concern at the export of a scarce natural resource on such a scale thus putting at risk our longer term security of supply - we expect to become net importers again in the early 1990s, albeit on a smaller scale than previously envisaged.

This is a particularly difficult time to reach in view of where the balance of national interest lies. There are wide differences of view about the economic prospects in the next 12 to 18 months. I know that the Chancellor will be particularly concerned about containing the size of the PSBR and the possible effects of any depletion policy on it. There are also vast uncertainties about our forecasts for both oil production and consumption in 1982 - the net exportable surplus could be as small as some 5m tonnes a year or as large as 34m tonnes.

CONFIDENTIAL

There is a chance that the uncertainties - particularly about the economic outlook and therefore oil consumption - will be less in the autumn. I would therefore recommend that we defer a decision until then. I recognise that, given the need for proper consultation with the oil companies, this delay means that we shall have to forego the opportunity to implement cuts in the first half of 1982. But as the net exportable surplus is likely to be more significant in the second half of 1982 I believe it is right given all the uncertainties to accept this delay.

When we come to discuss production cuts we shall also need to consider BP's proposal to revise upwards its agreed profile of production at Forties. I must make it clear now that I do not believe we could maintain any credibility for our depletion policy if we agreed to significant increases in approved levels of production at a time when we had become significant net exporters of oil.

The oil industry and other interested parties know that it is open to us to impose production cuts on certain fields from 1 January 1982. This is also known to the Select Committee on Energy which is currently studying oil depletion policy. I would therefore like to inform Parliament at an early date that the Government had decided not to impose production cuts at the beginning of 1982, but will be reconsidering the position in the autumn. If you and other colleagues agree I will circulate a draft announcement.

I am sending copies of this minute to the Foreign Secretary, the Chancellor of the Exchequer, the Secretaries of State for Industry and Scotland, the Attorney-General and Sir Robert Armstrong.

JG

SECRETARY OF STATE FOR ENERGY

12 May 1981

Prime Minister

Lord Weinstock, Dr Marshall, and Sir John King feel Mr Rooney must resign the chairmanship of NNC. Mr Howell agrees. On Sir John King's advice, he suggests the resignation should be presented as being for health reasons. Mr Howell is urgently considering who might replace Mr Rooney.

MANAGEMENT IN CONFIDENCE

MT

WSH
12/5

Prime Minister

THE NATIONAL NUCLEAR CORPORATION

You will recall the arrangements made last year for Mr Dennis Rooney to become Chairman and Chief Executive of the National Nuclear Corporation. We hoped that this would assist in strengthening the nuclear industry as part of our nuclear policy announced in December 1979.

The appointment is not working out as hoped. Lord Weinstock, Sir John King and Walter Marshall have all told me that Mr Rooney has lost the confidence of his non-executive colleagues on the Board. He seems not to be providing NNC's executives with the leadership demanded of a Chief Executive and, even as Chairman of the Board, is indecisive.

Arnold Weinstock has told me that, although GEC were instrumental in bringing about Rooney's appointment, he now feels that it was a mistake which he would like to see rectified in the near future. I am inclined to agree, although a change now, so soon after the appointment, will need to be handled with extreme care if we are not to damage our nuclear policy and give ammunition to the anti-nuclear lobby.

Sir John King agrees with the need for a change but is also conscious of the presentational problems. He has been asked to be the spokesman of the non-executive directors at a meeting with Mr Rooney which is planned for 13 May. Sir John has told me that he will seek to persuade Mr Rooney that, in his own interest, as well as in the interest of the nuclear programme, he should resign on personal grounds (Rooney has just returned from a spell in hospital) and avoid a damaging, public board room confrontation.

If King can successfully use his influence in this way, I will take the same line when Rooney comes to see me as he inevitably will (the Chairman is nominated by the AEA, but on my instructions after consultation with GEC - the salary and conditions of employment are determined by the Board). This should give us time to look after the presentation and to ensure that there is continuity in the management of the Corporation.

The present view of the non-executive Directors is that Frank Gibb of Taylor Woodrow should become part-time Chairman, with Sir John King as Deputy Chairman. Dr Franklin who, it is said, has recently been performing well in difficult circumstances, would remain as Managing Director. This is a reasonable temporary solution but it is not ideal. I would certainly prefer to avoid announcement of a stop gap appointment and will be urgently considering whether we can find, as a permanent solution, a really strong personality to serve as part-time Chairman. What we need is someone not only to provide

Original in Appointments, together with directly related exchanges.

MANAGEMENT IN CONFIDENCE

leadership of the Board and the executive of NNC but also able to take a really firm line when necessary with other organisations, such as the CEGB.

I am disappointed with this situation, but a way must now be found to rectify it swiftly. I think Sir John King's advice as to how it should be handled is wise. We cannot be certain that he will succeed but he is hopeful. I wished you to have an early warning of this difficulty and I will keep you informed. In view of the crucial importance of avoiding any premature publicity, I am not copying this minute widely at this stage.

JA

Secretary of State for Energy
12 May 1981

DEPARTMENT OF ENERGY
Thames House South
Millbank
London SW1P 4QJ

Tel: Direct Line: 01-211
Switchboard: 01-211 3000

✓
MS

With the Compliments of

the

Secretary of State

Energy

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

Mr Ian Lloyd MP
Chairman
Select Committee on Energy
House of Commons
London SW1

14 April 1981

Dear Ian

With the Easter recess approaching I thought I should write to assure you that the Government is pressing ahead with consideration of the Select Committee's recent report on the nuclear power programme. However, given the wide ranging and detailed nature of the report it will not be feasible for our response to be ready within the standard two month period.

I hope the Committee will appreciate the position. It is, of course, our intention to publish a full response as quickly as possible.

Yours ever

Dave

D A R HOWELL

CONFIDENTIAL

1. NJS ys
2. Prime Minister
Energy

cc Lyhan

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

Rt Hon Michael Heseltine MP
Secretary of State for
the Environment
2 Marsham Street
London SW1P 3EB

27 March 1981

Dear Michael

SIZEWELL B PWR INQUIRY

I have been reflecting on this Inquiry in the light of the recent Report of the Select Committee on Energy. The Committee's views are summarised at Annex A. As you will know they also recommended that there should be a debate in the House on the Government's nuclear power policy.

In our correspondence last year resting with your letter to me of 28 July we were agreed that there should be adequate investigation and preparation for the Inquiry, and that Parliament should be involved in this process. The Select Committee took evidence from myself and the Generating Boards and the AEA, as well as from a wide spectrum of other opinion, including designers and manufacturers of power plant, some of the trade unions concerned with power station construction and operation, academic experts and a number of those critical of nuclear power. They have published this evidence, which constitutes a very important body of background information for the Inquiry. I made it clear in my evidence to the Committee that it was our intention to hold a wide-ranging inquiry.

I hope in the next few months to publish a reply to the Report in the form of a White Paper setting out the Government's nuclear power policy and replying as appropriate to the Committee's observations and recommendations. The House should then debate the Report and the White Paper. This debate will give the opportunity for Parliament to express a view on nuclear power policy, without of course prejudicing or pre-

judging the Inquiry which in this way will take place, as we would wish, against a settled policy background. The existence of such a background will be valuable to the Inspector. Sir Frank Layfield QC, whom I hope to appoint for this task, has said he attaches great importance to having a firm statement of Government policy.

I have received representatives from the CEGB, the National Nuclear Corporation, the Nuclear Installations Inspectorate and Suffolk County Council, all seeking an early decision on the form and scope of the Inquiry. As you will know I believe that a wide-ranging single-stage inquiry on the lines of those held for the Windscale and Belvoir proposals is the best way of carrying out our commitment to a full and thorough Inquiry. I remain opposed to the concept of a two-stage Inquiry, though I see virtue in a pre-Inquiry meeting to enable the Inspector, with the parties, to identify the main points at issue and commission any further work that may be necessary.

As for the scope of the Inquiry, I would propose to issue a "Rule 6" statement to the parties identifying points relevant to my consideration of the application and attach a draft at Annex B. This seeks to make it quite clear that the case for the station has to be made out by the CEGB and not the Government. I think you know that my officials are working with yours and with the Lord Chancellor's Department on the making of statutory Rules of Procedure for Inquiries under the Electricity Acts. We are pressing on as quickly as possible with these Rules, but I would like to issue my statement not later than May or June, even if the Rules have not been formally promulgated by them. I would propose to give the Government's view on the Inquiry and publish the "Rule 6" statement by means of an arranged PQ at that time.

Looking well ahead, it may be desirable, as the Select Committee have again suggested, for there to be a Parliamentary debate after the Inspector has reported. I am advised that this can be arranged by means of a procedure which separates consent under Section 2 of the Electricity Lighting Act 1909 from the deemed planning permission under Section 40 of the Town and Country Planning Act 1971 which would normally accompany it. No decision on that is needed now, though the possibility should clearly be mentioned to the Inspector when he has been appointed.

I should be glad to know that you agree with the way I propose to proceed.

I am copying this letter to the Prime Minister, the Lord Chancellor and the Secretary of State's for Scotland and Wales.

Yours ever

Jack

D A R HOWELL

ANNEX A

VIEWS OF THE SELECT COMMITTEE ON ENERGY

In paragraphs 165-167 of their Report, the Select Committee make the following points:-

(a) a balance must be struck between the desire to do full justice to all points of view and the need to avoid a proliferation of evidence on an ever widening range of technical issues.

(b) PWR safety considerations will be a principal issue.

(c) it would be unreasonable to exclude mention of costs and electricity demand projections.

(d) the Government should take steps to ensure that the CEGB and the NII publish a maximum amount of information about the nuclear site licence application.

(e) all parties need to have adequate time before the inquiry to study the NII's findings; it would be reasonable to allow 4 months for this process.

(f) the Secretary of State would be justified in setting a time limit on the inquiry, though this should be a generous one.

(g) if a PWR programme is adopted future public inquiries should be site specific and need not reopen the wider issues of principle covered at the Sizewell inquiry.

(h) while safety issues not related to siting fall to the NII to determine, and their findings would not in normal circumstances be open to challenge at an inquiry, this would be an unduly restrictive approach to adopt for Sizewell. The NII must remain independent, but safety issues should not be excluded from the inquiry on that account.

ANNEX B

PWR INQUIRY: "RULE 6 STATEMENT"

In considering whether the proposed power station should proceed, the Secretary of State will take into account the economic, environmental and safety factors which would be involved as well as planning aspects. On the information so far available to him it appears that the following points will be relevant:

a) the CEGB's requirement for the power station in terms of the need for secure and economic electricity supply [and against the background of the Government's long-term energy strategy and its policy for nuclear power];

b) the safety features relevant to the design, construction and operation of the station and in particular the views of the NII on its licensability;

c) the effects of the construction and operation of the proposed station [including the transport of fuel and spent fuel for reprocessing], on the local community, environment and economy including -

i) employment opportunities

ii) agriculture and fisheries

iii) water supply

iv) visual and other amenities

v) housing and public services

vi) tourism and recreation

Energy

01 211 6402

CONFIDENTIAL

Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON
SW1

20 March 1981

Dear Keith

I refer to your letter of 23 February.

It raises thorny issues. The CEGB have recently come under considerable criticism for paying over the odds for UK plant. The Select Committee on Energy have for instance publicly criticised them for apparently being resigned to accepting a heavy cost penalty for building a PWR in UK conditions. The Monopolies and Mergers Commission seem also to have felt that the Board's policy of buying British plant has involved a cost penalty. Glyn England's remarks should I think be viewed against this background. You accept that he is entitled to complain.

The vexed question of the role of CEGB specifications and programmes in the troubles of British manufacturers has of course been discussed by our Departments on various occasions in the past. Specific evidence of trouble from specifications is hard to find. The manufacturers themselves have not come forward with satisfactory evidence. Further, manufacturers' own performance (affected by the low domestic ordering rate in recent years), the exchange rate, credit terms offered by competitors and other factors must play an important part.

By and large the MMC's Report on the CEGB, which we are in the process of analysing, does not appear to be particularly critical of the CEGB in this area. On the question of over-specification, for instance, the Commission say that they were impressed by the number of models the Board used for the optimisation of design, and the range of the engineering and economic factors taken into account. They were satisfied that these calculations were directed towards the stated objective of minimising the lifetime cost of power stations. As to whether the CEGB adopt standards differing unnecessarily from British and International Standards Organisation (ISO) standards, the Commission say that CEGB standards appeared to differ from British Standards only in that they specified certain matters which the BS left unspecified. With regard to ISO, the difference was due to the ISO's specifically catering for less concentrated electricity systems. ISO and CEGB standards are now more closely aligned.

CONFIDENTIAL

The Commission also comment that they were impressed with the results the Board had obtained by insisting on the adoption by contractors of improved quality assurance procedures for the manufacture of power station equipment.

I suggest that we further consider the Board's purchasing policies when we have digested the MMC's findings. Meanwhile I think it fair to point out that CEGB assistance, given through BEI, is a major feature of the Castle Peak project and is expected to continue to be so if we are successful in securing the Castle Peak B order. I understand that Exxon attach particular importance to it.

I am copying this letter to the recipients of yours.

Yours ever

Dave

D A R HOWELL

Energy

NB Prime Minister

Mr. Pattison to see

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

19 March 1981

The Rt Hon Lord Soames GCMG GCVO CH CBE
Lord President of the Council
Civil Service Department
Whitehall
London SW1

Dear Christopher.

BOILER CONVERSION SCHEME

Geoffrey Howe wrote to David Howell on 5 March to say that he was prepared to agree to provide up to £50 million in cash phased over 4 years for a scheme to assist industry with the costs of converting boilers to coal. This new scheme was announced in the Budget.

2 It has been suggested that the Department of Industry should run the scheme because of its relevant expertise in administering schemes such as this. I am prepared to agree to this on the understanding that the Department of Energy will assist with technical advice.

3 However, I cannot agree with Geoffrey's suggestion that staff employed on this task should be found from within agreed staffing ceilings. I understand that as many as 20 staff could be needed to administer the scheme, although the exact number will not be known until details have been worked out. The bureaucracy involved must be kept to a minimum but, if we want to encourage small and medium sized firms to benefit from the scheme, as I do, the number of enquiries and applications to be dealt with is likely to be substantial. Over the period of this Parliament, the Department of Industry is planning to reduce its staff by 23% and detailed plans have been made to achieve this substantial contraction. If the Department is to take on an entirely new function like this, it is necessary that the requisite manpower as well as financial resources be provided. It will be necessary therefore that an increase in the Department's manpower targets should be authorised from the contingency reserve.

4 I am copying this letter to the Prime Minister, Geoffrey Howe and David Howell.

Yours, Keith.

CONFIDENTIAL

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

6 March 1981

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

Dear Geoffrey

OIL SUBSTITUTION

David Howell sent me a copy of his letter of 3 March about an oil substitution scheme for industry.

Such a scheme would certainly have attractions. There is spare capacity in the boiler industry and firms making the conversion would in many cases see a cost benefit. I certainly do not wish to oppose the idea, though I think we must be clear that such a scheme has as much to do with increasing coal consumption, as with bringing about industrial benefits.

However, the proposal raises some questions of administration which I should like to see more fully explored by officials. In particular I should like careful thought to be given to who would administer the scheme. Is there some suggestion that it should come under Section 8 of the Industry Act? If so it will have to fulfil a number of criteria and will require the approval of the European Commission. A scheme of this size would also require Parliamentary Approval.

I am copying this to recipients of David Howell's letter.

Yours ever, Keith

CONFIDENTIAL

TPC

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

5 March 1981

The Rt. Hon. David Howell MP.,
Secretary of State for Energy

Dear David

BOILER CONVERSION SCHEME

In your letter of 3 March you asked me to reconsider a £50m scheme to provide 25 per cent grants towards the capital cost of converting industrial boilers from oil to coal. As you know, I have not until now been persuaded of the case for such a scheme. This was also the view of E Committee last Monday. However, developments since then have made the scheme look more attractive.

You say that expenditure on the scheme would be phased over four years, and that the cost in 1981-82 would be very small (your officials have suggested £2m). This makes it easier to accommodate the cost in our public expenditure arithmetic.

Secondly, you say that the cost of the scheme would be more than offset by savings, mainly reduced cash requirements by NCB for coal stocking. There is room for argument on the precise public expenditure effects, but I accept that the cost of the scheme will be offset at least in part by lower NCB stocking costs. This assumes that the savings are identified and that the NCB's external finance is reduced accordingly. The NCB's financing estimates and assumptions must clearly be examined very closely to ensure that these offsets are obtained.

Thirdly, the announcement of a boiler conversion scheme resulting in higher coalburn would no doubt be helpful in our discussions with the NUM at next Wednesday's tripartite. The announcement of such a scheme should strengthen our resolve in standing firm against the NUM's other demands.

Finally, the NEDC Task Force has called for Government assistance for boiler conversions, and the proposed scheme would be a helpful gesture and would go some way to help deal with criticism about the adequacy of the Government's response to the Task Force's report.

/In the light

In the light of the points above, and on the understanding that the scheme would be self-financing and that the cost next year would be minimal, I am prepared to agree to provide up to £50m in cash phased over four years for a scheme to assist industry in the costs of converting boilers to coal. The figure of £50m would have to be regarded as a ceiling. The costs in 1981-82 would be met from the Contingency Reserve.

As the Department of Industry have the relevant expertise in administering schemes such as this, I hope that they would agree to run the scheme. Staff employed on this task should be found from within agreed staffing ceilings. I am sure you would agree that the bureaucracy devoted to this work must be kept to the bare minimum.

I intend to announce the boiler conversion package in my Budget Speech. My officials are in touch with yours about a draft passage. Presumably your Department or the Department of Industry will issue a Press Notice on Budget Day with details of the scheme.

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

GEOFFREY HOWE

Energy

FCS/81/25

SECRETARY OF STATE FOR ENERGY

International Response to a tight oil market

1. In your letter of 18 February, you sought my agreement on the line which the UK should take at the forthcoming EC Energy Council on the French and Italian proposals for dealing with oil shortages.

2. I agree with your general argument, and your conclusion that we cannot stand aside from international discussion of the French and Italian proposals. Because of the importance of the Americans and Japanese, the main discussion and any practical action is bound to lie in the IEA. But because of the special position of France, some discussion in the Community is inevitable. I do not think that we should seek to oppose this, since we would be unlikely to succeed. There is of course no reason why we should not argue in Brussels against unnecessary duplication and the imposition of unproductive work on officials in capitals.

3. We may not be able to avoid some discussion of the French ideas in the run up to the Ottawa Summit as well. But I too am against anything that could lead to the creation of new bureaucratic machinery under the Seven and see no reason to make any substantial concession to the French in this context. Incidentally I see little prospect of the French joining the IEA even after their elections.

/4.

4. Subject to these points, I am content that you should speak at the Energy Council on the lines you suggest.

5. I am sending copies of this minute to the Prime Minister, the Rt Hon Sir Geoffrey Howe and Sir Robert Armstrong.

C

(CARRINGTON)

25 February 1981

Foreign and Commonwealth Office

Energy

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

24 February 1981

The Rt. Hon. Lord Carrington, PC, KCMG, MC
Foreign and Commonwealth Secretary

Dear Peter

24/2

INTERNATIONAL RESPONSE TO A TIGHT OIL MARKET

David Howell wrote to you on 16 February about the approach he proposes to take in any discussion at next month's Energy Council of ideas for dealing with oil shortfalls below the 7 per cent trigger.

I agree with the line he has in mind. I was glad to see that preliminary discussion in the Ad Hoc Group suggests that most countries would favour some form of stock management. I would certainly not be willing to contemplate any additional public expenditure costs. The original Giraud version of this proposal seemed misconceived in a number of respects.

As David says, our interests, as a producer with secure supplies in sub-crisis conditions, are not quite the same as those of other countries. There is also a complex of practical issues to be resolved before a scheme could be agreed. But we share the strong collective interest in effective action toward off further sharp oil price increases. I agree with him that existing arrangements are not fully effective in sub-crisis conditions and that it is well worth seeing if they can be improved.

I am sending copies of this letter to the Prime Minister, David Howell and Sir Robert Armstrong.

GEOFFREY HOWE

JU

CONFIDENTIAL

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

23 February 1981

The Rt Hon David Howell MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank SW1

Dear David.

COMPETITIVENESS OF POWER GENERATION EQUIPMENT

John Biffen and I were concerned to read the report on 31 January of Glyn England's remarks in Manchester and our worries are only increased by seeing the CEGB handout (copies attached). Such general and contentious carping would be unhelpful at the best of times, but the report was particularly damaging in coinciding with the precise day that we were submitting our proposals for a negotiated contract on the Castle Peak "B" station.

2 Of course Glyn England is entitled to complain. However, the CEGB should recognise that in the eyes of industry, and many independent observers, the Board is its own worst enemy and, through its specifications, erratic programmes and procedures, largely responsible for the problems that British manufacturers encounter in gaining export Business.

3 We would ask that you take this up with Glyn England. But to turn the issue to a constructive purpose, we would suggest that the Departments of Trade and Industry should join, with industry, in the Board's review of its procurement functions, particularly with a view to seeing how these can be adjusted to improve, rather than hinder, UK industry's ability to win export orders.

4 I am copying this letter to the Prime Minister, Peter Carrington, Geoffrey Howe and John Biffen.

Yours ever

CONFIDENTIAL

CEGB
Press Information

Central Electricity Generating Board

Sudbury House 15 Newgate Street London EC1A 7AU Telephone 01-248 1202

NOT TO BE PUBLISHED OR BROADCAST
BEFORE 14.00 HRS ON 30 JANUARY 1981

PR 707
30 January 1981

TACKLING HIGH COSTS

Extracts from an address by Mr. Glyn England, Chairman, Central Electricity Generating Board, to the North Western Fuel Luncheon Club, Manchester, on Friday, 30th January 1981.

A series of far-reaching measures taken by CEGB to tackle the high costs of electricity generation, made up of 60 per cent fuel costs, 20 per cent capital charges and 20 per cent staffing, plant repair and other costs - were outlined by Mr. England.

"We in the CEGB take the view that while some costs are more controllable than others, every element of cost is subject to scrutiny and influence", said Mr. England.

"We can and do influence fuel prices. The most notable example of this is our very valuable Understanding with the National Coal Board, which guarantees the NCB a substantial market for coal provided that prices to us do not increase faster than the rate of inflation. Our coal imports, marginal in amount, provide a valuable competitive edge to our coal purchasing.

"We also exploit the inherent flexibility of our system by concentrating production on the lowest-cost plant. We are making the maximum use of our nuclear stations, the most economical producers of all.

m/f

"And we have minimised our use of oil, now the most expensive of our fuels, reducing consumption from roughly 11 million tonnes in 1970 to around 5 million tonnes this year.

"An indication of the extent to which this policy is paying off is that, had we not been able to increase the output of our nuclear stations beyond the 1970 level, our fuel bill last year alone would have been £100 million higher.

"At the same time we have made significant improvements in power station efficiency, in particular by increasing the availability of our large conventional power stations. Again taking a ten-year look, our fuel costs last year would have been £260 million higher if no improvements in power station efficiency had been achieved since 1970.

"In order to produce electricity and supply it to our customers, we at the Generating Board have, of course, to be the customers of others - not only of fuel suppliers but the suppliers of plant and equipment. And the rising costs of plant and equipment, particularly the high price levels associated with negotiated contracts which, for one reason or another, have increased in number and value in recent years, are of increasing concern.

"The problem can be put in a broader setting by international comparisons which show that UK plant and construction costs are among the highest in Europe. Even allowing for the very real difficulties of making such comparisons, the general inference is that price levels for plant purchased and constructed in the UK are substantially higher than those in France and Belgium.

"As part of our continuous process of modernisation we close older, less-efficient power stations. We recently announced the closure of 3,400 MW of plant. Our modern plant produces on average 60 per cent more electricity from one tonne of coal than the stations we are closing.

m/f

"This closure and modernisation plan saves fuel use and fuel cost and contributes to reductions in manpower. In 1970 our workforce totalled more than 70,000; today it is little more than 60,000. Without these cuts, our salary costs in the last financial year would have been £65 million higher.

"Furthermore, over those ten years our productivity, expressed in terms of units supplied per employee, has risen by 48 per cent, compared with the national average, of output per person employed, of 27 per cent.

"We want people to know the dilemmas we face, and to be able to assess for themselves the logic of our responses. In particular, we want them to realise that the Board has for some time been putting pressure on all controllable costs, so that further internal economies become more difficult. Consequently, future fuel price increases will be reflected almost directly in the costs of producing electricity. The fact is that our prospects for holding down our costs depend very much on the prices we have to pay for fossil fuels and on our ability to bring into service additional nuclear generating plant with its lower production costs."

- END -

Marginal Oilfields are urged

BY RAY DAFTER, ENERGY EDITOR

SMALL OILFIELDS in the North Sea could be made commercially attractive if the Government waived its royalty take, according to the UK Offshore Operators' Association.

The submission was made at meetings of a Department of Energy study group set up in 1979 to review the definition and exploitation of marginally economic fields. Details of its findings were given in the Commons yesterday by Mr. Hamish Gray, Minister of State for Energy.

Some of the assumptions have been overtaken by events. For example, the group, including representatives of the Treasury and the Inland Revenue, worked on hypotheses that there would be either a constant real oil price of $28.20 a barrel at mid 1980 values, or a real increase of 3.5 per cent a year from that level. But North Sea prices have already risen to a reference level of $39.25 a barrel, making many small fields attractive.

The study group reviewed 37 undeveloped fields with a total of 2.4bn barrels of reserves, about a sixth of UK oil reserves. All were regarded as marginal in mid-1979.

At a constant price of $28.20 fields with 50m-75m barrels of recoverable reserves or less, and even some with 100m barrels, were likely to need financial assistance, the group concluded. Assuming price rises of 3.5 per cent a year, fields of 100m barrels and less would probably be commercially attractive.

If financial assistance was thought desirable royalty refunds were the "most appropriate and effective" way of helping oil companies.

UK plant costs worry CEGB

By Martin Dickson, Energy Correspondent

THE Central Electricity Generating Board is growing more concerned at the rising cost of British-built generating plant and equipment. It is among the most expensive in Europe, Mr. Glyn England, Board chairman, said yesterday.

He told a Manchester luncheon club that the Board intended to mount a joint study with its manufacturers and contractors into ways of containing costs.

Although it was difficult to make international comparisons, he said: "The general inference is that price levels for plant purchased and constructed in the UK are substantially higher than those in France and Belgium."

deadline on S

ATV MIDLANDS, the wholly owned subsidiary of Associated Communications, yesterday met the Independent Broadcasting Authority deadline for producing proposals to cut Associated's holding in its stock to 51 per cent.

The full Authority will meet next week to examine the proposals.

The ATV proposals were in broad terms and came because of a month's work by the company and consultation with IBA officials.

It is up to the authority to decide whether these discussions have produced the right formula—and it seems unlikely that it would overturn anything other than the finer points of its officials' recommendations—and then detail work will start.

Document ruling reserved

BY OUR LAW COURTS CORRESPONDENT

LAWYERS in court cases can properly show their own, or their opponent's, confidential documents to a journalist, if such disclosure is necessary to enable the journalist to write a fair and accurate report of the case in which the documents have been used, counsel for the Home Office suggested in the Court of Appeal yesterday.

Such a disclosure would not be contempt of court by the lawyer, said Mr. Simon Browne.

He was opposing an appeal by Miss Harriet Harman, a solicitor and legal officer of the National Council for Civil Liberties, against a High Court ruling last November that she was guilty of contempt of court in showing confidential Home Office documents to a Guardian journalist after they had been read in open court.

Judgment was reserved until a later date.

Mr. Browne said Miss Harman had been guilty of contempt because she had known that the Guardian reporter did not want to write a report of the court proceedings, but a feature article about Home Office policy.

Such use of documents was not permissible because of the implied undertaking.

Littlewoods job losses will total 1,300

THE RETRENCHMENT policy being carried out by Littlewoods, the mail order, retail and football pools group, will involve a net loss of between 1,200 and 1,300 jobs over the next two and a quarter years and not the 2,200 reported in later editions of the Financial Times on January 29.

The company said about 400 of the job losses would be enforced redundancies and the majority of the losses would be covered by natural wastage and voluntary redundancies.

Littlewoods plans to close its mail order office at Earlmill in Oldham, Greater Manchester, by mid-1982, although 300 additional new jobs will be created in Preston.

The company said the mail order business at Derby Lane, Liverpool, would be closed by the spring of 1983, affecting 1,150 people. Some 600 new jobs will be created at an existing Littlewoods site at Crosby, Merseyside.

The group is to cut its headquarters staff at Liverpool by 10 per cent, which will involve 300 jobs. A new project, however, will create between 100 and 140 new jobs. Two Littlewoods London stores in Brixton and Islington will close this summer with the loss of 50 jobs.

Chorus in tune on need for national

Jason Crisp on calls for more co-ordination on inform

THIS MONTH has been notable for the chorus calling for a national policy for the electronics industry—especially in information technology. The calls have come from remarkably different sources and yet have sounded uneerily in tune.

Senior industrialists, politicians and civil servants at the Industry Department have been extolling the virtues of a better co-ordinated national approach to the fast-growing electronics industry.

There is common concern that Britain's electronics industry is competing strongly against itself in some areas but has little or no presence in others. It is an industry where companies have to be internationally competitive to succeed.

There is also increasing awareness of the rapid growth in information technology industries—the meeting point of cheap computer technology and telecommunications. There appears to be widespread agreement that public purchasing is a key factor in the success of any country's electronics industry.

Early this month Mr. Kenneth Baker MP, was appointed Minister for information technology as part of Mrs. Thatcher's reshuffle. The month also saw the reconstitution of the Electronics Economic Development Committee with a strong presence from industry.

Although some companies were initially sceptical of the committee's effectiveness, a number have revised their attitudes.

Since several member companies have been vigorously supporting the idea of a national consensus and policy for electronics.

January has also seen the setting up of joint Parliamentary and industry committee on information technology (PITCOM) under the chairmanship of Mr. Ian Lloyd MP.

This week, Mr. Roy Croft, deputy secretary at the Industry Department, spelt out the main strands of Government policy on information technology.

By comparison with international competitors it is late in the day for Britain to be agreeing on the need for a national policy on electronics, let alone establishing what it is or even how it might be implemented.

A paper prepared by the Electronics EDC on UK competitors' policies towards their electronics industries serves to highlight the problem.

The four countries examined were Japan, West Germany, France and the U.S. It finds there are some common themes running through all four which have contributed to the success of their respective electronics industries.

It says the four nations share common views of the state's role in stimulating growth within their market economies. But, particularly in the electronics industry it reports that the state in each country has spent a greater proportion of gross national product in electronics industries (computers, telecommunications and semi-conductors) than the UK.

In addition, it says the quality of expenditure is better because those countries have a greater sensitivty to industrial needs, use greater selectivity and higher levels of co-ordination

Sir Henry Chilver, vice-chancellor of Cranfield Institute of Technology and chairman of the electronics committee, is con-

With the Compliments
of the
Private Secretary
to the
Lord Privy Seal

Foreign and Commonwealth Office
London SW1

20 February 1981

Dear Dennis,

NORTH ALWYN GAS : ELF AND TOTAL : SEVENTH ROUND

Thank you for your letter of 18 February to Peter Carrington who is at present in Africa.

We agree with the modified approach recommended by Sir Reginald Hibbert, and with the texts attached to your letter. These should enable us to judge the reaction of the French at each stage and if necessary to vary our tactics as appropriate.

However, I am still not happy that we are yet sufficiently clearly about the degree of commercial sacrifice we shall be asking the French companies to accept. This is central to our judgement of the size of the risk. In your original letter of 30 January you implied that the companies would have to forego a tax advantage of £50 million. How would this relate to their likely profits? Over how long a period would they be able to spread this cost? Would they have no extra construction or other costs, arising from connecting up to the gas gathering pipeline rather than the Frigg pipeline? Is there not (as Peter suggested in his minute of 5 February) some concession the companies might be offered to offset these disadvantages?

/Even

The Rt Hon David Howell MP
Secretary of State for Energy
Thames House South
Millbank
London SW1

CONFIDENTIAL

Even if it is not easy to quantify the answers to these questions very accurately, we do need as clear an indication as we can get before we decide to go ahead. In the end the companies themselves would have to judge how far they were willing to accept a penalty to retain our goodwill now and in future licensing rounds. But given the present complexity of our relations with the French, we would nevertheless be grateful for your considered comments before we decide to go ahead.

Yours ever

Ed

cc FCO (ENERGY) HS
CDL
CWO

bcc Ingham

10 DOWNING STREET

From the Private Secretary

20 February 1981

Thank you for your letter of 19 February about the reporting of IEA meetings.

We are certainly content with what you now propose provided that everyone else is.

I am sending copies of this letter to Francis Richards (Foreign and Commonwealth Office), Nick Huxtable (Chancellor of the Duchy of Lancaster's Offfice) and Murdo Maclean (Chief Whip's Office).

N. J. SANDERS

Geoffrey Dart, Esq.,
Department of Energy.

cc Mr Ingham

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

N J Sanders Esq

Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

19 February 1981

Dear Nick,

Many thanks for your letter of 10 February about the reporting of IEA meetings.

There is no reason, certainly at this end, why we should not decide now to report to the House on a regular basis by written answer on the outcome of meetings of the IEA Governing Board at Ministerial level.

... The proposed line to take (attached) has been revised to reflect this. Can I now assume that you and other recipients are content?

Copies of this letter go to the recipients of yours.

Yours ever,

Geoff Dart

G S DART
Private Secretary

LINE TO TAKE (if raised)

1. The outcome of the meetings of the IEA Governing Board at Ministerial level will normally be reported to the House on a regular basis by written answer.

2. Bearing in mind both the length and complexity of these statements, together with the pressures on Parliamentary time, this is the most appropriate medium.

BACKGROUND

3. The usual practice for reporting EC and other international meetings is by written answer. This is because of both length and detail when parliamentary time is at a premium.

4. The final decision on whether statements warrant oral or written presentation rests with No 10 in consultation, as necessary with the Whip's, Chancellor of the Duchy and Departments. All are content that IEA meetings should usually be reported by written answer.

CONFIDENTIAL

Energy

Mr Allen . Copy

Phil

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01-211-6402

12
18/2

The Rt Hon Lord Carrington PC KCMG MC
Foreign and Commonwealth Secretary
Downing Street
London SW1A 2AL

18 February 1981

Dear Peter

INTERNATIONAL RESPONSE TO A TIGHT OIL MARKET

At the meeting of the European Community Energy Council planned for 3 March there is likely to be discussion of proposals for improving the capability of Western countries to deal with a tight oil market but one in which the short-fall in supplies is less than the 7% which would trigger the IEA emergency allocation scheme. This letter seeks agreement to the line our representatives should take.

Experience in 1979 following the Iranian revolution showed that a relatively small reduction in supplies could produce a quite disproportionate rise in oil prices. In 1979 the real price of oil more than doubled with consequences for the UK and world economies which I do not need to spell out. At the end of last year there was a fear that the reduction in supply following the Iran/Iraq war would have the same sort of effect on prices. But a combination of low consumption as a result of economic recession, increased output from some other OPEC members and the informal arrangements made by the International Energy Agency to use high stocks to meet any short-fall in supply prevented another price explosion. The use of informal arrangements to solve problems of this sort must however be subject to the law of diminishing returns and there can be no guarantee that a similar ad hoc approach would be adequate to tackle a more intractable problem in the future and to secure the political will essential to success. The absence of agreed arrangements to deal with minor short-falls in supply causing very sharp rises in price has come to be seen by many as a serious gap in Western plans. The Italians have put forward proposals to fill this gap in both the IEA and the Community. And at the dinner for Summit Energy Ministers on 9 December M Giraud suggested

an "oil fund" which was in many ways similar to one of the Italian proposals for use of stocks.

There has been some preliminary and non-committal discussions in an Ad Hoc Group of senior officials set up by the IEA Ministerial meeting on 9 December and in the Community's Oil Supply Group. There seems to be a consensus that the problem of supply difficulites under the 7% threshold does need examination and that the best hope of progress lies in some form of stock management falling short of an international buffer stock. The Americans and several other delegations said that the latter is unlikely to be acceptable. UK officials emphasising that they were speaking personally recognised the existence of a gap in our arrangements but added that it was one thing to identify a gap and another to find practicable means of closing it. They agreed that the best hope of progress lay in the area of stock management but pointed out some of the many questions which would be needed to be answered before a practicable scheme could be devised.

The UK interest in a new system is divided. We have made arrangements with the oil companies to secure supplies to the UK in a short-fall of less than 7% and would not therefore stand to benefit from a new scheme as much as others. Indeed we would have to ensure that it did not prejudice our special arrangements. On the other hand, we have a clear interest in preventing further steep and sudden rises in the price of oil which damage the UK economy as well as the Western economy as a whole. If a reasonably effective scheme could be devised and agreed that would be much to our advantage. It is of course far from clear that that can be done. The attitude of the new US Administration will be crucial. But in my view we cannot without seriously damaging our international standing in energy matters and perhaps more widely stand aside from attempts to devise such a scheme.

Any new scheme to be effective must involve the main Western industrial countries including the US and Japan. The IEA is therefore the right forum for the main discussion of it. A Community scheme by itself could not be effective and for us it would have the disadvantages but not the advantages outlined in the previous paragraph. Any attempt to set up a new organisation under Summit auspices would antagonise the smaller countries, undermine the IEA and be contrary to our general policy of not institutionalising the Summit. It is just possible that discussion of these ideas will pave the way for France to join the IEA. We should certainly be on the lookout for any chance of achieving that end. Otherwise the association of France with any arrangements agreed on would have to be sought by parallel action in the Community.

I therefore propose that at the Energy Council we should indicate a willingness to participate without commitment but fully in an examination of ideas for improving the ability of Western countries to deal with an oil short-fall below the 7% trigger. We should make it clear that participation of the US and Japan and therefore IEA involvement in any arrangements would be essential: and that our final attitude would be taken in the light of our judgement of the practicability and effectiveness of any scheme which emerges. I should be glad to know if you are content with this line.

I am sending copies of this letter to the Prime Minister, Geoffrey Howe and Sir Robert Armstrong.

Yours ever

Dave

D A R HOWELL

File.

Prime Minister.

May Sir Robert Armstrong have the work with you and his claim he seems?

Ref. A04687

PRIME MINISTER

You will remember that, at your lunch at Chequers on 30 December, you had some conversation with Dr Walter Marshall about the possibility of Anglo-American co-operation on the fast reactor. He said he believed that the American utilities would be urging such co-operation upon the President, and briefing him to propose it when you visited Washington. You encouraged Dr Marshall to keep in touch with developments.

2. Dr Marshall came to tell me on 13 February how things had gone since then. I attach a fuller account herewith; but the gist of it is that the American utilities very much want to resume a fast reactor programme, have rejected co-operation with the French, have rejected going alone, and wish to proceed in partnership with us. When you see the President next week, he will have been briefed by the utilities and by his Secretary for Energy, Mr Edwards, to express a positive and constructive interest in the possibility of Anglo-United States co-operation. If we want to pursue this, you could urge early follow-up, in the form of discussions between the United States utilities and the United Kingdom Atomic Energy Authority (UKAEA) and between the two Governments. If such discussions are to achieve and maintain momentum, it will be important for the discussions between the US utilities and the UKAEA to start soon and proceed in parallel with discussions between Governments: they should not be allowed to wait until intergovernmental agreement has been reached - which could take six months or a year. It would be as well if Dr Marshall himself were to be put in charge on our side.

3. There are certain aspects of this on which I should like to amplify orally, if I may.

I arranged for 0915 on Friday 20 February after discussing Cabinet business.

RTA

ROBERT ARMSTRONG

17 February 1981

ANNEX

Fast Reactor Programme: Possible Anglo-United States Co-operation

Note of a Conversation with Dr Walter Marshall on 13 February 1981

Dr Marshall said that the United States utilities had met on 7 January 1981 to review plans for resuming a fast reactor programme. They had considered and indeed tried co-operation with the French, but the complexity of the arrangements into which they were asked to enter and the French insistence on a purely licensing arrangement had led to the breakdown of negotiations. The United States utilities rejected the idea of proceeding with a fast reactor programme on their own. They favoured partnership with the United Kingdom. This was not only the preferred option; it was being put forward as the only one. They would brief the President accordingly, and request him to raise the possibility with the Prime Minister when she visits Washington. They would themselves undertake to lobby in support of the resumption of the programme in partnership with the United Kingdom, in Congress and elsewhere, and were confident of success.

2. The United States utilities had then been asked to make a presentation to Mr Le Gassy of the United States Department of Energy. They invited Dr Marshall to take part. The United Kingdom Department of Energy was at first reluctant to countenance any contacts ahead of the Prime Minister's visit to Washington, but eventually agreed that Dr Marshall should attend the presentation to Mr Le Gassy, in a strictly personal capacity and not in any way representing the British Government.

3. At about this time Sir Nicholas Henderson saw the United States Secretary for Energy, and told him that the Prime Minister would raise the question of fast reactor co-operation with the President.

4. In their presentation to Mr Le Gassy, attended by Dr Marshall, the utilities explained why they had rejected co-operation with the French, why they rejected going it alone, and why they favoured partnership with the United Kingdom. They made it clear that they did not envisage that this partnership needed to be exclusive. They thought that, once it had been securely agreed and established, the United Kingdom and the United States should approach

Japan, with a view to her being associated with or a member of the partnership. There could well be association or licensing agreements with other countries. There would be no objection to our negotiating with the French for exchange of technical information. If a successful partnership between the United Kingdom, the United States and Japan was established, it might then be appropriate to approach the French with a view to a joint arrangement of some kind with them. The utilities had emphasised, to the evident relief of the United States Department of Energy, that no hardware commitment and no budgetary expenditure would be required in the current or immediately coming fiscal year.

5. Dr. Marshall was then invited to pay a courtesy call on the Secretary for Energy, Mr. Edwards. This was only a short meeting, but Mr. Edwards had made it clear that the new United States Administration shared the view of the utilities that the United States wanted and needed to pursue the fast reactor programme in partnership with the United Kingdom, and believed that it would be possible to get Congressional approval. He asked what the Prime Minister would say when she met the President on this subject, and how the President should respond. Dr. Marshall said that the Prime Minister would say that she would like the United Kingdom and United States Administrations to explore the possibility of collaboration on development of the fast reactor. Mr. Edwards said that the President would agree enthusiastically. The Prime Minister should not expect the President to be briefed to go into technical or industrial detail; but was there anything else that needed to be discussed between the Prime Minister and the President? Dr. Marshall said that he thought it important both for the Prime Minister and the President to establish between them the fact that agreement to explore collaboration would not involve any hardware commitment or additional budgetary commitment in the next year or two. Both countries wanted to develop the fast reactor, but neither needed a crash programme. The President would however need to convince the Prime Minister of the genuineness of the United States commitment. The French were interested in the possibility of collaboration with the United Kingdom. If the Prime Minister were to turn away from co-operation with France in order to pursue collaboration with the United States, and then the negotiations with the United States were to break down and she was obliged to turn back to the French, that

would put her in a politically intolerable position. She would need therefore to be assured of a very positive intention on the part of the United States to conclude an agreement; and this would need to be demonstrated in the form of early follow-up to her discussions with the President. There would need to be discussions between the utilities and the Atomic Energy Authority, and also between the two Governments. It would be important to develop common attitudes in relation to the use of plutonium, non-proliferation and the possibility of licensing agreements with other countries.

6. Dr Marshall said that the United States utilities had made representations not only to the Secretary for Energy but to the Secretary of State, Mr Haig, and he understood that the Secretary of State was also advising the President to respond positively and constructively to proposals for exploring the possibility of United Kingdom-United States collaboration in this field.

RCA

ROBERT ARMSTRONG

17 February 1981

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

JL 17/2

From the Secretary of State

Julian West Esq
Private Secretary
Secretary of State for Energy
Thames House South
Millbank
London SW1

13 February 1981

Dear Julian,

UK OIL POLICY: REFINERY AND DISPOSAL STRATEGY

My Secretary of State has seen Tim Lankester's letter to you of 9 February following the Chancellor of the Exchequer's minute of 6 February to the Prime Minister suggesting an interdepartmental review of our North Sea pricing policy. In view of this Department's interest in the scope for using UKCS oil in resource diplomacy and the current discussions in EX Committee, he would be grateful if officials here could be kept informed of progress of this review. Perhaps the Secretariat could send copies of relevant papers and minutes to Mary Lackey in our West European and General Division and Christopher Benjamin of Projects and Exports Policy Division.

I am sending copies of this to recipients of Tim Lankester's letter.

Yours ever,

Nicholas McInnes

N McInnes
Private Secretary

HB

cc FCO
Leader H/C
CWO.

Energy

10 DOWNING STREET

From the Private Secretary

10 February 1981

BF 18 2 81

Thank you for your letter of 5 February about the reporting of meetings of the IEA Governing Board. Is there any reason why we should not decide now to report to the House on a regular basis by Written Answer on these meetings? It seems to us that if we were to do that, it would be possible for you to take a rather more defensible line than the one you suggested.

I am copying this letter to Francis Richards (Foreign and Commonwealth Office), Nick Huxtable (Office of the Leader of the House) and Murdo Maclean (Chief Whip's Office).

N. J. SANDERS

Geoffrey Dart, Esq.,
Department of Energy.

10 DOWNING STREET

Mr SANDERS

Yes - up to a point.
But surely the easiest way out this is to do a Dublin Council after NATO meetings and to hold the line against oral statements on Monday basis. If a positive decision were taken to reply by Dublin the briefing line could be so much more positive

[illegible]

58

10 DOWNING STREET

From the Private Secretary

9 February 1981

The Prime Minister has read your letter of 4 February about the PWR enquiry and the Nuclear Installations Inspector's role in relation to it. She was grateful to have this report, but hopes that the timetable set out will not slip.

I am sending a copy of this letter to Richard Dykes (Department of Employment), John Wiggins (HM Treasury) and Jim Buckley (Lord President's Office).

T. P. LANKESTER

KRB

Julian West, Esq.,
Department of Energy.

jfh

cc FCO
TRADE
IND
HMT
SO
CO
CPRS
DTM

Energy
copied to
Energy for to
North Sea Oil Price

10 DOWNING STREET

From the Private Secretary

9 February 1981

UK Oil Policy: Refinery and Disposal Strategy

The Prime Minister has now considered your Secretary of State's minute of 28 January. She has also seen the Chancellor of the Exchequer's minute of 6 February.

The Prime Minister has noted the main measures that are in hand and the further possibilities that are to be looked at for improving the UK's security of supply. She has no objection to the Chancellor's proposal for an inter-departmental review of our North Sea pricing policy.

I am sending copies of this letter to George Walden (Foreign and Commonwealth Office), Stuart Hampson (Department of Trade), John Wiggins (HM Treasury), Ian Ellison (Department of Industry). Richard Dykes (Department of Employment), Godfrey Robson (Scottish Office), David Wright (Cabinet Office) and Gerry Spence (Central Policy Review Staff).

TL

Julian West, Esq.,
Department of Energy.

CONFIDENTIAL

copied to
Energy Jan 1980
North Sea Oil Policy

CONFIDENTIAL

Prime Minister
Happy to note. Shall I say that you have no objection to an inter-departmental review of N. Sea pricing policy, as suggested by the Chancellor?

cc Mr Duguid
Mr Walters

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

Yes MT

PRIME MINISTER

UK OIL POLICY: REFINERY AND DISPOSAL STRATEGY

Flag A

I have seen a copy of David Howell's minute of 28 January to you about the report on oil refinery and disposal policy. While I do not disagree with David's conclusion, which as he says has been endorsed by colleagues, I would like to make two comments on his minute:

(i) As David Howell says in paragraph 4 of his minute, some reliable oil exporters can in today's conditions demand a straightforward monetary premium for their oil. The UK has so far taken the view that our interest in a healthy international economy, our international obligations and our interests as a major consumer of energy deny us that option.

I do not by any means suggest that we should necessarily alter our present policy of linking the price of North Sea oil to the term prices of the comparable African producers; and we must of course avoid any action which would certainly increase world oil prices in a way which would be against our economic interests. But the price obtained for North Sea oil has a direct impact on the PSBR through Government take from the North Sea and less significantly through BNOC's revenues.

/In view of

In view of the importance of maximising Government take and keeping down the PSBR, I believe it would be timely if officials from the Department of Energy, Inland Revenue, Treasury and the FCO (and perhaps BNOC) could review our North Sea pricing policy in order to check that we are not missing any legitimate and sensible opportunities here.

(ii) Paragraph 5 of David Howell's minute refers to my scepticism about the creation of substantial additional reserve production capacity. This understates my position. The creation of reserve production capacity would be very expensive and if achieved through production cutbacks, would reduce Government tax take from the North Sea in the short and medium term thereby increasing the PSBR. I have already told David Howell that I would see the very greatest difficulty in any policy of production cutbacks from 1982 because of the consequences for the PSBR, which would be in clear contradiction to our general economic and monetary strategy. The latest forecasts of Government take from the North Sea over the next few years are lower than expected, partly as a result of lower production forecasts. This makes the difficulties of production cutbacks even greater. (The table attached shows the progressive decline in the forecasts of oil production over the next few years; revised figures on North Sea tax take will be available at the time of the Budget.) As I have told David Howell and other colleagues, I see little prospect of Treasury agreement to the creation of additional reserve capacity if it involves any adverse consequences for the PSBR.

/2. I am

2. I am sending a copy of this minute to the Foreign Secretary, the Secretaries of State for Trade, Energy, Industry, Employment, Scotland, Sir Robert Armstrong and Mr. Ibbs.

(G.H.)

6 February 1981

TABLE I: NORTH SEA OIL PRODUCTION FORECASTS* m. tonnes

	JUNE 1979	OCT 1979	MARCH 1980 (MTFS)	JUNE 1980	INDUSTRY ACT (NOV. 1980)	JANUARY 1981	FEBRUARY 1981
1979	76	77	77	77	77	77	77
1980	94	95	83	81	81	80	79
1981	106	110	99	91	91	88	88
1982	125	122	110	103	103	102	101
1983	128	129	117	112	113	112	105
1984	131	131	126	119	121	118	110
1985	127	129	126	115	117	120	118

*including natural gas liquids, measured in million tonnes of oil equivalent

010

Send
MR INGHAM

Are you happy with this?

Nick
9/2

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

N J Sanders Esq
Prime Ministers Office
No 10 Downing Street
LONDON
SW1

5 February 1981

Dear Nick,

During the Supply Day Debate on 21 January, my Secretary of State was asked by Mr Rees to make sure that, in future, the outcome of the meetings of the IEA Governing Board at Ministerial level should be reported to the House in exactly the same way as EEC meetings.

As I understand it, most international meetings are, with a few exceptions (eg Agriculture) normally reported by way of written answer but clearly the implication of Mr Rees' request was that future reports should be in the form of oral statements.

This is not the most pressing of issues and my Secretary of State has no wish to take this suggestion up. Apart from anything else, it could create an unhelpful precedent for the already tight parliamentary timetables.

However, the opposition may return to this issue sometime in the future and it would be prudent for Mr Howell to be armed with a defensive line.

I attach a note that we have drafted here and it would be helpful if you and other recipients could let me know whether you are content for this to be used should the need arise.

I am copying this letter to Francis Richards, Paul Lawrence and Murdo Maclean.

Yours sincerely,

Geoff Dart

G S DART
Private Secretary

REPORTING OF IEA MEETINGS IN THE FORM OF WRITTEN ANSWER

LINE TO TAKE

Decisions on the most appropriate medium for reports of IEA and other international meetings on energy are taken after giving very careful consideration to both the length and subject of the statement and the pressures of parliamentary time.

BACKGROUND

The usual practice for reporting on EEC/international meetings is in written form. This is because of both length and detail when parliamentary time is at a premium.

2. The final decision on whether statements warrant oral or written presentation rests with No 10 in consultation, as necessary with the Parliamentary business managers (Whip's and Chancellor of the Duchy's offices) and the relevent departmental private offices,

3. There are therefore some oral statements, namely meetings of the Council of Ministers in the spheres of Foreign Affairs and Agriculture/Fishery. The former is regarded as critically important across a wide range of issues and the latter relates to key constituency concerns of a very sensitive nature.

D// ENERGY

February 1981

Prime Minister

You discussed this with Mr Howell a few weeks ago: a follow-up report.

2

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

T P Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

I hope the timetable will not slip

4 February 1981

Dear Tim,

I am replying to your minute of 13 January in view of my Secretary of State's responsibility for the PWR inquiry and the Nuclear Installations Inspectorate's role in relation to it.

Last June my Secretary of State established with the nuclear industry and the Inspectorate a timetable for their preparation of the documentation needed for a Public Inquiry to start in the summer of 1982. It was accepted then by all parties that it was essential to get to the inquiry stage as quickly as possible, subject to a full safety examination, and that this timetable, while ambitious, was feasible. Last week my Secretary of State saw representatives of the industry and the NII to receive an up-to-date progress report; to impress upon them the Government's determination to see the work done as soon as possible; to examine what scope there was for advancing the timetable; and to ensure that the timetable was not hampered by shortage of resources at the NII.

The present position is that the NNC and the CEGB are working closely with Westinghouse to finalise the main features of the PWR reference design, taking account of UK safety requirements and developments in Westinghouse's thinking in the light of Three Mile Island. There are now only two outstanding points and the industry expect to resolve these during this week. This will enable work on more detailed aspects of the design to proceed.

The NII are working as far as possible in parallel with the NNC, considering design features as soon as they are formulated and not waiting for formal documents to be prepared. The Inspectorate's progress is limited at present by the rate at which this design information becomes available and my Secretary of State has been assured that their staff shortages are not holding up the programme at present. However, their role will become more critical as the design reaches its final stages. There is no doubt that their staff are already fully stretched and my Secretary of State will therefore be writing shortly to the Secretary of State for Employment and other colleagues on the urgent need to examine ways of easing the recruitment difficulties of the NII.

Finalising the reference design has taken longer than expected, and Industry will be looking for ways to make up the lost time later on. But they have always regarded the existing programme as tight, and even with the Government's full support over resources, they do not expect to be able to advance the date by which the safety documentation becomes available for the inquiry.

This is unfortunate, but the industry have made it clear that they regard it as inevitable given the work that still has to be done.

In the light of all this my Secretary of State has asked the Industry to submit a revised timetable as soon as possible. This should be available in the next few weeks, when my Secretary of State will be in a position to provide the PM with a rather clearer assessment. He will in any case be closely monitoring the Industry's progress.

If, however, the industry can get the PWR design right, there is every prospect that it will be the first of a new generation of post Three Mile Island Westinghouse based PWRs. The design changes now being discussed are very much along the lines of those Westinghouse will themselves introduce in launching their post TMI design. The current international economic climate has inevitably affected the prospects for exporting PWRs, and it must be recognised that any export orders are very much a long term possibility, depending both on the successful building of the Sizewell PWR and the establishment of sufficient management strength and capacity in the industry to expand overseas while maintaining the UK programme. But when the market does improve the thoroughness of the design evaluation and safety examination of the PWR will be important for its sales potential.

I am copying this minute to Richard Dykes in the Secretary of State for Employment's office and John Wiggins (HM Treasury). It is also being copied to Jim Buckley with a copy of your minute.

Yours ever,

J D WEST
Private Secretary

Energy

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

TR
Mr

CONFIDENTIAL

Leon Brittan Esq QC MP
Chief Secretary
Treasury
LONDON
SW1

4 February 1981

Dear Leon

DEPARTMENT OF ENERGY EXPENDITURE: FAST REACTOR on Part 5

Thank you for your letter of 26 July. I entirely agree that we must look for any possible savings in the fast reactor programme in the light of the 18 December E Committee discussion and I had already asked the Authority, with the NNC, to review their programme with a view to minimising expenditure in the immediate future.

This must, as you say, be subject to maintaining our credibility as prospective partners in international collaboration. Also, I have made it clear to the Authority that while we have not yet ruled out the option of a UK designed CDFR at some time in the future, they should now be thinking more in terms of keeping the option open with mimimum expenditure and on a much longer timescale than the start of construction in 1985/86 which they had put forward at an earlier stage.

I also have it in mind that the review by the Authority and the NNC may enable them to redeploy some staff onto the PWR to which, as you know, I attach a high priority.

I hope to hear from the Authority in the next few weeks and I will be writing to you again when I have been able to assess their response.

I am copying this letter to the recipients of yours.

Yours ever

Dave

D A R HOWELL

Energy A.

PRIME MINISTER

UK OIL POLICY: REFINERY AND DISPOSAL STRATEGY

Officials from the relevant Departments (Energy, Treasury, Trade, Industry, Employment, Scottish Office, FCO, CPRS), with the assistance of BNOC, reported to me towards the end of last year on Oil Refinery and Disposal policy. A copy of the recommendations in their report is at Annex A. These recommendations, based on an analysis of the oil market in the light of the events of 1979, are designed to achieve maximum economic benefit for the UK from the disposal of our oil and the use of UK refineries. Though most of the analysis was done before the Iran/Iraq war, the conclusions are important and have been generally endorsed by colleagues, though with the proviso that implementation of oil disposal policy will remain an area of policy in which Ministers will continue to need to be involved on particular issues. Accordingly, I thought I should acquaint you with the main points.

The first purpose to which we must devote UKCS oil is ensuring the UK's security of supply. Direct use of UKCS oil in the UK to the full extent of our refinergy throughput would be neither practicable nor economic: the nature of our refinery investment and of our market makes it necessary and profitable to export much of our oil and import cheaper oil from the Middle East. To the extent that we remain dependent on imports, we remain vulnerable to external events and steps must be taken to enhance our security of supply. Our international commitments in a fullscale oil crisis limit our freedom of action in this respect, but in shortages less severe than those which trigger the sharing mechanisms of the International Energy Program, there is action which can be taken.

The main measures in hand are:

i. obtaining from UK refiners, on the strength of their position also as UKCS oil producers, "voluntary" undertakings to protect their UK customers in times of shortage. Substantial protection has now been obtained from most of the major UK refiners, covering over 60% of the market.

In addition, Shell UK (a further 20%) has always used its own UKCS crude to ensure a measure of security to its customers and my officials expect the company to volunteer complete protection before the end of this quarter. That leaves under 20% of the market uncovered, including 5% met by independent product imports. Such protection can never provide complete protection against some product shortages in some areas of the country, but the position is now much improved relative to 1979;

ii. developing, through suitable contractual terms, BNOC's capability to increase supplies to the UK quickly in times of shortage, by diverting cargoes from export destinations.

Given that there will be a continuing level of export of UKCS oil, we need to realise the full available value from these exports. Point (ii) above illustrates one way in which exports can command the full term market price, while yet contributing additionally - in that case by way of insurance - to the UK economy. Other reliable oil exporters can in today's conditions command a straightforward monetary premium for their oil. We have so far taken the view that our interest in a healthy international economy, our international obligations and our interests as a major consumer of energy deny us that option. Against that background we must consider whether we can devise other ways to realise the full value of our oil.

The possibilities include:

i. encouraging UK refiners to improve their refinery capability and to develop profitable export markets. That can add value to UKCS crude in the UK in most market conditions and may provide a less conspicuous way of obtaining substantial extra returns for exports in times of shortage;

ii. using oil export commitments to promote exports of other goods through package deals. There are pitfalls in associating exports of goods with exports of oil, given the limited quantities of oil which can be committed to this purpose, but EX Committee has now provided a

framework for follow up work in this area. On the basis of that, we shall be discussing both the potential and the problems of such deals;

iii. creating additional reserve production capacity and using it to achieve wider political gains. There are substantial difficulties in that approach and it would be very expensive unless financed by foreigners and involve revenue losses for HMG; but, though he is sceptical, the Chancellor has agreed that the question whether there is scope for securing benefit for the UK by this means should be re-examined when depletion policy is next reviewed.

We have to attain our objectives without attracting accusations that we are in breach of the Treaty of Rome. We also have other foreign policy interests to protect. Since the oil is largely produced by private companies, whose interests may differ from our national interests, and since there are international constraints on direct action, attainment of our objectives depends on maximising BNOC's access to oil both by the full exercise of participation options and by taking royalty in kind.

I am sending a copy of this minute to the Chancellor of the Exchequer, the Foreign Secretary, Secretary of State for Trade, Secretary of State for Industry, Secretary of State for Employment, Secretary of State for Scotland, Sir Robert Armstrong and Mr Ibbs.

JA.

SECRETARY OF STATE FOR ENERGY

28 January 1981

INTER-DEPARTMENTAL COMMITTEE ON REFINERY AND DISPOSAL POLICY.

VIII CONCLUSIONS

The objectives of refinery and disposal policy should be those set out in *para 2 above. The detailed policy recommendations set out below are designed to achieve these objectives.

Policy towards UK refiners

(i) Security of supply to UK refiners has been substantially improved by measures taken to 'ring fence' UKCS crude and to protect UK refineries' supplies against 'equal misery' sharing cuts imposed by multi-national parents. These measures, which could be liable to challenge under the EC Treaty if they become generally known, should be kept confidential. We should be alive to opportunities to extend this process, but careful not to exert pressure in circumstances where a legal challenge could put at risk the gains already made.

(ii) UK refiners should be encouraged to develop profitable export markets for products, while bearing in mind the need to retain sufficient flexibility to support their UK customers in times of shortage.

(iii) UK refiners should be encouraged to invest in upgrading their refineries; both to make them more energy-efficient and to provide additional capacity.

(iv) The Government should not seek to determine the proportion of UKCS crude run in UK refineries but should leave this to the companies to determine in the light of their circumstances.

BNOC

(v) The Corporation's policy of exercising participation options save in exceptional circumstances should be endorsed. BNOC's access to crude is one of the most powerful tools for increasing UK security of supply.

(vi) In the 1979 shortage BNOC was able to increase substantially and quickly supplies to UK users. It should seek to maintain this ability. Trading in products could offer a less conspicuous route to achieve this.

*see appendix.

(vii) The Corporation should continue its policy of selling direct to the UK refining affiliates (rather than trading affiliates) of the international majors. The Corporation should co-ordinate its discussions about such sales with the Department of Energy so that the opportunities for leverage which they may offer can be considered by the Government.

(viii) While the Corporation's main customers will remain in the UK, it will have to continue to export significant quantities of crude oil and limited products; both for commercial reasons and to ensure that additional oil could be made available for the UK in times of crisis.

(ix) The Corporation should in planning for the future, retain sufficient flexibility to allow it to respond to requests for supply in circumstances where Ministers decide that there may be wider political or economic gains to the UK in so doing.

(x) The Corporation should, while keeping the Government informed, continue to develop its contacts with OPEC countries, with the aim of developing commercial links - starting, if appropriate, with crude exchanges.

General

(xi) The existing policy of taking royalty in kind should be continued. It increases the volume of oil under UK control and its saleback to refiners offers valuable leverage.

(xii) The guidelines on destinations of crude exports and duration of contracts should be maintained, subject to (xiii) below.

(xiii) Proposals for resource diplomacy deals in which substantial and tangible benefits for the UK are offered in return for supplies of crude, should be considered case by case on their merits. Ministers should be consulted at an early stage, particularly if deliveries to a non guideline country are proposed and in this case, full weight should be given to the foreign policy advantages of the export destination guideline.

(xiv) The creation of substantial additional reserve production capacity and its use to achieve wider political gains should be considered in the context of any production cutbacks from 1982 onwards imposed as part of a depletion policy.

APPENDIX

C O N F I D E N T I A L

INTER-DEPARTMENTAL COMMITTEE ON REFINERY AND DISPOSAL POLICY

II OBJECTIVES AND PAST POLICY

2 The general objective of maximising the benefits of refinery and disposal policy to the UK economy as a whole can be broken into the following sub-objectives:-

(i) To maximise the contribution to gross national product.

(ii) To maximise the Government's take under the taxation provisions for UKCS crude.

(iii) To advance the continued development of a vigorous UK refinery industry.

(iv) To maintain secure supplies of crude oil and oil products in an emergency.

(v) To enable us to use our position as an oil producer to advance our international trade industrial and foreign policy objectives.

These sub-objectives may conflict and a balance must be sought between them which best advances the interests of the UK. Policy will also have to be formulated in the light of our international obligations and take account of the wider energy policy objectives we share with our EC and IEA partners.

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NJS

Energy
2

CONFIDENTIAL

PEC(81)2

PRIME MINISTER

MS

MG

The Government's Energy Policy

It is hoped that Members will find this brief useful in the Supply Day Debate on 21st January 1981.

Contents

Conservative Research Department,
32 Smith Square, London, SW1.

LMR/ST-R
20.1.81.

The Government's Energy Policy.

1. Introduction.

The era of cheap energy is over. Future prosperity for the industrialised nations depends upon accommodation of that stark fact. Delusion, procrastination, failure to face the implications of the very fundamental change which has occurred since 1973, will only store up problems for the future.

The accommodation of rising energy prices requires that millions of individuals and individual businesses become more energy efficient. Maintenance of future supplies, as oil and gas become scarcer, requires massive investment in alternatives. These developments cannot be brought about efficiently and effectively by centralised bureaucratic planning. Rather, the role of Government should be to ensure that the consumers of energy are correctly informed about expected future movements of energy prices. Undistorted price signals are essential if individuals are to invest in energy conservation and energy innovation, secure in the expectation of a return on their investment.

Some Governments have attempted to hold down artificially the price of their indigenous oil and gas. The consequences have been serious, and the folly of the policy is now widely accepted within the international community. The Carter administration started a process of phased price decontrol of US indigenous oil and gas, and this very welcome move is already beginning to stimulate indigenous production, thereby taking pressure off the market for OPEC oil. The Venice Summit concluded with agreement on the need for all Governments to ensure the market pricing of fuel, and the UK Government continues at the international level to press for adherence to this principle, since it is one key to stability in energy markets.

Equally, stability depends upon oil producers and oil importers appreciating their mutual interest in avoiding abrupt increases in oil prices (which stimulate world wide recession) and also in ensuring that OPEC reserves are not squandered without regard for the future. The OPEC Long Term Strategy Committee has identified the importance for OPEC of stability in the oil market, and a number of member countries have made a concerted effort to cushion oil importers from the effects of the Iran-Iraq war. The Secretary of State for Energy has been able, because of our unusual position as a major oil producer and oil consumer, to play an important part in fostering this growing understanding. The consuming countries are increasingly appreciating the need for them to contribute to the solution of the oil crisis. A leader article in the "Washington Post" recently commented, "Brooding about cartels and sticking pins in images of OPEC will not help. There is only one way to stabilise the price of oil, and that is to reduce the consumption of it, steadily and rapidly".

2. Energy prices and industrial competitiveness.

British industry has been vociferous recently in claiming that it pays more for energy than competitors abroad. Certainly, there is unfair competition from North American companies which have access to artificially cheap oil and gas, and the Government is pressing vigorously for an end to this situation. (Apart from the destabilising effect upon the oil market, this practice also inflicts serious damage on free world trade).

There is now growing agreement between the Government and representatives of industry that average UK energy prices are not seriously out of line with those charged in Europe. Some of our energy-intensive industries do face problems in competing overseas, though these of course go deeper than the cost of energy alone. The Government has always made it clear that it is willing to look at these, and welcomes the opportunity provided by the NEDC task force (set up after the recent

NEDC meeting) to work with industry to quantify the energy-related problems of this industrial sector.

There is the very real danger that Government inspired action to reduce energy prices to industry would create a new set of very serious problems in the economy. The constraints of this sort, and the actions which the Government has been able to take in this area, are set out in the appendix to this brief. Two points, however, need to be made here. First, as the exchange rate rises the price of goods in Britain expressed in foreign currencies increases automatically. Energy prices are affected with everything else, but this problem is not an energy problem - it is an exchange rate effect. Exchange rates are market determined, and even if the Government could intervene to reduce them, serious problems would result (eg. imports would increase in price, and inflation would be boosted. Both would prejudice competitiveness in world markets).

Secondly, international comparisons of energy costs to industry have two components; both price and energy efficiency must be compared. Britain has historically not been particularly efficient, and recently has fallen further behind. Since 1974, the energy consumed per unit of output by manufacturing industry has hardly changed in the UK. The Germans achieved a 17% improvement between 1974 and 1978, while the Americans achieved 14% and the French 9%. Japanese industrial efficiency improved by 10% in the period 1976-8.

3. Energy prices and domestic consumers.

In the year to November 1980, domestic coal increased in price by 25%, gas by 23%, electricity by 32% and oil and other fuel and light by 21%. The all-items RPI increased by 15.3% in the same period.

Domestic gas prices are set to rise in real terms at 10% per annum in this and the next two financial years. This will bring prices in line with long run replacement costs, as recommended by the Price Commission (July 1979). In the financial year 1978/9, domestic gas did not contribute to BGC's profits, and the burden of earning a return upon the Corporation's assets rested entirely on industrial users. The BGC's new pricing policy will steadily restore domestic sales to profitability. Even after these three years' adjustment, UK domestic gas will very probably be the cheapest in Europe and the cheapest domestic fuel in the UK.

The Government is concerned that rising costs (including the cost of coal) to the electricity supply industry should not be passed on to consumers when they could instead by absorbed by increased efficiency. The Monopolies and Mergers Commission will report on the efficiency of the industry in March of this year. Scrutiny of this kind is essential since many near monopoly nationalised industries escape the pressure of the market place to moderate prices.

Opposition members may well argue in the debate that the nationalised industries should be able to borrow outside the PSBR, and that this would remove pressure on consumers to finance investment. They could usefully be referred to the Labour White Paper on the Nationalised Industries (Cmnd 7131, 1978) which lucidly sets out the difficulties with this.

4. North Sea oil and the economy.

Should we take Michael Edwardes' advice and leave North Sea oil in the ground, in order to provide British industry with a weak home currency? In view of the trouble which even the strong German economy is suffering in the face of its rising oil import bill, the answer is clearly 'no'. Without our own oil, about £10 billion at today's prices would be added to our trade deficit.

North Sea oil is expensive to produce, and the nation devotes more resources now to paying for oil than it did in the years before the 1973 crisis. Yet, our competitors in Europe are much worse off, because they have faced massive increases in the cost of oil imports in recent years. The Governor of the Bank of England, Mr. Gordon Richardson, made this point in an important speech

on 20th November 1980. Disagreeing with those who advocate or prophecy as inevitable a contraction in the non-oil manufacturing sector, Mr. Richardson emphasised that the need was rather for adaptation within this sector to the changed world economy.

By the mid-1980s, North Sea oil will probably be contributing about 5% to GDP. Obviously, the existence of this valuable national asset is an important factor in the rising value of Sterling, but a hard currency need not damage competitiveness. Certainly, there is pressure on selling prices abroad and competition from cheap imports, but industry also benefits from cheaper raw materials. Less directly, the strong pound reduces retail price increases, and therefore takes pressure off wage demands and wage costs. Adaptation involves industry in the need to control wage costs through sensible pay bargaining and improved labour productivity, and in improving non-price factors in competitiveness, such as quality, reliability and punctuality in delivery. The Government does not underestimate the difficulties which industry faces in making these adjustments rapidly and at a time of recession. Yet, they are the key to future prosperity.

North Sea oil brings great benefit to the economy through the associated revenues. These were £2.2 billion in 1979/80 and will be about £4 billion this year. 1981/82 revenues expressed in 1980/81 prices are estimated at £4½-5 billion, with a £900 million contribution from the changes in the tax regime announced by the Chancellor of the Exchequer on 24.11.80. There has been a reduction in the expected revenue in 1980/81, before the new tax, compared with earlier forecasts. Such forecasts are necessarily subject to error because they depend upon a number of highly unpredictable figures such as the world oil price and the level of North Sea production. To the extent that revenues are reduced by investment in the North Sea which is offset against PRT, this bodes well for the future.

The Opposition will doubtless return to the theme that North Sea revenues should be used to invigorate industry and create jobs. In fact, revenues in the UK have never been hypothecated to particular purposes. Money from the Exchequer does go into British industry, and North Sea revenues are obviously important in this. Some guide to the magnitudes involved is indicated in the following statistics. External financing limits for the nationalised industries in 1980/81 (as announced on 16.11.79 but updated to include subsequent changes) will exceed £3 billion. The Public Expenditure White Paper (Cmnd 7841) indicates the following relevant expenditures in 1979 survey prices: regional and general industrial assistance, almost £1 billion; scientific and technological assistance, about £300 million; employment and training, over £1 billion. In addition, the White Paper estimates that relief from Corporation Tax because of stock relief and capital allowances was perhaps £5.5 billion in '79/80 In short, North Sea revenues are already more than exceeded by aid to industry and employment.

Investment in manufacturing industry in 1979, augmented by leasing, reached its highest level since 1970 (British Business, 2.1.81.). Investment intentions indicate a likely fall from this high level in 1980 and 1981, but this does not seem to be through lack of funds. Rather, it is because profits are expected to be inadequate to provide a reasonable return. The solution is not, therefore, to put taxpayers' money into unproductive investment, but for industry to improve profitability (through increased efficiency and productivity, greater non-price competitiveness, sensible constraint on wage costs etc).

5. Policy on North Sea Oil.

The development of the UK North Sea Oil reserves has probably been achieved faster than in any other oil province in history. Yet, when the Government took office, the rate of exploration for new oil and gas was falling drastically because of industry's concern about the oil policies of the Labour Government. Confidence has now returned, and the North Sea is one of the most commercially attractive oil provinces in the Western World. This was demonstrated in the record number of applications for exploration licences in the latest (7th) round. 42 'own choice'

blocks have been licensed and about 70 licences on designated territory will be awarded soon. The nation shares the benefits of North Sea oil through the revenues which are raised and the jobs which are created. However, a more direct opportunity for participation by small savers will arise with the launching of the proposed oil revenue bonds linked to the performance of BNOC's North Sea fields. Beyond this, a Bill will be introduced in Parliament which will contain powers for the Government to sell to the public equity shares in BNOC's oil producing business.

It is necessary, in the national interest, to extend for as long as possible, the UK period of self-sufficiency. Government depletion policy will be flexible, executed mainly through phasing the development of fields discovered after 1975 and not, therefore, covered by the 'Varley assurances' of December 1974.

6. Gas.

One of the factors often omitted from the arguments about the price of gas (see sections 2 and 3 and the appendix) is the fact that demand for it potentially exceeds supply. During 1978/9 for example, although BGC was able to fulfill contractual obligations, it was for some months unable to meet new industrial demand, and was forced to interrupt some suppliers for unusually long periods within the terms of interruptible contracts. One reason for this was high demand in the cold winter, exacerbated by the underpricing of domestic supply. More important, however, was the fact that competing oil products were becoming rapidly more expensive.

Already, 20% of UK gas is imported from Norway at world prices. The Government has asked the BGC to look again at the incentives which, as the near monopoly purchaser, it gives to producers of UK gas in the North Sea. Beyond that, proposals have been announced for an ambitious project to collect associated gas from the North Sea oil fields which would otherwise have been flared. The gas made accessible by the pipeline will extend the life of UK reserves by 7-12 years at present rates of consumption.

Following the favourable BGC - Mobil report on the project published in June 1980, the Government formed an organising group comprising Mobil, BP, BGC and a financial advisor. Their report in October made recommendations on two key issues. First, on organisation and finance, the group recommended that it should work towards an interim pipeline company. The Government agreed and the process of consultation with interested parties is underway. The Government aim is for a substantial element of private finance for the £2 billion project.

The second key issue is the disposal of gas brought ashore. Natural (dry) gas for the BGC will be separated from the stream at St. Fergus. The residue will contain ethane and a number of other natural gas liquids. The interim plan is to remove the ethane at St. Fergus, and pipe it south to Grangemouth, Mossmorran and Teeside, while the other components will be taken to Nigg Bay. However, these preliminary arrangements will not preclude ethane supply to Nigg Bay; nor will they preclude other natural gas liquids from being supplied along the Southern route. Final arrangements will be arrived at on the basis of commercial negotiations on price and penalties should customers be unable to take gases allocated to them.

BNOC will, through its own holdings in certain fields and its participation agreements with other operators, have control over about half of the natural gas liquids collected. This will allow them to determine the general shape of the market. The object will be to maximise national economic benefit, recognising the importance of natural gas liquids as a basis for UK petrochemical production. BNOC itself will not be involved in investment in petrochemical plant.

Work on the project is right up to schedule, and it will lead, in the second half of this decade, to a massive reduction in gas flaring and an invaluable source of petrochemical feedstock.

7. Coal.

After a major review of the coal industry, the Government's Coal Industry Bill

provided for investment at 1979 prices of around £600 million per annum from 1980/ to 1983/4 (ie. £800 million in today's money). It also provided a framework within which the industry would break even, after receiving social grants, by 1983/4. Social grants were made more flexible in order to facilitate the redeployment of manpower, and additional money was provided for the widows of victims of pneumoconiosis.

These measures constitute a significant commitment to coal, in a time of increasing economic stringency. Despite the recession, it is very much to the credit of the industry that it is matching and maintaining the financial strategy agreed with the Government. Productivity is near record levels, but the industry is handicapped by a 'high-cost tail', resulting from the operation of some uneconomic pits. Closure of these pits is a matter for the industry, which has a long-established review procedure which involves the unions. The Government has made the grants available for labour redeployment as flexible as possible in order to help the industry concentrate manpower resources and investment where they can be most productive.

Imports of coal in the UK totalled 7.6 million tonnes in the year to September 1980. This represents about 6% of total UK production. Within total imports, those from Germany represented 1%; from Belgium represented 0.5%; and from France were negligible. This indicates that UK home sales are not significantly damaged by imports of more heavily subsidised European coal. Imports in total have only marginal impact, and these mainly come from Australia, the US and Poland.

Ultimately, oil, gas and chemical feedstock derived from coal will be important in the economy. British technology has been developed by the BGC and NCB, and the key to further demonstration and commercial operation will be the cost of coal. Probably the first cost-effective use for coal in this field will be as a direct replacement for heavy fuel oil, leaving the latter to be further refined for higher value applications.

8. Electricity.

Contracts for components for the new advanced gas cooled reactors to be built at Heysham and Torness have recently been placed by the supply industries. These will provide a much-needed boost for Britain's power plant engineering industry. The plan is to order reactors at a steady rate of one each year from 1982. This clear declaration of intent, and the recent reorganisation of the National Nuclear Corporation, should greatly improve morale in the industry.

Subject to safety scrutiny and the public inquiry, the next order will be for a pressurised water reactor to be built at Sizewell in Suffolk. This reactor will be licensed under the strict UK régime which has to date been extraordinarily successful in achieving safety for workers and for the general public from our nuclear power stations.

Safety remains paramount. Beyond that, the motivation for the nuclear programme is economic. The supply industries wish to purchase new nuclear plant because they believe that this will secure for them a net effective cost which is negative. This is because the new plant will replace uneconomic capacity and thereby achieve significant reductions in running costs. It is certainly the case that French consumers can expect to benefit from relatively cheap electricity from the French nuclear programme. However, it is incumbent upon all those involved in the construction of the outstanding AGR power stations to demonstrate that the problems of poor management and construction delays which have beset the UK industry are now resolved.

The Government's plans have been criticised as a "crash programme". Yet the proposed rate is only half that foreseen in Labour's 1978 Green Paper (Cmnd 7101). Critics will also condemn the PWR as unsafe, but this is to prejudge the NII scrutiny of the Sizewell proposal, and the public inquiry.

Conservation and help with fuel bills.

Energy use has fallen to a far greater extent in the past year than is accounted for

merely by the effect of the recession. The Government's policy of allowing the fuel industries to price oil and gas at market prices, and electricity at prices determined by the long run marginal cost,is clearly paying off in this respect.

In the domestic area, publicity on benefits and methods of conservation has increased by 30% in real terms and has been backed by research to find additional steps which may be cost-effective. The Homes Insulation Scheme was extended in August 1980 to give extra help to elderly people on low incomes, at a cost of £4.2 million, and an extensive advertising campaign began in October to encourage take-up. Allocation to the scheme in 1980/81, was £16.7 million in total. This has been increased to £27 million in 1981/2.

The Department of Energy has also increased expenditure on energy conservation demonstration projects, as an important step between research and the commercial use of conservation technology. However, once a project offers the prospect of a commercial return, further investment is rightly the responsibility of the private sector.

Besides providing special help to the elderly with the cost of home insulation, the Government has been concerned to reduce the burden of fuel bills on those least able to cope with rising fuel prices - the old, the sick and disabled, and poor families with children. Help of this kind will cost £200 million this year, and that represents a real increase (deflating for the rise in the price of fuel and light) on Labour's 1978 expenditure (£127 million)even though this latter amount included their electricity discount scheme.

There has been continuing Government concern to ensure that the code of practice on gas and electricity disconnections adequately protects those in real need. As a result of Government discussions with the industries, hardship criteria for the availability of prepayment meters have been removed. These meters will be more widely available and the Government have asked the industries to publicise this fact. The code will also now take account of the particular plight of the sick and the disabled.

The gas and electricity industries now sell fuel stamps through sub-post offices; selling them through main post offices is subject to the British Telecommunications Bill receiving Royal Assent. These Government initiatives are in addition to another important change; the gas and electricity industries now accept each other's stamps.

Appendix - Notes on industrial fuel prices.

Q1: Have not different trade associations shown convincingly that British energy prices are higher than in Europe?

A: The Government has received a large number of representations from different organisations and these have been studied carefully. They do not establish that our energy prices in general are out of line with those in Europe. There are undoubtedly particular firms or industries who have problems. The Government is certainly prepared to look at this especially in the light of the very severe short-term pressures on many businesses, but it is by no means clear that moving away from a sensible pricing policy generally would be the most effective way of assisting these special cases. The recent NEDC meeting was very productive in narrowing down the areas where problems and differences are thought to exist. In fact there was a considerable measure of agreement between industry and the Government at the NEDC meeting. The Government will be taking full part, along with the CBI and TUC, in a further study sought by the Council.

Q2: Why does not the Government reduce energy prices to help British industry?

A: The Government does not control in detail the industrial pricing policy of the fuel industries. Oil is in the private sector anyway. Gas and electricity set their own industrial price policies. On the basis of these the Government fixes tight cash limits which the industries are expected to meet.

But they do so not by departing from their declared pricing policies but by cutting costs. That is the purpose of EFLs, to reduce costs and increase efficiency. Gas prices to industry are not, repeat not, affected by external financial requirements. They are determined by BGC's own pricing policy. Similarly, electricity prices reflect the pricing policy of the supply industry. To meet their EFL's these industries are expected to reduce costs, not raise prices beyond the levels required by their own policies (broadly market-related in the case of gas, and long-run cost related in the case of electricity).

Q3: But why does the Government not step in then, and demand lower prices anyway. After all, this is a very difficult time for industry in the recession?

A: Attractive as that might be in the short-term, it would lead to waste and long-term shortages. It would also be extremely expensive. 10% reduction in electricity and gas prices would add about £700m to the PSBR. And energy costs represent only about 5% on average of British industrial costs, so that even large price reductions would bring little benefit to industry. What we are looking for is evidence of particular industrial sectors which really need help, either from their energy suppliers or from the appropriate government department. There may be some scope for dealing with particular problem areas which are identified by the combined working group set up by the NEDC.

Q4: Why should firms believe that they are all paying more? Why should their figures be wrong?

A: Comparing energy prices is extremely difficult. It is most important to compare like with like; that means, for example, taking into account contract conditions, degrees of interruptibility to supplies, the exact type of gas. In some countries there may also be a range of different prices being charged. For example, there are about 400 utilities supplying gas in Germany, with many different price structures and in France (and to some extent in the UK also) electricity tariffs vary according to the region of the country). On gas prices, many reports have compared renewal prices - that is, the prices at which existing contracts are renewed. This can be misleading. In the UK gas contracts in the past have usually been renewed annually for each company when its contract falls due. In most European countries prices rise in a series of steps and for all companies at once. This means that in order to reach the same annual average, British renewal prices always makes British prices appear higher. The best comparison is with average prices - what British industry is actually paying at any one moment. Of course, the average does not help the firm paying the big

renewal price increase; but it makes even those paying less very worried that in the future they will be penalised. But, while all prices will rise there is no reason why the UK should not in general continue to be moderately favourably placed.

Q5: What is British industry actually paying for gas? And how does it compare with other countries?

A: In September/October the overall average industrial sales price actually being paid in the UK was about 20 pence/therm or 23½ pence excluding the old, low-price contracts. Over 85% of all sales were under 26 pence/therm. At the same time contracts for firm gas were being priced at 28-30 pence a therm, and for interruptible gas about 22-24 pence. The latest EEC figures available for average prices are for 1 January, 1980. They showed industrial prices averaging around 24 pence/therm in Germany (Dusseldorf) and 20 pence/therm in France (Paris), compared with 16 pence/therm here (or 18.5 pence excluding some big, old, low-priced contracts).

More recent comparisons are difficult to make. However, the Chemical Industries Association has estimated that in 1980 the average price for gas for fuel use in the chemical industry will be 17.9 pence per therm in Germany and 18.9 pence per therm in France. In the UK the average price paid for the year as a whole is not expected to be higher than this. Another indication is the estimate made by an independent research organisation, who calculated average renewal prices in September, 1980, to be 27.8 pence in Germany and 24.2 pence in France. Given that renewal prices and average prices are much closer in Europe, this gives a guide to the trend of prices. At the same time in the UK, the average price was 23½ pence per therm.

Q6: Are other countries increasing their gas prices as quickly as we are?

A: Yes. Sources of cheap gas are drying up throughout Europe. Holland, supplying 40% of EEC consumption, has raised its export prices about 60% over the last year, aiming at low-sulphur fuel oil prices.

This is a border price and distribution costs have to be added to it. (In the UK distribution costs are about half as much again).

In France, gas prices to industry have risen by over 60% in 1980. Interruptions have been much more widespread than in the UK and new, firm supplies are almost impossible to obtain.

In Germany, Ruhrgas is charging some customers fully gas/oil related prices. Gas oil prices in Germany are currently around 35 pence per therm.

Q7: Is it not the case that Continental gas contracts are all for a firm supply, whereas here they may be either firm or interruptible?

A: No. There are contracts for both firms and interruptible gas in Germany. In France, 40% of gas sales are on an interruptible basis, and there is no limit to the period of interruption. Because of the loss of Algerian gas, French customers have had much more extensive interruption than here.

Q8: What about energy-intensive industries - should not they receive some special help?

A: Of course, energy prices are a much more important factor for energy-intensive industries. Some chemical companies buy their gas for feedstock on very low-price "old" contracts, a benefit which is worth hundreds of millions of Pounds to them. Some foreign companies have actually complained to their governments about these low prices to British industry.

But our energy supplies are not particularly cheap. Energy-intensive industries can be at an energy cost disadvantage, compared with countries which have cheap hydro-electric power or more nuclear power.

Unfortunately, rising energy prices affect the energy-intensive industries like everyone else, and subsidising energy for large users could only be at the expense of other consumers.

Where a company is in serious difficulties, of course, the Government will look carefully at what can be done to help. However, the Government has asked the electricity supply industry actively to ensure that its customers are benefitting from the best available type of contract.

Q9: What is the position on heavy fuel oil? Does the duty put our prices above other countries'?

A: Our fuel oil prices tend to be more stable than in other parts of Europe. So when "spot" prices are falling, we may creep ahead. Some people complain about the tax on heavy fuel oil. But as the table shows, the tax is not enough at the moment to push our prices out of line. In any case some other oil products, such as petrol, are less heavily taxed here than elsewhere.

	HFO prices (including duty) 1st December, 1980 £/tonne
UK	92.6
FR Germany	96.0
France	96.0
Netherlands	91.8
Belgium	106.4
Italy	87.2
Ireland	99.0
Denmark	95.0

Source: EEC Oil Bulletin.

Q10: Does not the duty on heavy fuel oil increase the price of interruptible gas contracts which are linked to it?

A: It is true that the duty affects the comparison. But our heavy fuel oil prices recently have been lower than most of our competitors' despite the duty, and the prices for renewed interruptible supplies at 22-24 pence per therm are not out of line with other countries.

Q11: What evidence do you have on electricity prices?

A: From the figures in this second table for electricity prices, Britain does not seem to be out of line. Indeed, our small businesses benefit from the statutory requirement for the electricity industry not to give undue preference to any particular category of customer. But because the French electricity industry has five times our proportion of cheap hydro-electric and nuclear power, large users there get a discount. So we have urged our electricity industry to make sure that is being as flexible as it can be towards industrial users.

Prices for "middle sized" industrial consumer (1) at 1st October 1980.

	pence per kWh
UK	2.82-3.46
FR Germany	2.89-3.47
France	2.52
Netherlands	2.31-3.44
Belgium	3.06
Italy	3.10
Ireland	3.61

(1) 2.5 MW maximum demand, 47% load factor.

Source: Electricity Council Estimates.

Q12: What about coal?

A: There have been a few complaints on coal prices too. But there is no restriction on importing coal, other than the fact that foreign coal is usually not competitive with ours after transport costs. For example Bowater's, who announced the closure of their Ellesmere Port Plant, could not have imported cheaper coal than the Coal Board offered them.

Q13: What have the Government done about the problems they already know of?

A: The Government have taken action on a number of points. First, they have asked British Gas to review its price for new gas supplies. Because of the shortage of gas, it has discouraged new industrial customers by offering them gas at about 40 pence per therm. Only a tiny number are supplied at that price, but these contract prices distort comparisons.

What is more, British Gas has for years followed a policy of broadly relating the price of gas to industry to the price of the equivalent oil product. It has modified this policy, and now sells even firmly guaranteed supplies of gas at 75% of gas oil.

The Government have asked the electricity supply industry actively to ensure that its customers are benefiting from the best available type of contract, and to conduct a review of its bulk supply tariff.

The Government is also actively pursuing examples of energy subsidy abroad which give foreign competitors an unfair advantage. The case of Dutch gas prices for horticulture has reached the European Court.

The Government will be taking full part in the urgent work being undertaken by NEDC to eliminate the remaining disagreement on which parts of industry are facing particular problems.

Q14: Now that we are almost self-sufficient in energy, why should our energy prices still follow world trends?

A: We have to trade our oil in world markets, and so cannot be isolated from events in the rest of the world. If we sold our oil cheap at home, other people would buy it and sell it on elsewhere at world prices. They would make the profit and receive the revenue which we had foregone. We are not Saudi Arabia. Our self-sufficiency may only last 10 years, and if we undervalued it now, we would merely use up our oil more quickly. Some countries, like the USA and Holland, tried to price their energy below world levels. They created problems for themselves and for the whole world, and are now reversing those policies.

Q15: But why should we accept a world price which is just a cartel price imposed by OPEC?

A: The balance between world oil supplies and the demand for them is very tight and getting tighter. That is the basic reason why prices are at their present level. And that is why the loss of production from a single oil producer can lead to enormous price increases. For every 3 barrels of oil which the world uses, it discovers only 2 barrels of new supplies. We, in common with all industrialised countries, must reduce our dependence on oil. Paying the economic price will play an important part in that, and will also encourage new exploration.

Q16: Even if that is the case with oil, why should world trends affect the price of our gas, which is mainly home-produced and not internationally traded?

A: As oil becomes scarcer and more expensive, that makes the alternative fuels more valuable. Our gas is a finite source too. Unless its price bears some relation to oil, demand will soon outstrip supply. We would rapidly run down our reserves of gas and so become more dependent on oil at a time when we should be

moving away from it. In any case, for the Gas Corporation to follow sensible business practice, it must move its price towards the cost of new supplies. For some of those, it will have to import from Norway, and compete against international buyers who are willing to pay an oil-related price. Even new supplies from under British waters are going to cost many times more than we are used to paying.

Q17: <u>But since British Gas already makes huge profits, surely that shows that the price is already too high?</u>

A: "British Gas's profits are high largely because it buys most of its gas on long-term contracts which may now appear cheap, and which are exempt from PRT. It still would not make sense to under-value gas sold in the market because of that. The difference between what it costs British Gas and the gas's true value represents the benefit to the nation of having our own supplies. The benefit that goes to British Gas should accrue to the nation at large, and so, that money will now be transferred from British Gas to the Exchequer by means of a special gas levy".

LMR/ST-R
Conservative Research Dept.,
32 Smith Square, SW1

14th January, 1981.

HS

Energy

SIR ROBERT ARMSTRONG

International Oil Fund

The Prime Minister has seen and taken note of your minute to me of 8 January on this subject.

MICHAEL ALEXANDER

14 January 1981

cc.

cc HMT
BNB

Energy

bc CO
MR WOLFSON
MR HOSKYNS
MR MALTORS

10 DOWNING STREET

From the Private Secretary

13 January 1981

In the course of a discussion the Prime Minister had yesterday with the Secretary of State for Energy, the Prime Minister expressed concern at the time it seemed likely to take to complete the PWR safety inquiry. She fully recognised the need to secure all the proper safety clearances if the PWR was to be acceptable; at the same time, she was concerned that, if the inquiry did not start until 1982, British industry's prospects of obtaining orders from abroad for the PWR would be jeopardised. If the inquiry could be completed earlier, then there might be the prospect of building the first PWR to take into account the lessons of Three Mile Island. Early completion of the inquiry and manufacture of the PWR would of course be beneficial to employment. Mr. Howell told the Prime Minister that the putting together of the necessary documentation by the Nuclear Inspectorate was time-consuming; but he too was extremely keen that the inquiry should get under way as soon as possible.

While understanding the pressures on the Nuclear Inspectorate, the Prime Minister would be very grateful if your Secretary of State would write to the Director of the Inspectorate urging that the work on the documentation should be completed just as soon as possible so that the inquiry can get under way.

I am sending a copy of this letter to Julian West (Department of Energy) and John Wiggins (HM Treasury).

T. P. LANKESTER

Richard Dykes, Esq.,
Department of Employment.

SP

CONFIDENTIAL

PR discussed briefly with N. Howell

TL 12/1

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PRIME MINISTER

To see. This is a very thin analysis of a very important problem, and I do not find it particularly reassuring for the future programme.

MT 9/1

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

T P Lankester Esq
Private Secretary to
The Prime Minister
10 Downing Street
SW1

8 January 1981

This is too complacent - there is no sign whatever of doing anything about the matter. Meanwhile will Duncan Howell etc. see

Dear Tim,

... Mr Howell has asked me to send you the attached note on power station construction costs, and the financial effect of delays, points which came up recently in discussion with the Prime Minister.

You will see that the effect of power station construction delays was assessed in 1979/80 as equivalent to about 3-5 % on the CEGB's costs, largely as a result of the extra cost of generating from more expensive plant. The reasons for these delays are complex. Contributory factors include redesign (resulting from more stringent safety standards for nuclear plant) to the problem of low productivity on large construction sites, which afflicts industry and public authorities generally. The completion of the nuclear stations currently under construction is a matter of the highest priority for the CEGB and their contractors, led by NNC. The Board's latest assessment is that Dungeness "B" will begin to produce power this year, with Hartlepool and Heysham following in 1982. The Board are also doing all they can to extend the economic life of the Magnox stations.

!! ?

With a challenging nuclear programme ahead, the Board are making special efforts to secure better construction performance by all concerned. They are developing a new strategy at Drax, a project which is so far still on schedule. The new strategy includes incentives to contractors for timely completion of work, and contractual commitment on their part to participate in and stand by the decisions of a site management group which will seek to harmonise bonus incentive schemes and disciplinary procedures across the site.

At the national level, the Board are taking part in negotiations for a national agreement covering large engineering construction sites; the aim here is to control and stabilise earnings growth by making a nationally negotiated basic rate the major element in wages, thus reducing the importance of site negotiated bonus schemes, which have been the cause of much friction. To minimise design-related delays, the Board require design to be well advanced before main hardware contracts are placed and site construction begins. This approach is being followed at Drax and Heysham II.

The Board believe that the tough stand they have taken at Grain has had a salutory effect. The dispute is not resolved, but lagging continues, and the Board have made it clear that if lagging stops,

they will shut the site. So far the recalcitrant laggers have received no support at any other Board sites. At Ince, a substantial reduction in the workforce last year was followed by an improvement in the productivity of those remaining.

The Board are acting to reduce costs; eg their decision to take 22 power stations out of use in October this year. Over 3000 jobs are affected.

The Monopolies and Mergers Commission were asked, in their current investigation of the CEGB, to scrutinise the Board's ability to carry out new investment to time and cost. The Commission's Report is expected within the next few weeks.

Yours sincerely,

Geoff Dart

G S Dart
Private Secretary

Capital costs of the CEGB's power station construction programme in relation to the industry's total costs

In 1979/80, the industry's total revenue costs (met through the tariff) consisted of

	£m
Fuel	2,940
Salaries	1,003
Other costs*	903
Interest	477
Depreciation	615
Rates	195
	6,133

*purchase of electricity from outside sources, rents, insurances, materials other than fuel, services and general expenses

Capital expenditure (financed through internal resources and external borrowing) totalled £832m of which £447m was accounted for by power station construction.

The industry's self financing ratio in 1979/80 was 81%. Applying this percentage to the cost of the power station construction programme suggests that the cost was equivalent to approximately 6% of tariffs(or about 0.2 p/kwh). This year, when the self-financing ratio is expected to be 90% the construction programme is estimated at about 7% of revenue costs (or about 0.25 p/Kwh). These are of course illustrative figures. The tariff level is not set by reference to capital costs but is determined in the context of the general financial regime, which in turn has regard to long-run marginal costs.

Effect of power station construction delays on costs and prices

Delays to the power station programme give rise to extra costs in two main respects: replacement fuel costs and extra capital charges. In 1979 the Price Commission estimated in its report on electricity prices that there were additional costs in the range £100-£200 m to be borne by CEGB in 1979-80 as a result of delays in power station construction. Of this, ~£25m was due to increased capital charges and most of the remainder to the higher cost of generating from less efficient plant. This £100-200m approximately equalled 3-5% of the Board's costs, with a maximum effect on tariffs of $2\frac{1}{2}$-4%. The CEGB advise that somewhat lower figures ($1\frac{1}{2}$-3%) will apply for the current year, when the Board has moved to full replacement cost accounting.

but how much as a proportion of their capital costs?

CONFIDENTIAL

(2)

Prime Minister
To note.
Rmt - 8/1

Ref. A03933

MR. ALEXANDER

MT

International Oil Fund

I sent you a copy of my letter of 11th December to Sir Donald Maitland, reporting discussion by the Personal Representatives on 10th December about how to deal with the French proposal to set up an international oil fund.

2. In your letter of 15th December you told me that the Prime Minister thought that the French proposal was a poor idea and that she did not believe that it was worth our spending much time considering it.

3. Whatever the merits or demerits of the proposal, the fact that it had been put forward by the French Minister would make it very difficult to turn it down out of hand, without any consideration. But I agreed with the Foreign and Commonwealth Office and the Department of Energy that the proposal was not best considered by an ad hoc meeting of energy experts from the seven Summit countries (the machinery proposed at the meeting of Personal Representatives on 10th December). We thought that energy discussions in the Summit context should continue to concentrate on medium and long-term energy issues, and that crisis and sub-crisis management should continue to be dealt with by the International Energy Agency and the European Community. I expressed views accordingly to the other Personal Representatives.

4. The views which I expressed have now been endorsed by my German colleague and also by my Japanese colleague. Accordingly, the Canadian Chairman proposes that an ad hoc meeting of Summit representatives on energy should not be convened for this purpose, but that we should consider at the next meeting of Personal Representatives in February what energy questions might need to come before the Ottawa Summit.

5. This is a satisfactory outcome, and I propose to fall in with the Canadian suggestion.

RTA

ROBERT ARMSTRONG

8th January, 1981

CONFIDENTIAL

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From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

R 19/12

19 December 1980

Dear David

I am increasingly concerned at the delay in announcing our detailed plans for the Coal Liquefaction project at Point of Air, and I have an uneasy sense that you may be having second thoughts about it.

While I understand that the immediate needs of this country may not dictate progress on the scale attempted elsewhere, it would in my judgement be a mistake to stand aside from research and development in this increasingly important field, particularly when we have made such good use of the very modest resources devoted to this work so far. The total expenditure proposed on this aspect of energy research is insignificant in relation to what is being done in nuclear energy research programmes, yet the long term potential is of very great importance.

You will appreciate the significance of the pilot project for an area suffering severely from steel closures and there will be bitter disappointment in North East Wales if the project were to be abandoned. There are strategic and regional policy issues here that need to be considered alongside those concerning energy research and I hope that colleagues will be able to discuss this collectively before decisions are taken.

I am copying this to Members of E, to George Younger and to Sir Robert Armstrong.

Yours ever

Nick

The Rt Hon David Howell MP
Secretary of State for Energy
Department of Energy

Thames House South
Millbank
LONDON

Energy

Foreign and Commonwealth Office

London SW1A 2AH

19 December 1980

Sir Robert Armstrong KCB CVO
CABINET OFFICE

Dear Robert,

PERSONAL REPRESENTATIVES MEETING

1. Your letter of 11 December and Donald Maitland's reply of 16 December cover the French proposal for the establishment of an international oil fund and the suggestion that this idea be discussed by an ad hoc group of officials from the Seven Summit countries, with the Group reporting back to the next meeting of Personal Representatives.

with MODA?

2. I agree with the line taken by Donald Maitland and with the arguments which he has set out in his letter to you. I hope that you will be able to persuade the Canadians that the French proposal should be discussed in the International Energy Agency (IEA) and the European Community which are the most appropriate fora. The Commission have already suggested a discussion in the Community of some related French and Italian ideas. I note that the Department of Energy are putting in hand a detailed study. We look forward to participating.

3. We might also consider how this opening could be exploited to move the French closer to the IEA. Their policy has now been seen to have failed; and the French are increasingly concerned about their ability to withstand a lengthy interruption of supplies. The French may still consider the political disadvantage of membership to be too great and our tactics would need to be delicate. This too is a question which might usefully be explored further in interdepartmental discussion.

4. I am sending copies of this letter to Donald Maitland, Ken Couzens and Michael Alexander.

Yours ever,

Michael

Michael Palliser

RESTRICTED

Prime Minister

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

TL

19/12

18 December 1980

T.P. Lankester, Esq.,
No.10, Downing Street

Dear Tim,

OPEC PRICE INCREASES : ECONOMIC EFFECTS

The Prime Minister may wish to have our assessment of the possible economic effects of decisions taken by the OPEC conference in Bali.

OPEC has agreed on a new three-tier price structure: the price of Saudi marker crude has been fixed at $32 a barrel; there is a ceiling of $36 on the price of similar crudes; and the ceiling on high quality crudes has been raised from $37 to $41. The potential range of official OPEC selling prices has therefore widened again to $9 a barrel compared with a traditional differential of only about $2 a barrel. But individual producers have not yet announced how far their prices are to rise within the new framework; the underlying weakness in the oil market may make for some caution. Accordingly, our assessment is a little tentative.

Impact on the World Economy

Assuming producers decide to raise their prices by $2-3 a barrel following the Bali decision the resulting average increase in oil prices would be about 9 per cent. This would be broadly comparable to world price movements.

This may well, however, not be the only price increase to affect next year. Even if there were no further increase in upper tier prices in 1981 but some catching up by the Saudis and others to restore a unified price structure by the end of the year, that would increase the impact on prices to about 15-16 per cent. This would mean that OPEC had increased the real price of oil by some 5-6 per cent despite a deep recession in the industrialised world. Even this could be an under-estimate if, for example, consumers were to prove unwilling in practice to run down stocks in accordance with the recent IEA agreement. Oil prices have now reached the level assumed for 1981 in the Industry Act forecast.

/Compared with

Compared with a position in which the nominal price of oil was unchanged, the table below illustrates the effects on the world economy of a 9 per cent and a 15 per cent increase:

	Change in level of GDP in OECD		Change in OECD inflation		Change in OPEC surplus		Change in OECD deficit	
	9%	15%	9%	15%	9%	15%	9%	15%
1981	-0.2%	-0.3%	+0.3%	+0.5%	+$28bn	+$40bn	-$25bn	-$37bn
1982	-0.4%	-0.6%	+0.6%	+0.8%	+$23bn	+$34bn	-$20bn	-$30bn

The position of the non-oil LDCs will, of course, also be made more difficult by the increase.

Impact on the UK economy

The reduction in world economic activity brought about by higher oil prices will clearly have an unfavourable impact on the UK as a major trading nation, despite our net self-sufficiency in oil. This reduced activity would also tend to increase the PSBR, since non-oil tax receipts will be lower and certain forms of public expenditure higher (e.g. unemployment benefit). However, these PSBR effects will probably be more than offset by increased revenues from the North Sea fiscal regime, as UK oil prices follow the market to new world levels.

As compared with our European competitors, the inflationary consequences of increased oil prices may be mitigated by the firmness of sterling, though this, in turn, would worsen our price competitiveness relative to theirs. The effective exchange rate did indeed rise temporarily on the news from Bali. But it fell back almost immediately, indicating that the outcome had already been largely discounted by the foreign exchange markets.

North Sea prices

In accordance with our established pricing policy, once the actual prices to be charged by producers become clear, prices in the North Sea can be expected to rise to full term market levels of comparable crudes.

I am copying this letter to the Private Secretaries to members of E Committee and to the Private Secretary to Sir Robert Armstrong.

Yours
John

A.J. WIGGINS

Energy

Ref. A03825

PRIME MINISTER

Fast Reactor Policy

(E(80)143)

BACKGROUND

When the Committee last discussed fast reactors on 1 July (E(80) 23rd Meeting, Item 3) they declined to take long-term policy decisions. They had doubts about particular aspects of possible collaboration with other countries and were unwilling to contemplate paying a heavy entry fee. It was nevertheless agreed that the Secretary of State for Energy was free to probe the possibilities of collaboration with the French, Germans, Italians and Americans, provided that he did so without commitment. The Committee refused to authorise a public statement about fast reactor policy.

2. The Secretary of State for Energy has now had further discussions and, in E(80) 143, he makes proposals for moving forward. He starts from the assumption that we cannot afford to develop fast reactor technology independently of other countries and should therefore go for collaboration. From his discussions with the French and the Germans he sees strong attractions in collaboration with the Europeans (his paragraph 5). He proposes that his Department should now enter into substantive negotiations with the French and Germans on the lines set out in his paragraph 8 and his Annex B. This would involve willingness to reach agreement provided the terms were right though with no commitment to building a commercial demonstration fast reactor in the United Kingdom at any particular time.

3. He recognises the need to enter into discussions with the new United States Administration (paragraphs 6 and 7), but he does not want to defer discussions with the Europeans until it is possible to negotiate with the Americans. He fears that to stall now could weaken our chances with the Europeans and that at the end of the day the Americans might prefer to deal with Europe as a whole and the French in particular. He believes further discussions with Europe could be such as not to preclude development of a United States alternative in due course if this seemed more fruitful.

4. He does not propose any public statements until negotiations have been successfully concluded.

5. He proposes that the Atomic Energy Authority and the National Nuclear Corporation should be invited to review their R & D effort in the light of this approach and bearing in mind the high priority attached to progress with the PWR.

HANDLING

6. After the Secretary of State for Energy has introduced his paper you will wish to ask, in particular, the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary (who may want to expand on the European significance of collaboration with France and Germany), the Secretaries of State for Industry and for Scotland and to Mr. Ibbs to comment.

7. The first question is whether, if it is accepted that the United Kingdom cannot develop its own technology independently, collaboration is the right course. The main alternative - which would recognise the doubts over timing and the costs of collaboration - would be to go in for licensing arrangements. Should this possibility be further explored?

8. If it is accepted that the right way forward is by collaboration, the Committee will wish to consider the tactics and the options of pressing ahead with the Europeans now or waiting until it is possible to talk to the Americans. In particular you will wish to press the Secretary of State for Energy on:-

(i) How real is the risk that the Europeans will turn their backs on us if we do not start serious talks with them now?

(ii) How real are the risks that by moving now we could become enmeshed in practice with the Europeans and so find it very difficult to pursue the American alternative?

(iii) What are the views of Walter Marshall, the Chairman elect of the AEA who takes up office in the New Year?

(iv) Is there a risk that the United States will offer us collaboration as a means of weakening their European competition?

9. If there is any question of an entry fee for a collaborative arrangement, either sooner or later, you may wish to explore how far this could be contained within existing financial provisions.

CONCLUSIONS

10. In the light of the discussion you will wish to record conclusions on whether the Secretary of State for Energy should be authorised to press ahead with negotiations with the French and Germans now.

11. If so you will wish to record detailed conclusions with reference to the four points listed in his paragraph 12.

12. If not you will wish to record conclusions on the next step - possibly biding our time until we can talk with the Americans - and commissioning any further work on alternatives - eg licensing as against collaborative ventures.

RCA

ROBERT ARMSTRONG

17th December 1980

CONFIDENTIAL

Qa 05029

To: MR LANKESTER

From: J R IBBS

Fast Reactor Policy

1. In E(80)143 the Secretary of State for Energy seeks agreement that he should enter into substantive negotiations with the French and Germans on collaboration.

2. When this matter was considered in July (E(80) 23rd Meeting) it was decided that, because there were doubts about collaboration which might offset its advantages, decisions on fast reactor policy should be deferred, but that the Secretary of State for Energy was free to probe without commitment the possibility of collaboration. His present note confirms that following a meeting he has had with the French Industry Minister and contacts with the Germans, the door is open for us to collaborate with the Europeans.

3. The CPRS believes that it is important to avoid drifting into a European collaboration without first consciously reviewing and taking specific decisions on the alternatives even though after such a review, European collaboration may turn out to be the best course. The principal additional options include:

(i) going-it alone and building our own commercial scale domestic reactor;

(ii) taking a holding position which would entail keeping a core team to act as informed purchasers of fast reactor technology when the United Kingdom needs it; and

(iii) collaboration with the Americans; this was regarded in July as a real alternative if Mr Reagan won the Election.

The information in the paper currently before the Committee does not provide an adequate basis for assessing these alternatives.

4. With regard to the first two of these options, the CPRS would endorse Mr Howell's arguments that the United Kingdom cannot afford the financial and technological risks of developing its own fast reactor technology. However, the holding option does seem to offer a more feasible policy alternative to collaboration and appears worth exploring. Although probably not reducing expenditure much below current levels, it would avoid the possibility of the United Kingdom becoming committed quite quickly to substantial additional expenditure as a result of a collaborative deal. It would enable us to choose the best technology available, on the best terms, be it European or American, when the need arose.

5. Although the Secretary of State proposes to keep open the option of collaboration with the US it would be very easy for 'substantive negotiations' with the Europeans to reach the point where pursuit of the American alternative (or indeed one of the non-collaborative options) would entail a serious breach with the French including charges of bad faith; there may be more to lose from pulling out of the substantive negotiations which were initiated by us than in not starting them at all. We therefore doubt the wisdom of extending the 'probing' previously agreed by E Committee into 'substantive negotiations' until the Committee has reviewed all the options and until the new American administration has been in office long enough for the possibility of collaboration with them to be properly explored.

6. If it is argued that there is only a short period available for pursuing negotiations with the Europeans on a favourable basis for us, the reasons for this need to be clearly established. Even if this were the case, the importance of the questions raised by fast breeder reactors and the potentially very large sums of money involved are such that proper review of the alternatives should take place first.

7. I am sending a copy of this minute to Sir Robert Armstrong.

JR

17 December 1980

10 DOWNING STREET

From the Private Secretary

15 December 1980

The Prime Minister has seen a copy of your letter of 11 December to Donald Maitland about the French proposal to set up an international oil fund. The Prime Minister thinks this a poor idea and does not believe that it is worth our spending much time considering it.

I am sending copies of this letter to Donald Maitland, Michael Palliser and Ken Couzens.

Sir Robert Armstrong, KCB, CVO.

CONFIDENTIAL

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet, Sir Robert Armstrong KCB CVO

(2)

No. It is a ridiculous suggestion — not worth working on — not

Prime Minister,

Prima facie, a rather odd idea

12/XII

Ref: A03795

11th December 1980

I shall be preparing a record of this week's meeting of Personal Representatives in Paris, but there is one point on which I should write to you straightaway.

The Canadian Chairman of the High Level Monitoring Group (HLMG) on Energy set up by the Venice Summit came on the afternoon of 10th December to report to us what had passed at the dinner of Summit energy Ministers on the evening of 9th December and at the meeting of the HLMG on the morning of 10th December. I do not need to tell you what passed on these occasions. The proceedings at the dinner were reported in a telegram, and I was very grateful for the arrangements made to enable me to see an advance copy of that telegram.

The Personal Representatives considered what should be done to follow up the four suggestions made by M. Giraud, reported in paragraph 5 of the telegram in question. One of these was for the establishment of an international oil fund on a voluntary basis, to which member countries would pay an entrance fee (presumably in the form of oil) and on which they would have drawing rights in time of difficulty. We noted that the French had produced a paper, amplifying this suggestion, which nobody had yet had a chance to read. We agreed, subject to reference back to Heads of Government, that this suggestion should be examined by an ad hoc group of officials from the Seven Summit countries, which should report back on the suggestion to the next meeting of Personal Representatives. It was accepted that the membership of this group would in practice be the same as the High Level Monitoring Group, but some of those present preferred to treat this as a "one-off" reference to an ad hoc group rather than as an addition to the task of the HLMG.

I am to let my Canadian colleague know within ten days if that proposal is not acceptable to us. I should be grateful to know whether you are content that we should proceed in this way.

I am sending a copy of this letter to Michael Palliser, Ken Couzens and Michael Alexander.

ROBERT ARMSTRONG

Sir Donald Maitland, GCMG, CMG, OBE

PART 5 ends:-

MODBA to FCO 10.12.80

PART 6 begins:-

E(80)143 11.12.80

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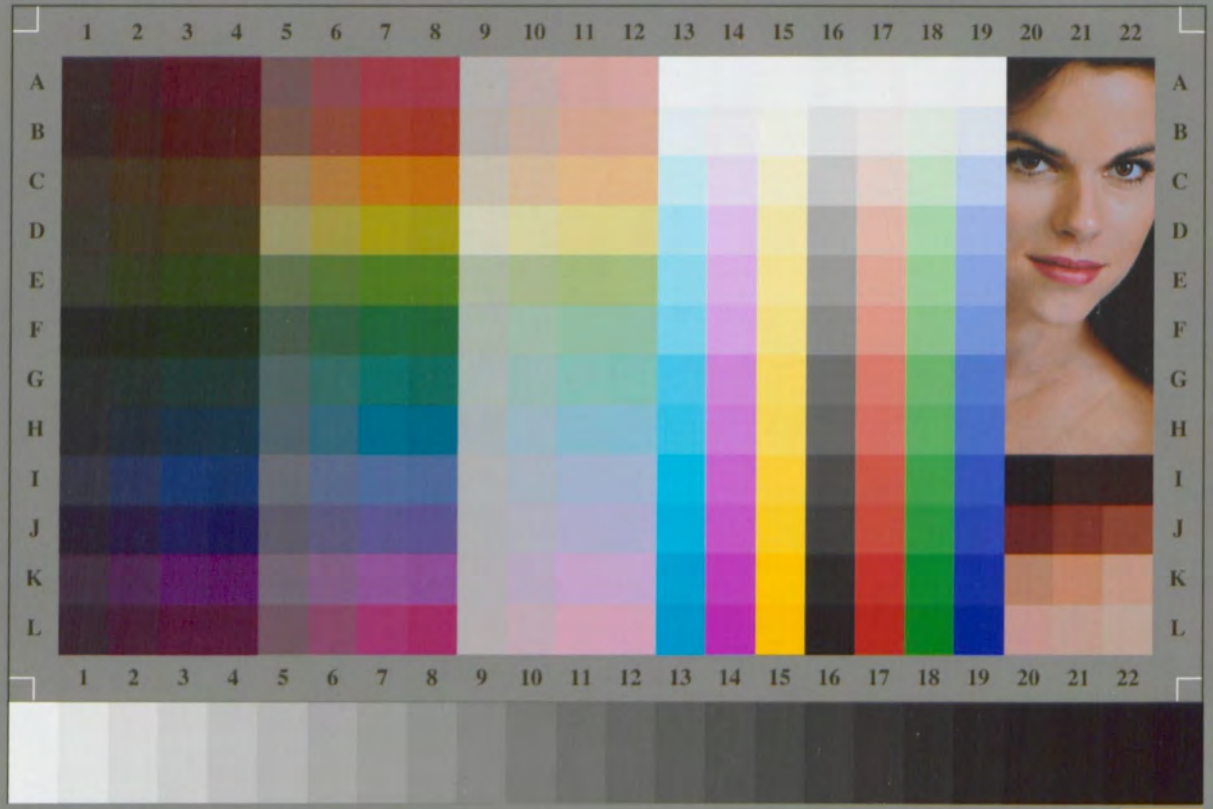

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