

CONFIDENTIAL

PRIME MINISTER

Structure of the Power Plant Manufacturing Industry

(E(79) 7)

(Sir Kenneth Berrill's minute to you of 30th May is also relevant)

The power plant manufacturing industry represents a continuing problem. We now have two major manufacturers of turbo-generators - GEC and NEI Parsons - and two boiler-makers - Babcock and Willcox and NEI Clarke Chapman - capable of designing and manufacturing the enormous machines now used for power generation. By common consent there is now only really room for one major turbine maker and one major boiler-maker in the United Kingdom - especially if we are to have any hope of continuing to compete in world markets - but efforts so far to bring about a merger of the interests concerned have not succeeded. As it happens collaborative arrangements between the boiler-makers for the next CEGB and Scottish Electricity Board orders (for the AGRs at Heysham and Torness) give this part of the industry at least a breathing space. The urgent problem is that of the turbine manufacturers.

2. Basically the problem is that:-

- (a) GEC is the strongest: their basic design (for four-flow turbines) is best attuned to world markets.
- (b) For reasons specific to the particular sites and the AGR technology it is likely that the CEGB and SSEB will prefer Parsons 6-flow design for these two stations.
- (c) If this happened GEC might well be forced out of the turbine business altogether, and Parsons succumb later on to world competition.
- (d) But if the Government were to influence the electricity supply authorities to buy GEC turbines this would mean the end of Parsons as a turbine manufacturer and the Government would take the stick for the resulting loss of jobs in Scotland and the North East.



CONFIDENTIAL

(e) The alternative, canvassed as one option by the Energy/Industry joint paper, is to seek to influence the Boards to split the turbine orders between the two companies. This would keep them both in being. It would do little to assist rationalisation in the short term but it would at least leave open the option of rationalisation later.

3. The issues are set out in paragraph 13 of the paper. The essential choices are:-

- (a) For the Government to stand back and let matters take their course.
- (b) For the Government to decide which companies should get the orders (Parsons, GEC or both).
- (c) For the Government to postpone a decision until it has a clearer idea of what the Electricity Supply Boards would prefer to do in the light of their examination of tenders and of any other consideration they consider relevant (they have an interest in the long term future of the power plant industry which should influence their short term decisions).

HANDLING

4. You might invite the Secretary of State for Industry to introduce the joint paper and ask the Secretary of State for Energy whether there is anything he wishes to add. The Secretary of State for Scotland - as Minister responsible for the South of Scotland's Generating Board's Torness station - would also wish to speak, as no doubt would the Secretary of State for Employment. The Secretary of State for Trade, who also has a Departmental interest, will be away; he may write to you with his views before the meeting.

5. You might then seek views on the Committee's preferred course of action. If it is to stand back and let matters take their course you will want to consider whether, and if so by whom and when, the various interests should be so informed. If a decision is postponed pending further information from the Generating Boards or if colleagues wish the Government to take an early hand in the decision you will want to consider whether there is more that can be done to

CONFIDENTIAL

provide Government with a basis on which to take decisions. Responsibility for bringing a considered view in these circumstances to colleagues should be placed firmly on the shoulders of the three Secretaries of State most closely concerned - Energy, Industry and Scotland. It would be for them to organise any further information and opinion-gathering which may be necessary.

6. There are two other issues which may emerge in discussion:-

(a) Compensation for the Boards if they are required to take action which they regard as not being in their own commercial interests.

The Committee will certainly not wish to encourage such compensation in present circumstances but you might care to probe how far the Ministers concerned have any doubt about their ability to withstand such pressure.

(b) The Research Capacity of the CEGB.

There is an argument that the CEGB is over-involved in research and development work on electricity generation and that this has led to excessively parochial specifications and ordering policies. If the point is raised you might ask the Secretary of State for Energy to provide a paper.

CONCLUSIONS

7. Subject to discussion you might lead the Committee to:-

Either:

(i) agree in principle that the Government should stand from the situation in the power plant industry and let matters take their course. In this event you will want to consider how the decision should be conveyed to those concerned;

Or:

(ii) that the Government should postpone a decision on whether to seek to interfere until further information is available on the course of action likely to be favoured by the Generating Boards;



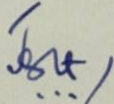
CONFIDENTIAL

Or:

- (iii) that the Government wishes to be put in a position to take a decision on the placing of the CEGB and SSEB orders for Heysham and Torness. In this event you will want to invite the Secretaries of State for Energy, for Industry and for Scotland to produce joint recommendations on the destination of the orders;

And

- (iv) (if necessary) invite the Secretaries of State for Energy and for Scotland to produce recommendations on the question of compensation for the Generating Boards if they are asked to act contrary to their own judgment in placing their turbine orders;
- (v) (if necessary) invite the Secretary of State for Energy to produce a paper on the case for and against the present degree of involvement by the CEGB in research and development into electricity generation.

  
John Hunt

31st May 1979