

CONFIDENTIAL

(Nationalised
Industries)

File



cc: HMI

CO

bc: Mr. Hoskyns

Mr. Wolfson

Mr. Whitmore

10 DOWNING STREET

From the Private Secretary

20 October 1980

Copied to Master set.

As you know, the Prime Minister held a meeting this afternoon to discuss the Memorandum (E(80)120) on energy pricing which your Secretary of State had circulated to E Committee. Besides Mr. Howell, the following were present: Mr. Lamont, Mr. Moore, Sir Donald Maitland, Mr. Guinness, Mr. Hoskyns and Mr. Wolfson.

The Prime Minister said she was unhappy with the paper. In particular, she made the following points:

- (a) It adopted far too much of a cost plus approach, and there was not nearly enough in it on the possibilities and necessity of improving efficiency in the energy industries.
- (b) There seemed to be little appreciation that, by putting up energy prices, this would put private sector companies out of business; and that, taking into account the aggregate effects, the PSBR could well be increased rather than diminished.
- (c) The need for the industries to develop truly marginal cost pricing, particularly at a time of recession, did not seem to be properly discussed. The industries' approach seemed much too narrow, ignoring the effect on their finances of losing customers through prices they were unable to afford. From the Government's point of view, it was crucial that they should take a wider view; otherwise, more and more industries would be put at risk.
- (d) The legality or otherwise of short-run marginal cost pricing in the electricity industry ought to be cleared up forthwith.
- (e) The analysis of the coal and electricity industries was incompatible with the NCB's reported approach to their pay negotiations. On a rational view of the facts, there was no justification for the offer which they were planning to make.

CS

/ (f) The paper

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- (f) The paper seemed to indicate that European energy prices were, in many cases, lower than in the UK. Yet, she had been defending our own prices on the basis that they were at approximately the same level. The latest figures very much weakened the Government's defence of current energy pricing policies.
- (g) It now seemed that US gas prices would not be approaching world prices until 1985 (or even possibly 1987). It was essential, in these circumstances, that we should consider adopting countervailing duties to offset the lower costs which energy-intensive industries in the US enjoy.
- (h) She was appalled by the CEGB/NCB contract: the CEGB were being far too generous by, in effect, allowing the NCB an automatic price rise each year in line with inflation.

A number of points were made in response, and it was agreed that Mr. Howell would circulate a revised draft, taking into account the Prime Minister's comments. I am sure it would be helpful if the new draft could be discussed with the Prime Minister before it is sent round to E Committee; and we will be in touch to arrange a date.

I am sending a copy of this letter to Peter Jenkins (H.M. Treasury) and David Wright (Cabinet Office).

J. P. LANKESTER

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