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Ref. A03441

PRIME MINISTER

Industrial Energy Pricing

(E(80) 120 and 128)

BACKGROUND

You raised a number of questions, summarised in Mr. Lankester's letter of 20th October (not copied to members of E other than the Chancellor of the Exchequer), on the Secretary of State for Energy's long paper, E(80) 120. The Secretary of State replied to these in his minute to you of 31st October. E(80) 128 is that minute with minor drafting changes to make it suitable as a Committee paper.

2. The papers are long, but the key general points are:-

- (i) Economic pricing is central to energy policy - encouraging oil substitution, more efficient energy use and conservation of resources.
- (ii) The level of energy prices has a crucial impact on the PSBR. Of course greater efficiency is important, especially for coal and electricity prices, but nevertheless the cost of price concessions to help industrial consumers can be very high (c.f. the experience of the last Conservative Administration in 1973-74).
- (iii) On average fuel accounts for 5-6 per cent of industrial costs - for that and PSBR reasons any assistance should be highly selective if it is to be cost-effective.
- (iv) While international energy costs, in the EC rather than the USA, are now moving more into line with our own, there is still scope for action in international fora to attack disparities.

HANDLING

3. In practice a number of questions on energy pricing will probably have been discussed under the previous item on the agenda - the nationalised industries' EFLs, E(80) 125. Subject to that, after the Secretary of State for Energy has introduced his paper the Chancellor of the Exchequer and the Secretaries of State for Industry, Scotland, Wales and Northern Ireland will want to comment.

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4. Given that time will probably be short, you may wish to suggest that Ministers should follow up any detailed points they may have on papers separately with the Secretary of State for Energy. You might then base the discussion on the proposals listed in paragraph 12 of E(80) 128, which subsume those in the earlier paper E(80) 120.

5. In particular, and always bearing in mind the interaction with the objective of reducing the nationalised industries' EFLs, the Committee will wish to decide whether they are satisfied with the limited action proposed for gas, electricity and oil prices; and with what is said on international action.

6. You will also wish to confirm whether you are in agreement with the proposal in paragraph 14 of E(80) 120 for a statement on energy prices.

CONCLUSIONS

7. In the light of the discussion you will wish to record conclusions on the recommendations summarised in paragraph 12(a)-(f) of E(80) 128 and on the proposal for a statement on energy prices in paragraph 14 of E(80) 120.

RA

ROBERT ARMSTRONG

4th November, 1980

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