

PRIME MINISTER

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Meeting with Sir Terence Beckett and Sir Ray Pennock - Energy prices

I am sure Beckett and Pennock will raise the question of energy prices. They are likely to argue that our energy prices are higher than those of our competitors: that as an energy-rich country, there is no need to adopt OPEC prices domestically; that the heavy oil duty should be cut.

This is just to remind you of the line to take:

- i) We do not believe that our energy prices are in general too high. Our own studies suggest that they are in line with European prices. But we look forward to seeing the CBI study of relative prices. At the same time, we are also encouraging the Electricity Council and Area Boards to show some flexibility so that they bring prices down closer to short-run marginal cost on a temporary basis for large users who are in temporary difficulties; and also to help their customers obtain the maximum benefit under the existing bulk supply tariff.
- ii) We cannot afford lower oil prices - given the £4 billion of revenue which we get from the North Sea. But in any case charging lower prices internationally would involve a vast panoply of controls, and they would be difficult to enforce. (Note that we have to import a lot of our oil even though in net terms we are self-sufficient.)

Other points to make:

- i) We are intensifying our effort to improve efficiency in the energy industries.
- ii) We are accepting BCG's proposal to charge only 75% of the equivalent of gas oil prices for renewed gas contracts.

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iii) We are going to take tougher international action to make sure our competitors charge economic prices. We are pressing the three large oil suppliers to reduce their product prices.

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12 November 1980