



FCS/80/173

SECRETARY OF STATE FOR ENERGY

Industrial Energy Prices

Richard
Really don't think the person who drafted this memo knows much about the market. I think it's a bit of a mess. I think it's a bit of a mess. I think it's a bit of a mess.
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to shift our policy on prices in the Community
Industry does not matter

1. Keith Joseph's letter to you of 27 November proposes a number of specific measures to alleviate the difficulties which British industry attributes to the current level of certain energy prices.

2. In examining ways in which these measures might be implemented I hope that you will take the international implications of any revision of our energy pricing arrangements into account. In discussions in the Community, the IEA and elsewhere we have argued strongly that realistic energy pricing is the key to promoting the rational and efficient use of energy and encouraging energy conservation. Our public commitments on energy matters at Summit meetings have reflected this line. Any action which could be interpreted as a departure from these principles of economic pricing would obviously have implications for our position in such discussions.

3. It will also be important to ensure that action to reduce certain energy prices to UK industry does not undermine our approach to the US, either bilaterally or in concert with our Community partners, over the level of US energy prices - an issue on which certain sectors of UK industry feel very strongly, and on which officials are currently working.

4. Care will have to be taken to see that measures such as the suggested rebate of heavy fuel oil tax to industrial consumers, are consistent with the terms of the Treaty of Rome, in particular those articles dealing with state aids and competition. A rebate of duty on heavy fuel oil for the manufacturing sector would presumably constitute a state aid, be notifiable, and require Commission approval

/before



before it could be granted. In addition, the Norwegians might well regard with suspicion a scheme whose purpose was to avoid paying them the higher price for Frigg gas which straightforward abolition of the tax would entitle them to. Any such scheme would need to be legally water-tight.

5. None of these points in itself rules out the possibility of action on the lines proposed by Keith Joseph. But I should like our officials to consult closely over the detailed preparation of any changes in the existing pattern of UK energy prices; and I endorse Keith Joseph's wish to have a full discussion of the subject in E Committee.

6. Copies of this minute go the Prime Minister and Members of E Committee, George Younger, Nicholas Edwards, Robert Armstrong and Mr J R Ibbs, Cabinet Office.

C

(CARRINGTON)

Foreign and Commonwealth Office

10 December 1980