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SUBJECT

10 DOWNING STREET

From the Private Secretary

22 December 1980

Original filed on:-

Nat. Ind. Policy: Pt 3.

cc. Master set.

Prof Walters

Dear Tom

As you know, the Prime Minister held a meeting this afternoon to discuss the nationalised industries. The following were present, in addition to the Chancellor of the Exchequer: the Secretaries of State for Industry and Energy, Mr. Ryrie, Sir Donald Maitland, Mr. Croft, Sir Robert Armstrong and Mr. Ibbs.

Nationalised Industry Financing

The Prime Minister said that she was becoming increasingly concerned at the financing burden of the nationalised industries. This was proving a huge drain on the PSBR and the prospects did not seem to be getting any better. After 20 months in office, the Government had achieved far too little in terms of improved efficiency and reduced financing requirements. The Government was now being severely criticised for not having achieved more. It was essential that sponsor Departments should drive harder at the industries to get them to achieve better efficiency. In addition, she wanted the various proposals which had been put forward for removing certain types of financing from the PSBR to be carried forward urgently. She understood that the Treasury had been considering the options, including removing the Government guarantee from certain types of borrowing and sale and lease-back arrangements, for several months. She wanted a report from the Treasury by 6 January on where the review of options had got to, what further work needed to be done, and - if possible - with some specific proposals for decision.

The Chancellor and Mr. Ryrie explained the well-known objections to removing from the PSBR financing which was guaranteed by the Government. The Treasury were trying to identify areas where the giving of guarantees could be avoided so that the relevant financing could be taken out of the PSBR. One example already identified was the gas-gathering pipeline; there were other possibilities in British Rail, the NCB and British Telecoms. In all of these areas, there were likely to be difficulties - including the need for legislation. But the Treasury would continue to pursue the various options urgently, and would prepare a progress report for the Prime Minister as requested. Sir Keith Joseph added that in the case of British Telecoms, there were a number of hopeful options; he intended to write to the chairman of the Corporation about them shortly since he would have to go along with whatever the Government decided to do.

/ Energy Prices

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Energy Prices

The Prime Minister said that she was also most concerned about the high energy prices which private sector industry were having to bear. There was nothing the Government could do to bring down the exchange rate, which was also causing increasing problems for certain industries, without undermining the monetary strategy; but she felt that more could be done to make cheaper energy available to industry. High energy prices were partly caused by inefficiency in the coal industry and electricity industry; and as she had said already, the Government must press the industries harder to bring about improvements. But many industrialists, particularly bulk energy users, felt they were being unfairly treated compared with their competitors abroad.

The Secretary of State for Energy said that his Department had been conducting an intensive review of energy pricing, and he would be bringing forward proposals for collective consideration in early January. Certain small changes had already taken place: for example, BGC were now adopting a policy for charging slightly lower prices for new contracts and the electricity industry was showing somewhat greater flexibility in its prices for bulk users. In addition, the Electricity Council had been conducting a review of the bulk supply tariff since the autumn, and this work would be completed by early January as well. Contrary to what many in industry were saying, small and medium size electricity users were not being charged higher prices than their competitors abroad; it was only the bulk users who were at a disadvantage. He had freely recognised this, and that was why the bulk supply tariff review was being undertaken. Ministers would have to consider the option of reducing bulk supply tariffs, though this would be at a cost to the PSBR. But there would be some industries who would be unable to survive even with competitive tariffs. As for heavy fuel prices, these were now the lowest in Europe - and he would let the Prime Minister have chapter and verse. The current pricing regime for gas feed-stocks was very advantageous to British industry. As regards the proposals he would be coming forward with in January, these would include the option of reducing or abolishing the tax on heavy oil and also limiting the increase in gas prices to industrial users; but again, Ministers would have to weigh up the advantages to industry against the losses to the PSBR. In short, Ministers would have to decide whether to make relatively minor changes which would be presentationally helpful, or much larger reductions in energy prices which would cost substantial amounts of money. He would include in his paper to colleagues various possible packages within the latter category.

The Prime Minister said that, against the difficult prospects which manufacturing industry were facing, it would be desirable to make some substantial concessions on energy prices; and in looking at the PSBR consequences, it was important to take into account the PSBR consequences of industries going out of business if concessions were not made.

Mr. Howell said that he would let the Prime Minister have a paper by 4 January; and I would be grateful if his office could let me have the information on heavy fuel prices by tomorrow (Tuesday) close of play.

/ Other points

Other points

The following further points were raised:

(i) Sir Keith Joseph said that BSC's Corporate Plan was optimistic about the Corporation's market prospects. It did not include the "lower case" option, which would involve closing Llanwern and Port Talbot. Although more expensive in the short term, it was possible that the "lower case" would be more likely to make BSC competitive again; and his Department would be looking at this closely.

(ii) The Prime Minister questioned the need for the NCB to use Hobart House as their headquarters: wasn't there a strong case on employment and other grounds for having their headquarters outside London? Mr. Howell said that their present lease was on favourable terms, but he would look into the matter and let the Prime Minister have a report.

(iii) The Prime Minister said that she was concerned that more progress had not been made by British Shipbuilders in selling off the ship repair companies. She had been impressed by the arguments put forward by Mr. Christopher Bailey on this matter; she would like a report from Sir Keith Joseph as soon as possible.

I am sending copies of this letter to Ian Ellison (Department of Industry), Julian West (Department of Energy), Sir Robert Armstrong and Robin Ibbs.

W. H.
Tim Lamm

A.J. Wiggins, Esq.,
HM Treasury.