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PRIME MINISTER

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Energy Prices

You are to have a discussion on 12th January with the Chancellor of the Exchequer and Mr. Howell on energy prices. This meeting will both continue the discussion you had with them and others before Christmas and will set the scene for discussion in E later in the month when Mr. Howell is due to bring forward a general paper on energy prices.

✓ 2. The basic text for the meeting is Mr. Howell's minute to you of 31st December. In this, and in the papers he has been submitting to the NEDC (notably NEDC(80) 84) on industrial energy pricing), Mr. Howell is effectively saying that much (though not all) of the case industry makes (that United Kingdom energy prices are excessive when compared with those of our competitors) has crumbled away on examination; that nevertheless there are points of difficulty for particular industries which he is doing his best, with the energy industries, to meet; and that broader measures of relief on energy prices would be very costly in PSBR terms, inefficient as a means of bringing short-term help to industries in recession, and damaging to the Government's long-term interests.

3. The basic issue is whether the Government can or should spend (or forgo) sums of money running into hundreds of millions of pounds in order to provide British industry with cheaper energy. If not, there is probably little option but to back Mr. Howell's present actions, designed to provide relief where detailed work shows that a particular industry or firm has a case, but to avoid generalised relief. If on the other hand your judgment is that colleagues would be prepared to see substantial sums spent on reducing energy prices, then the questions become how can this best be done and how quickly? These questions will be of particular significance to the Chancellor who is already deeply involved in preparing the March Budget and needs to know whether he is to contemplate action on the fuel oil duty and whether he needs to modify his assumptions about the financing of the nationalised energy industries in the year ahead.

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4. If Ministers conclude against any generalised relief, it will be the more important to consider what can be done to influence energy pricing policies in other countries with a view to improving the competitive position of British industry. Although industry's case against current United Kingdom energy prices as compared with those in Europe has, for the most part, proved weak, the case to be made against United States energy pricing is strong. Some action is already in hand through the EC but colleagues will need to decide whether, and if so, how the pressure can be kept up or intensified once Mr. Reagan has taken over. This will need to be viewed in the general context of our relations with the incoming Administration and the likelihood of mustering effective support from our European partners.

5. The case for and extent of help to industry on energy prices needs to be considered in relation to other possibilities for action by Government to ease the problems of industry. If it were thought that relief for industry's problems might come through an easing of the pressures of the exchange rate and of interest rates, or by other measures which the Chancellor may have in mind for the Budget, the Ministers might think that extra general help through energy prices was not worth the longer-term costs inevitably associated with such action.

6. You may want to press Mr. Howell further on the scope for putting pressure on the nationalised energy industries to increase their efficiency. They are largely immune from the pressures of competition, but there are possibilities: for instance, would there be anything to be said for enabling companies that produce gas from the North Sea to supply large customers direct rather than through the BGC (paying the BGC an appropriate tariff for the use of BGC transmission facilities, if need be)?

7. Is there scope for the Government to do more by way of encouraging industry to reduce its energy consumption? In the field of energy conservation, there are still many worthwhile investments to be made, and too many firms do not appear to have grasped (or perhaps feel able to afford) the potential benefit to themselves from cutting their energy bills. If there is to be no generalised relief on energy prices to industry, would there be political and economic

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advantage in spending limited extra amounts of Government money on the encouragement of energy conservation measures in industry which would benefit both the firms concerned and the economy generally?

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ROBERT ARMSTRONG

9th January, 1981

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