jfh

bc Mr Wolfson
Mr Hoskyns
Mr. Ingham
Mr Walters

SUBJECT

10 DOWNING STREET

From the Private Secretary

13 January 1981

Energy Prices

As you know, the Prime Minister held a meeting yesterday afternoon with your Secretary of State and the Chancellor of the Exchequer to discuss energy prices. They had before them your Secretary of State's minute of 31 December.

Mr. Howell outlined the various possibilities which he had been looking at to provide some relief to industry on energy prices (as set out in his minute). Options (i), (iii) and (iv) - which would involve certain concessions to bulk users of gas and electricity and somewhat greater flexibility in the application of electricity tariffs generally - would bring a minor but immediate easing of prices charged to some users. The other three options - involving an across the board cut in gas and electricity prices and the possible reduction of the heavy fuel oil duty - would be more radical and more expensive. In the case of the electricity bulk supply tariff option, the electricity boards were already providing some improvements in their charging policies; but he was very keen to see this option and at least some of the others pursued further. On the other hand, he was well aware of the adverse PSBR implications of pursuing the more expensive options - although in the case of the fuel oil duty, making no concession would be very hard to justify given the existence of North Sea oil.

The Chancellor said that there had been a good discussion in NEDC at the meeting held the previous week. There had been general agreement that the problems faced by British industry in regard to energy prices, compared with their competitors overseas, related almost entirely to bulk use of gas and electricity and the heavy fuel oil price (although in the last few months the latter had fallen below fuel oil prices in Europe). He was quite content for options (i), (iii) and (iv) to be pursued, and to the extent that these would have implications for the PSBR, he would be prepared to look constructively at them. Option (vi) - reducing fuel oil duty - was an option for the Budget, and he would be prepared to consider it seriously. Officials in the Treasury and your Department were already looking at this. One aspect which would have to be considered carefully was the arrangement whereby, under the Frigg contract, part of any concession would involve payment overseas to Norway and to the French companies operating the Frigg field. As for the possibilities of

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across the board price reductions, he did not think these would be justified.

Summing up a brief discussion, the Prime Minister said that your Department should pursue options (i), (iii) and (iv) urgently; indeed, they should be pressed to the limit of what could be justified commercially and, in the case of electricity, in terms of the constraints imposed by the Electricity Acts. Options (ii) and (v) should not be pursued further at this stage; the Treasury and your Department should continue their examination of the fuel oil duty option with a view to a decision prior to the Budget. In view of the consensus they had reached, it did not seem necessary to discuss the proposals further in E Committee.

I am sending copies of this letter to John Wiggins (HM Treasury), Ian Ellison (Department of Industry), David Wright (Cabinet Office) and also John Craig (Welsh Office).

T. P. LANKESTER

Julian West, Esq.,
Department of Energy.

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