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SUBJECT.

10 DOWNING STREET

From the Private Secretary

3 April 1981

cf. Minister's letter

NORTHERN IRELAND ELECTRICITY SUBSIDY

As you know, the Prime Minister held a meeting this morning with your Secretary of State and the Chief Secretary to discuss the question of the Northern Ireland electricity subsidy. They had before them Sir Keith Joseph's minute of 31 March reporting on the E(EA) discussion on this subject on 26 March.

Mr. Atkins explained the difference of view which had emerged at the E(EA) meeting. There was agreement on industrial tariffs, and also on the level of domestic tariff as from 1 April 1981; but there was disagreement on the level of domestic tariffs for later years. He had suggested that domestic tariffs should be brought down to the highest tariffs in England and Wales within two or three years; the Chief Secretary, supported by other members of the Committee, had argued that any commitment on domestic tariffs should go no further than indicating that they would not be more than 5 per cent above the highest level in England and Wales following the 1981 changes, though the possibility of further reductions would be kept under review.

Mr. Atkins went on to say that he was most concerned about the political reaction which was likely to follow if only the Chief Secretary's proposals were adopted. He did not believe that the latter would be regarded in Northern Ireland as fulfilling the commitment which the Prime Minister had made in her recent speech in Belfast. He very much hoped, therefore, that the Prime Minister would agree that domestic tariffs should be brought down to five per cent above the highest in England and Wales immediately and preferably to the highest level itself in 1982. He recognised that the proposed subsidy would be expensive; but it would not be possible to find substantial savings from other Northern Ireland programmes, and therefore the bulk of the money would have to come out of the contingency reserve.

The Chief Secretary said that there were essentially two issues. First, there was the question of money: the extra expenditure implicit in his own proposal would be very considerable, and it would be even more costly if Mr. Atkins' proposal was accepted. He felt that his proposal would be taken as fully consistent with the Prime Minister's statement that Northern Ireland electricity tariffs would be brought "more closely into line with those in England and Wales", and thus defensible. Whatever level of subsidy was decided, he would have to ask the Northern Ireland Office to make a substantial contribution towards it out of their other programmes. Secondly,

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there was the question of whether the Northern Ireland tariff should be related to the highest or to the average tariff in England and Wales. His impression had been that the Northern Ireland Office had been pressing for a relationship with the average tariff. In the Treasury's view, it would be far more defensible to relate the Northern Ireland tariff to the highest tariff in England and Wales.

Summing up their short discussion, the Prime Minister said that the Chief Secretary's proposal would not - in her view - be seen as going far enough to meet the commitment which she had given in Belfast. Her own interpretation of the commitment was that domestic tariffs would be brought more closely into line with the average of tariffs in England and Wales. She thought it would be consistent with this if there was a firm commitment to bring the domestic tariff down to the level of the highest tariff in England and Wales by 1982. The domestic tariff should, therefore, be brought down to five per cent above the highest level as from 1 April 1981, and this should be accompanied by a statement that it would fall to the highest level in April 1982. The Northern Ireland Office would have to make a contribution to the extra expenditure involved, perhaps by reductions in the health or education programmes; precisely how much would be found from Northern Ireland programmes and from the contingency reserve would have to be settled between your Secretary of State and the Chief Secretary, as would also the method of paying the subsidy. No announcement should be made until the financing arrangements were agreed.

I am sending copies of this letter to the Private Secretaries to the members of E(EA) and to David Wright (Cabinet Office).

T. P. LANKESTER

Roy Harrington, Esq.,
Northern Ireland Office.

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