A04646

PRIME MINISTER

Industrial Energy Prices
E(81) 39

BACKGROUND

The Secretary of State for Energy argues, in E(81) 39, that the Budget measures are seen as an inadequate response to the problems of industrial energy prices and that further assistance is now needed.

2. The main relevant Budget measures were -

Increases

20p increase on petrol duty - yield £910 million a year.
20p increase on derv duty - yield £270 million a year.

Concessions

	£ million
Increase in Gas External Financing Limit	73
Increase in Electricity External Financing Limit	45
Grants for conversion of oil fired boilers to coal use	50
Total	168

The increase in the gas and electricity EFLs were directed to helping large industrial users.

3. The Secretary of State for Energy now proposes -

(i) Remitting 100 per cent of the duty on heavy fuel oil to selected energy intensive industries (his paragraph 3a and Annex A) - cost £40-50 million.

(ii) Reducing duty on derv by 3p/4p below that on petrol (paragraph 3b) - cost £40-55 million.

(iii) Reductions in electricity prices to selected industrial users (paragraph 7 and Annex B)
- cost £50 million plus.

(iv) Assistance for one-off schemes (paragraph 8)
- cost unquantified (and indeed the nature of the schemes left very vague).

(v) Subsidy of foundry coke (paragraph 9)
- cost £10 million.

Total cost, say, £150 million plus a year.

4. The Secretary of State for Energy has rejected across-the-board gas and electricity price cuts for industrial users mainly on the grounds of the very high costs - paragraph 5 of his paper. While the selective approach provides for assistance to be channelled to those which most obviously need it, and for the overall costs to be reduced, it raises a number of difficult questions over the basis of selection of the firms or sectors to be helped, the legal constraints of such help, the legislation to provide for that help, the need to avoid EC complications, and problems of confining the assistance both in terms of time and of the industries to be covered. I suggest that the Committee will need to consider these problems in relation to each of the measures proposed by the Secretary of State for Energy and I list below some of the points which you might wish to cover.

HANDLING

5. After the Secretary of State for Energy has introduced his paper, you might invite the Chancellor of the Exchequer to give his general views on -

(i) The problems of introducing so soon after his Budget further measures which would increase the PSBR by around £150 million and the public expenditure totals by around £50 million a year.

(ii) The possibilities for any offsets to those increases.

(iii) Whether, if concessions of this order are to be made, he judged that priority should be given to the proposals put forward by the Secretary of State for Energy.

(iv) His general willingness to be seen to reverse engines so quickly on his Budget proposals affecting diesel and heavy fuel oil.

The Chancellor of the Duchy of Lancaster, the Chief Whip and the Secretary of State for Industry will all probably wish to give their views on the general case.

6. You might then turn to the particular proposals and work through them with a view to deciding which measures the Committee supports in principle and which, therefore, should be the subject of further and more detailed proposals. In particular you will wish to consider what should be the basis of selecting the firms to be helped, how difficult it will be to hold the line, and how realistic it is to assume that the concessions could last for one year only. They will have to cover the whole of the United Kingdom and the costs may turn out to be higher when the calculations are done for Scotland and for Northern Ireland.

7. On the proposed concession on heavy fuel oil the Secretary of State for Energy should be able to report what advice he has had from the Attorney General on whether there would be any complications over the Frigg gas contract. An amendment would have to be made to the Finance Bill, either to provide for exemptions to be made by order or listing those firms or sectors to be exempted. Further work involving the Departments of Energy, and Industry and the Treasury, would be necessary to select the exemptions. You might ask whether there is any risk that, if duty exemptions were to be made, the oil companies would take the opportunity to increase the underlying price. You might also ask whether our fuel oil market is as competitive as it might be. At an earlier stage there were suggestions that a reference to the Monopolies Commission might be useful. Is there any mileage in this?

8. A cut in the duty on derv would be easier in legislative terms since it would be across-the-board. The amendment to the Finance Bill would, however, have to provide against concessions retrospective to the date of the Budget,

otherwise there would be severe administrative difficulties. You will wish to probe the industrial case for this concession - its effects would appear to be widely and thinly spread through reductions in transport costs - and, again, whether there is any risk of the companies taking the opportunity to push their prices up higher than otherwise.

9. If there is to be selective help on industrial electricity prices the Committee will again need to consider which are the firms and sectors to be helped and for how long. The costing of £50 million plus is very much a guess by the Department of Energy, and further work will be necessary on it. There is a risk that a selective approach could be challenged in the Courts - most probably by those industrial users not selected, or by domestic consumers if there were any suspicion of cross-subsidies - on the grounds that it represented undue preference and discrimination contrary to the statutes. The electricity supply industry would therefore need Government assurance of amending legislation if there were such a legal challenge. The implication of paragraph 3 of Annex B is that the National Coal Board might have their EFL increased to enable them to supply cheaper coal to the CEGB who would then supply large industrial consumers directly; this, too, needs further examination.

10. It is not clear whether assistance of one-off schemes, as proposed in paragraph 8 of the paper, would be necessary if the main proposal of selective assistance to large industrial customers were to be implemented.

11. You will wish to establish how the £10 million to enable National Smokeless Fuels Limited to reduce the prices of their foundry coke would be found.

CONCLUSIONS

12. In the light of the discussion you will wish to reach conclusions on the general case for new measures of financial assistance to industrial energy users and on each of the particular proposals put forward by the Secretary of State for Energy.

13. You will also wish to commission further detailed work on each of the proposals which the Committee wants to be pursued. The aim would be to clarify the financial, legislative, and EC implications and to put forward firm proposals as a basis for implementation. You will wish to indicate how quickly this work should be completed; and this, in part, will be determined by the need to amend the Finance Bill in time. You might ask the Chancellor of the Exchequer to take the lead on those items involving amendment to the Finance Bill consulting the Secretary of State for Industry, who will be heavily involved in the selection of exempted industries, and the Secretary of State for Energy. The Secretary of State for Energy might take the lead for the remaining items consulting the Chancellor of the Exchequer and the Secretary of State for Industry and also, as necessary, the Secretaries of State for Scotland and for Northern Ireland.

RTA

Robert Armstrong

6 April 1981