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Qa 05384

To: MR LANKESTER

From: J R IBBS

9 June 1981

Industrial Electricity Prices

1. The note by the CPRS (MISC 56(81)11) which has already been circulated as a collective brief poses for Ministers a choice between risking the gradual loss of certain industrial sectors which are intensive users of electricity or alternatively providing them with price discounts during a transitional phase until electricity costs are brought to a level more competitive with those of our European partners. This improvement in costs would depend mainly on achieving low cost coal production and a better nuclear programme than hitherto. The paper takes a neutral stance on the feasibility of obtaining these improvements.

2. I feel I should make it plain that personally I believe that the consequences of not eventually catching up and having low cost electricity are potentially serious. I would be extremely reluctant to accept that such improvement is beyond us as the Department of Energy's paper (MISC56(81)9) seems to imply.

3. I am greatly disturbed by the conclusion (paragraph 27) of the Department of Industry's paper (MISC56(81)12) that "we tend as a country not to perform well in capital intensive sectors" and that electricity intensive industries therefore "seem unlikely to be outstandingly successful". My own experience is that we are quite able in well managed companies to be world competitive in suitably chosen capital intensive activities and that it is quite wrong to assume that we need be bad at them. The general technological trend in developing countries is towards greater capital intensity (and greater dependence on electricity), and if we are defeatist and fail to strive to be successful in this broad area (and fail to provide ourselves with low cost electricity as an



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important aid to this) we shall very seriously reduce our long term economic prospects.

4. I am sending a copy of this minute to Sir Robert Armstrong.

CONQUEROR