Ref. A05375

PRIME MINISTER

Industrial Electricity Prices

BACKGROUND

At their meeting on 10 June the Ministerial group on energy prices (MISC 56) agreed that a new general scheme of assistance with industrial prices should not be introduced, and invited the Secretary of State for Energy, in consultation with other Ministers where appropriate, to make proposals as necessary to reduce the prices charged to particular firms for their electricity supplies (MISC 56(81) 3rd Meeting, Item 1). In your summing up of the discussion, you said that the group were willing to consider some short term assistance to particular firms or plants in key sectors which were vulnerable to high electricity costs, and you noted that the Secretary of State for Energy judged that the cost of support in a few such cases might be in the order of £20 million. You were particularly concerned that assistance should be given at ICI's chlorine plant at Runcorn and that something should be done for private sector steel firms, notably Sheerness. At the same meeting the group agreed to action, which has now been implemented, to reduce foundry coke prices and they ruled out proposals for stimulation of industrial investment in energy conservation.

2. In his minute to you of 27 July, the Secretary of State for Industry reports that he and the Secretary of State for Energy have failed to conclude any one-off deals for selected firms, including ICI's Runcorn plant where negotiations had been thought to be well under way. The difficulty seems to be in part legal problems of undue preference under United Kingdom legislation, in part European Community constraints, and in part the Secretary of State for Industry's objections to picking and choosing a handful of beneficiaries on the basis of arbitrary criteria.

Anglesey?

3. Given the failure to agree on selective help, the Secretary of State for Industry now proposes that a general scheme, on the lines of that previously rejected, should be introduced. In his minute of 31 July the Chancellor of the

Exchequer opposes this on grounds of costs and of EC objections; in his minute of the same date, the Lord Privy Seal also points to EC difficulties in securing agreement to aids of this sort and in trying to do so at a time when the United Kingdom is trying to encourage the Commission to apply the provisions of the Treaties vigorously in dealing with aids and to secure economic pricing of energy.

4. The general scheme (paragraph 10(iii) of MISC 56(81) 6) involved a 10 per cent discount to all consumers with a maximum demand of over 1 megawatts and 50 per cent load factor (a 30 per cent load factor for firms in the iron and steel sector). It was intended to provide help for a good number of firms in the key industrial sectors identified as particularly vulnerable to high electricity costs: chemicals, iron and steel, paper and board, and textiles. It was tailored to ensure that assistance would also go to the smaller private sector steel firms using the electric arc process. In paragraph 4 of his minute the Secretary of State for Industry says that the present estimate is that 800 plants would be eligible for assistance and that this would cost between £80 million and £90 million, assuming that it operated for one year only.

5. MISC 56 previously ruled out this scheme because:

(i) It would be a substantial claim on the contingency reserve in the first year of operation and it was implausible to think that it could be switched off after one year.

(ii) Apart from Community objections, it would require domestic legislation if it were to run for more than oneyear.

(iii) It was questionable whether it would do the political trick of bringing current criticism to an end: although it would satisfy some beneficiaries it would be resented by others as insufficient or as not helping them at all.

(iv) It was thought better to wait until the NEDC considered the next report of the task force on energy prices in November and to take account of changes in the meantime in exchange rates and possibly in oil prices.

The Chancellor of the Exchequer and the Lord Privy Seal think that these objections still stand. The Secretaries of State for Industry and for Energy are likely to argue that, notwithstanding the objections, there is no doubt that companies are still exerting strong pressure on the Government for action; there have not been marked changes in sterling against either the deutschemark or the French franc, which are the currencies that count in this discussion.

6. Before either accepting that a general scheme should after all be introduced or ruling out any assistance, the group will probably want to probe further to establish whether some selective action could be taken. There seem to be two main possibilities:

(i) A discount on the electricity bills of selected firms which would be paid directly by the Government under the powers of the Appropriation Act, assuming the assistance was for less than one year, and which would not offend against the requirements on the coal and electricity industries not to exercise undue preference.

(ii) Finance under Sections 7 or 8 of the 1972 Industry Act, designed to help particular firms suffering from high electricity prices but not advanced specifically for that reason.

Assistance in either of these ways could not be given entirely covertly, and further thought would have to be given to the problems of avoiding overriding Community objections. Neither would avoid the difficulty of selecting beneficiaries but, as the group accepted last time, selection is necessary if a limited amount of financial help is to be made available to a limited number of plants or companies in key sectors.

7. MISC 56 was set up in April and, although very little has been achieved so far, the ground is well trodden. Your aim tomorrow will be to give a firm steer before the holidays either to a general scheme, or to a selective approach, or to dropping the idea of assistance altogether. If there is to be some form of assistance you will want to give instructions for the details to be worked out urgently including the best ways of overcoming the difficulties with the Commission.

HANDLING

8. You might first ask the Minister of State, Department of Industry (Mr Tebbit) and the Secretary of State for Energy to put their case for re-opening the group's decision against a general scheme. The Chancellor of the Exchequer

and the Lord Privy Seal will then wish to explain the public expenditure objections to this and the European Community problems involved in either a general or a selective approach.

9. The main questions you will wish to cover seem to be:

(i) Subject to overcoming EC problems, what is the scope for helping selected firms by:

(a) Direct Government subsidy of their electricity bills under the powers of the Appropriation Act?

(b) Assistance under Section 7 or 8 of the 1972 Industry Act?

(ii) If there are overriding objections to a selective approach, and again subject to overcoming EC difficulties, should a general scheme now be accepted?
The main objections are the cost and the fact that it would by no means satisfy all those firms which think they need help on this score.

(iii) Should the whole idea of assistance on industrial electricity costs be dropped?

CONCLUSIONS

10. In the light of the discussion you will wish to record conclusions on which of the three broad solutions listed above the group now endorses in principle.

11. If they agree either to a general scheme or to a selective scheme, or to keeping both options open for further examination, you will wish to invite the Minister of State, Department of Industry, and the Secretary of State for Energy, to arrange for their officials, in consultation with those of the Foreign and Commonwealth Office and of the Treasury, to work out a detailed scheme and, in particular to consider how best to deal with the European Community problems. You will wish to give them authority to consult, as necessary, both the Commission and the electricity supply industry.

RTA

ROBERT ARMSTRONG

3 August 1981