

of Mr Howell

It looks as if some reduction in electricity costs could be offered e.g. at smaller in England.

PRIME MINISTER

BOWATERS AND FUEL COSTS

We discussed energy pricing last week and, as you know, I shall be circulating a paper to colleagues. However, I have also been looking into the specific question you raised in the context of Bowater's paper mill at Ellesmere Port. I have also today met two MPs from the area, David Hunt and Barry Porter, about Bowaters.

The cost of energy is only one of the factors which the company have cited for their losses and their decision to close Ellesmere Port. Energy represents only about 15% of their total costs, and 60% of their energy costs are for coal which is offered to them by the NCB at the world traded price (£27 per tonne compared to US imported coal at £26.6 per tonne cif).

The company's main competitors do have an energy cost advantage, resulting from hydro-electric power in both North America and Scandinavia and open-cast coal mining in North America, which we cannot hope to match without high cost, long term subsidies. On coal, Canada and the US enjoy an advantage of some £10 per tonne over Ellesmere Port because the transport costs, to be added to low US production costs, are minimal.

The position on electricity supplies for Ellesmere Port is as follows. The Chairman of Bowater (UK) told the Chairman of the Electricity Council last week that electricity costs at the plant were approximately £2½m pa more than at comparable plants in Canada and Scandinavia. The plant's current annual electricity bill is of the order of £5m, and Tombs indicated that there was no prospect of a reduction by 50%. I understand the local distribution Board already sells to the plant at very little above cost.

Prime Minister

A negative response from Mr Howell on electricity prices to Bowater. We have fixed a meeting with Forestry Ministers and Conker to cover the forestry aspect next Wednesday. Would you like to cover this aspect ^{then as well?} (though it would have to be Mr Lamont as both Mr Howell and Mr Conker are away)

Alternating, you may wish to drop the electricity aspect - to my mind there is not much mileage in special help through this route; but cheaper electricity for industry generally is worth pursuing.

Th
12/8



CONFIDENTIAL

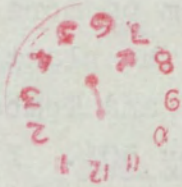
The enclosed energy efficiency test and, as you know, I shall be circulating a copy to colleagues. However, I have also been looking at the quality of the test results. I have also contacted the power plant at Williamsport. I have also today met the three test areas, David Hart and Peter Parker, about power.

The test of energy is only one of the factors when the company have their efficiency and their quality of those Williamsport. They have been very good in their test of energy, and it is very good. The test results are very good. The test results are very good. The test results are very good.

The company's main competitors do have an energy test average under 10% from hydro-electric power in both Williamsport and Williamsport and one test result in both Williamsport, which we cannot hope to match without this test. The test results are very good. The test results are very good. The test results are very good.

The position on electricity supply for Williamsport is as follows. The Director of Energy (DE) told the Chairman of the Electricity Board that electricity supply at the plant was very good. The test results are very good. The test results are very good. The test results are very good.

11 SEP 1980





- 2 -

I have considered whether the electricity industry, faced with a choice between selling to the plant at short run marginal costs or not selling at all (because its customer would be closed) might not choose the former course. There are two principal difficulties with this. First, the plant's electricity cost differential with Canada and Scandinavia is clearly not a short-run problem and a discounted tariff would probably have to be maintained indefinitely - a commercially unattractive prospect for any supplier, who will wish at some stage to make up for what he has foregone in lean times. And a discount of 50% would in fact mean pricing electricity at well below even the variable costs of supply.

The second difficulty concerns the industry's statutory obligations to avoid undue discrimination in their tariffs. Though not fully tested in the Courts, this would appear at the least to require that the Boards do not sell in selected cases at an actual loss. Nor would the undue preference clause appear to be met if, on a continuing basis they were to sell at a rate which covered only variable costs. The electricity industry, which would have to continue to cover its fixed overheads, could expect protest and legal challenge from other industrial, commercial and domestic customers not receiving favourable rates who objected to carrying what they would see as an increased burden.

The electricity industry does of course already charge differential rates which reflect the costs of supply at different times. Large industrial customers with appropriate load characteristics are able to benefit considerably from, for instance, cheap night units (which are priced very close indeed to the variable costs of production - mostly fuel) and from discount for managing their peak demand in a particular way. Especially where electricity-intensive processes are involved, the industry already tends to sell at a very low margin. I shall of course be pursuing these broader issues in more detail in my paper on energy pricing.



I am copying this minute to the Chancellor of the Exchequer, the Secretary of State for Industry and to Sir Robert Armstrong.

Jk.
2

SECRETARY OF STATE FOR ENERGY
10 September 1980

CONFIDENTIAL

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

15 September, 1980.

Bowaters and Fuel Costs

The Prime Minister has read your Secretary of State's minute of 10 September. She does not dispute the implicit conclusion that there is nothing that can usefully be done on electricity pricing to help Bowaters. But she believes that there is still some scope for a reduction in electricity prices in certain limited cases - for example, to supply the aluminium smelter on Anglesey.

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

J. P. LANKESTER

TR

J.D. West, Esq.,
Department of Energy.

CONFIDENTIAL



From the
Minister of State

Lord Trenchard

Copies to
PS/All Mins
PS/Sec
Mr Manzie
Mr Wright
Mr Lightman
Mr Smouha
Mr Avery
Mr Owen

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 7691
SWITCHBOARD 01-212 7676

The Rt Hon David Howell MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London SW1

15 September 1980

Dear David

Further to my letter of 4 September and correspondence on energy prices generally, you have suggested that the Bowater energy price comparison is special due to hydro-electricity and open cast coal advantages in North America and Scandinavia. I have suggested that hydroelectricity in most countries must be related to other energy costs and I have pointed out that coal, although an international commodity, has to be transported to the UK and this makes approximately £10 per ton difference.

I called on Kimberley-Clark at Prudhoe on Friday, one part of paper and board still making a profit, and asked whether they had energy cost comparisons for broadly comparable operations. They had just completed them for gas and electricity and I attach copies. They assured me that the comparisons were broadly comparable in terms of sizes of plant and dating of contracts.

I told you about the Unilever answer to my enquiry, which I understand they have now agreed to put into the CBI enquiry.

I think the Bowater case is made out that, apart from any special factors, there would be several £m per annum advantage if their energy costs were comparable with the Continent let alone Scandinavia and the USA.

I repeat again that if they could be assured that it was our policy to ensure broadly competitive energy prices in general, then I believe they might well change their essentially long term decision.



I accept of course that energy prices are not the whole story by a long way and we have yet to make clear publicly that they agreed that they could make a profit after investment in a chemical pulp mill, but they will not do so while they have what they term a permanent disadvantage of this size (and the exchange rate on top).

I think that a general policy statement, rather than a special concession which is clearly not on, could do the trick.

I am copying this letter to Peter Walker and Jim Prior as well as Keith Joseph, in view of their interest in the Bowater situation.

*yours
Tom*

LORD TRENCHARD



Nationalized Industries
Ind Pol. out
BF 29/8/80
See previous B/F

10 DOWNING STREET

From the Private Secretary

26 August 1980

Further correspondence
and BF action on Energy
Prices are filed on
NAT. IND: Gas + Electricity prices
Part 2.

On 11 August I wrote to you about international comparisons of energy prices to industry, and asked for briefing for the Prime Minister by the end of August.

The Prime Minister has now seen a copy of the letter of 18 August from Lord Trenchard's office about Bowater's Paper Mill at Ellesmere Port. She has commented that almost all commercial concerns sell some of their output at rock bottom prices, and sometimes below cost, to keep up the volume of sales and distribute their overheads. She has asked whether the Electricity Council does anything like this.

I should be grateful if you could take these comments into account in preparing the advice for which we have asked.

I am copying this letter to Ian Ellison (Department of Industry), John Wiggins (HM Treasury) and David Wright (Cabinet Office).

N. J. SANDERS

J.D. West, Esq.,
Department of Energy.



Press Office

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 -7691
SWITCHBOARD 01-212 7676

A blow
to Merseyside
MS
19/8

From the
Minister of State

Lord Trenchard

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
London SW1

*(I must speak to
about micro: Almost
all commentaries - sell to my
then output of news - hollow
prices (sometimes below cost)
to help up the volume of sales
and cheaper distribution. How
in the industry? How far
could doing
this?
not.*

18 August 1980

Dear Secretary of State,

BOWATER'S MERSEY MILL, ELLESMERE PORT

Following my letter of 6 August Mr Popham, Managing Director of the Bowater Corporation and Dr Lenton, Chairman of the Bowater UK Paper Company, met me on Friday 15 August to give their response to the proposals outlined in that letter for supporting the re-equipment of Ellesmere Mill as an alternative to closure. They made it clear that they would still not feel justified in changing their decision and their Board decided this morning to announce tomorrow afternoon that the mill is to close.

2 At our meeting Mr Popham said that the Bowater Board had carefully considered the investment proposals for Ellesmere, taking full account of the "package" of assistance outlined by the Department to the company. However, they did not believe that these proposals represented a sound long-term investment. While accepting that the exchange rate would readjust in the long term to reflect the competitiveness of UK industry, Mr Popham said that Bowater did not foresee any substantial narrowing of the £7-8m differential in wood and energy costs between Ellesmere and its North American competitors. He added that since my last meeting with Dr Lenton Bowater had acquired further information which led them to conclude that the savings associated with building a sulphite pulp mill would be £1-2m less than originally anticipated.

3 I suggested to Mr Popham that a decision of this nature must be a long-term one, looking to economic recovery beyond the present recession. Unless multi-nationals such as Bowater showed some confidence in the long-term economic outlook and in this Government's policies their fears about our national economic prospects could be self-fulfilling. Although Bowater could not expect special concessions on energy prices the Government was giving urgent consideration to the general problem of UK energy prices compared with those of its competitors.



4 It is my view that the Government offered Bowater a real and genuine alternative to closure. The assistance outlined was the maximum possible under the Industry Act and the Forestry Commission went as far as they could without offering the company a non-commercial wood price. I find it disappointing that Bowater has nevertheless decided to close the mill.

5 Lord Erroll, Bowater's chairman, has written to me confirming the decision. The company remains committed to this country as part of its manufacturing base (having invested £75m here over the last 3 years) and our discussions will strengthen its resolve to persist with its other paper mills here "in the face of adversity". He adds that the closure could be reconsidered during the 3-month period of notice before closure if something really significant should happen on energy prices.

6 If the Department is asked, following the announcement, about the Government's rôle, I propose to say that we were willing within our existing policies on investment aids to support the modernisation of the mill, but that we were unable to subsidise uneconomic production.

7 I would only add that the case further underlines the urgency of reviewing the burden of energy costs on our manufacturers.

8 I am copying this letter to the Prime Minister, colleagues on E(EA), Peter Walker and Sir Robert Armstrong.

Yours sincerely,

Heather Archer.

LORD TRENCHARD

(Approved by the Minister
+ signed in his absence)

119 AUG 1980





FROM THE
PARLIAMENTARY SECRETARY

DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ

01-211 3000

Ind Pol.

2

PRIME MINISTER

To see

MS

12/8

The Viscount Trenchard MC
Minister of State
Department of Industry
Ashdown House
123 Victoria Street
SW1E 6RB

11 August 1980

ms

Dear Tom

BOWATER'S MERSEY MILL, ELLESMERE PORT

I have seen your letter of 6 August to Sir Keith Joseph, following our discussion in E(EA) and your meeting with Dr Lenton.

It seems fairly clear from the terms of Dr Lenton's response to you that Bowater's decision on Ellesmere Port will not turn wholly on the relative cash flow advantages of closure versus continuation, and that, if they do decide on closure, they are likely to point to energy costs as a contributory factor in their decision - despite the very generous terms of the Industry Act assistance that you have offered, which would hold out clear prospect of future profitability for the mill.

If Bowaters do decide on closure and take the line foreshadowed by Dr Lenton, I hope we can make it clear that the Government's approach to energy pricing is that it should reflect the economics of supply and demand, and that we cannot hope realistically to bridge the gap between fuel costs here and in North America. This is not, indeed, a new factor in the situation and it will be cause for legitimate surprise if Bowaters do turn down the opportunity to make profits which your offer holds out to them.

I am copying this letter to the Prime Minister, colleagues on E(EA) and to Sir Robert Armstrong.

G - -
Norman

NORMAN LAMONT

DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH

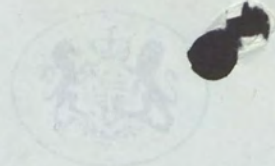
MILLBANK
LONDON SW1P 4QJ
172 AUG 1980

PRIME MINISTER

1000

MP

12/8



FROM THE
PARLIAMENTARY SECRETARY

The Secretary of State
Department of Energy
Thames House South
Millbank
London SW1P 4QJ



HOWARD, JAMES EARL, BIRMINGHAM PORT

I have read your letter of 5 August to Sir Keith Joseph, following our discussion in July, and your meeting with Sir Ianor.

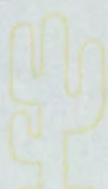
It seems fairly clear from the terms of Dr Ianor's response to you that Bowyer's position on Elsasens' Port will not turn out to be as simple as the impression of a casual visitor might give, and that, in fact, the basic principle, that the right to port to Elsasens' Port is a central factor in their position - despite the very real and serious possibility of assistance that you have offered, which would help out their financial position.

If Bowyer is to receive an honour and take the line forward by the Ianor, I am sure we can take it clear that the government's approach to Elsasens' Port is that it should reflect the economic of supply and demand, and that we should hope to establish a price for the port which will cover the costs here and in North America. This is not, however, a new factor in the situation and it will be cause for surprise if Bowyer is to push down the government to make profits which your other holds out to him.

I am copying this letter to the Prime Minister, colleagues on (S) and to Sir Keith Joseph.

Howard

HOWARD EARL





DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 7691
SWITCHBOARD 01-212 7676

From the
Minister of State
Lord Trenchard

*Keith Joseph
in letter*

*Am...
Bowater are considering*

*Dol's offer of assistance, but
the prospect of their taking it*

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
London SW1

*6 August 1980
up don't look very bright.
I have asked for a report
on the energy pricing issue.*

ms

Dear Secretary of State

BOWATER'S MERSEY MILL, ELLESMERE PORT

*TL
7/8*

When I reported on the threat of closure of Bowater's newsprint mill at Ellesmere Port last week it was agreed that if the negotiations with the company for an assistance "package" based on Industry Act assistance for new investment seemed likely to fail I should report back to colleagues.

I met Dr Lenton, Chairman of Bowater (UK) Paper Company, today and presented to him a memorandum summarising the assistance under the Industry Act he could expect to be available in response to the Bowater investment plan which we found his staff had already developed, as well as the negotiated reductions in wood and energy prices which Bowater would be able to secure from the Forestry Commission and the National Coal Board. In brief the effect of the total assistance under discussion should, depending on the assumptions, put the Ellesmere Mill in a position to earn profits from 1984 onwards of £10m per annum and a positive cash flow of £10m as we believe (or profits of £6m per annum and cash flow of £6m as Bowater suggest). This would of course involve the company in investment, but at no additional cash cost to the alternative of closure.

In my view the Government have now offered Bowater a real and genuine alternative to closure but one which involves the company itself in a commitment to invest at the mill and thus improve performance and productivity.

Dr Lenton's reaction today was that he could not recommend such an investment to Bowater. He argued that the Government should offer reductions in wood and more particularly energy prices to substantially cover current losses (£6-7m per annum) and that



without such reductions Bowater could not contemplate investment at the mill. He reminded us that on current energy prices he was at a disadvantage of some £5m per annum over the average of North American and Scandinavian costs.

I told Dr Lenton that I did not accept that his company or the paper industry could expect special concessions on energy prices. I did however suggest that on a long-term decision of this nature it would seem prudent to give a little time to see what transpired in relation to the current debate about energy prices. I regretted his reluctance to consider positively investment at Ellesmere Port. I have therefore written today to Lord Erroll, the Chairman of the Bowater Corporation, and Mr Popham, the Managing Director, to make clear the Government's position. I expect a considered response from the Bowater Corporation next week, though in view of Dr Lenton's remarks today I have no grounds for optimism but believe that large British corporations like Bowater might be prepared to bear the present rough times now that we have a plan which we agree can take them out of loss. On the current exchange rate they are I believe making excellent profits in North America.

It is my view that the Government should not go further than we have already done in the offer of financial assistance to Bowater to encourage them to undertake investment in this Special Development Area at a cash cost to Bowater of no more than the closure option. If Bowater are determined to close the mill and unwilling to invest this should be accepted. I shall make clear that it would be a decision that the Government would not find easy to support or defend.

I am copying this letter to the Prime Minister, colleagues on E(EA) and to Sir Robert Armstrong.

Yours sincerely

P E Musgrave

pp LORD TRENCHARD

(Approved by the Minister
and signed in his absence)