

Nat Inds



Chancellor of the Duchy of Lancaster

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

28 July 1980

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De David

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PRIVATE ELECTRICITY GENERATION

Your statement to the House on 21 July during the debate on public sector industries about removing the statutory prohibition on the generation of electricity has not unnaturally aroused a good deal of interest. I would normally expect to have been consulted about such a statement in advance, particularly when, as with this statement, there are legislative implications.

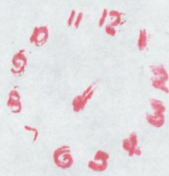
I see that some commentators have assumed from your statement that the Government will be introducing legislation next session. I am sure you would have consulted me about this if this had been your intention, and you will no doubt wish to make clear in any follow-up comments that the Government have no firm commitment on timing. Certainly, I do not at present see a suitable opportunity for this legislation next session. A new bill would add to the four you already have in the programme and would go against our intention, agreed at Cabinet, to lighten the burden of legislation. Nor do I think it can conveniently be added to any of your bills at present in the programme. Its addition to your Energy Conservation Bill would I suspect add a controversial element to what we hope will be otherwise a largely uncontroversial bill and might well affect its handling (I think the Lord President would like the Bill to start in the House of Lords) and its prospects in both Houses. I hope, therefore, the necessary legislation to implement your statement can be considered in the context of the legislative programme for 1981-82.

I am copying this letter to the Prime Minister, the Secretary of State for Industry, other members of E and E(DL) and to Sir Robert Armstrong.

John R.

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

29th JUL 1980



Mr. Howell: I am dealing with the major problems posed by the existing nationalised industries. I shall come to those parts that could attract private capital or just as easily be in the private sector. My right hon. Friend will have more to say on that matter.

It is important to set three-year financial targets. Industries that fall within my responsibility have had such targets set. Compared with the one-year ad hoc targetry of the previous régime, which was a significant handicap in planning their business, the changes have been of benefit to the industries and enabled them to plan sensibly for a dangerous and uncertain energy future, where huge investments will be required to meet the turbulence created by the 145 per cent. increase in world oil prices in the past 11 months.

We are also pledged to establish performance targets, which will be of significant help to the industry, satisfy the Government and the taxpayer and help the customer to judge the standard of service that he is receiving.

The nationalised industries chairmen's group has put certain arguments to the Government and the taxpayer and help cash limit system, particularly over the way in which investment is treated. My right hon. and learned Friend the Chancellor of the Exchequer told the House that the Government were ready to consider with the nationalised industries chairmen possible modifications, and we are doing so.

Another important and overdue change that the Government have made in handling nationalised industries is the provision in the Competition Act which, for the first time, makes it possible to refer nationalised industries' activities to the Monopolies and Mergers Commission for investigation. That power has already been used over computer rail services, the Severn water authority and the Central Electricity Generating Board. In other areas, such as telecommunications, about which my right hon. Friend made an excellent speech this afternoon, and the postal services, we are widening exposure to competition, which will be of great benefit to the public, customers and the industries. I am glad to confirm our intention to remove the statutory prohibition on the generation of electricity

as a main business as soon as a suitable legislative opportunity arises.

In all those respects we are determined to make nationalised industries more efficient, more responsive to the needs of the taxpayer and the customer and more able to run their businesses within the strict financial and performance criteria that the Government must set.

I have said that the Government are firmly of the view that the public sector is over-extended, and we want to restore the balance. The right hon. Member for Devonport became obsessed with the word "doctrine". The imbalance and the tilt towards massive over-extension of the public sector has arisen as each Labour Government have rushed with renewed enthusiasm into further and more disastrous ventures of public ownership. We are committed to reducing the extent of State activity. My right hon. Friend will go into the detail of the progress that we have made in restoring the balance and rolling back the extended frontier of the public sector and the plans we have for the future.

I wish to draw the attention of the House to one project in the energy area that constitutes a milestone in the journey onward from the stale principle of nationalised everything—the gas gathering pipeline proposed for the North Sea. As proposed by the Government, that scheme will involve the first private sector utility in this country for many years. It offers a major opportunity for sources of private finance to step in and take the burden off Government borrowing and the taxpayer. It should be welcomed on all sides of the House, although, needless to say, there has been a deafening silence from the right hon. Gentleman.

The right hon. Gentleman returned understandably to his concern over unemployment, which we all share. As far as I understand his remedies and the proposals in the motion, they would make an ugly situation far worse. Everyone who bothers to stop and think knows that the bellows approach—puffing up demand by monetary inflation—is useless. In his more courageous days, that was the firm view of the previous Prime Minister and the right hon. Member for Devonport, although he tends to keep his views on these matters to himself. It was also the view of the right hon. Member for Leeds, East

[Mr. Howell.]
for a brief Camelot period, until he reverted to a damp neo-Keynesianism, which had nothing to do with the views of the late Lord Keynes.

Everyone knows that nations like ours must look to smaller and newer enterprises, providing products and services that may not have been even heard of or categorised in Whitehall officialdom, for the jobs and prosperity of the coming years. It is hard to envisage anything less appropriate for Britain than lumbering us with the reactionary centralism offered by the Opposition in their motion, which has nothing to do with the needs of the economy in the 1980s.

The nation wants no more nationalisation. It wants less. I suspect that the right hon. Member for Devonport and some of his friends want no more of it either, although they need to fight quickly and courageously if their views are not to be swamped. What we have heard today from the Opposition is the intellectual flotsam of the past. It has no place in a creative and better future. The right hon. Gentleman and his right hon. and hon. Friends continually express fears for the future, but I suspect that they are not fears that we shall fail but that we shall succeed—as we shall.

4.58 pm

Mr. David Watkins (Consett): There is not a single publicly owned industry in the country that is not under attack and being damaged, perhaps irreparably, by this Government's policies. Among the welter of damage and destruction, no industry is more severely under attack than the steel industry. Perhaps one omission in a speech notable for omission of anything remotely relevant to the debate is hardly surprising, but it is interesting to note that the Secretary of State made only a passing reference to the condition of the steel industry in 1945.

My constituency is heavily dependent upon the steel industry. It will be more affected by the Government's damaging policies in closing down large sections of the industry than any other place where closures are proposed. I am not minimising the serious effects of steel closures wherever they take place.

I note that the Secretary of State for Industry has not graced or troubled us so far in the debate. The right hon. Gentle-

man constantly wrings his hands about what he says will be the terrible effects of the shutdown of the Consett steelworks, yet he acquiesces in the unjustifiable closure of Consett and does everything he can to encourage it. Indeed, the whole Government seek to encourage the closure with all the means at their disposal.

This policy will be socially disastrous. It will put 3,700 steel workers out of jobs plus many hundreds in dependent occupations. My right hon. Friend the Member for Plymouth, Devonport (Dr. Owen) said in his able opening speech that there is an inevitable linkage and interaction between the publicly and privately owned sectors of industry. Many of the hundreds of additional jobs that will be lost as a result of the shutdown at the Consett steelworks will be in private firms that depend for their existence on contracts with the BSC works at Consett.

The shut-down of the steelworks will devastate an entire community and send shock waves of increased unemployment through, for example, coal mining and transport throughout the North-East of England, a region that has already been savagely hit by the Government's policies.

If the policy is disastrous on social grounds, it is deplorable on economic grounds. We are not talking of an old run-down plant that is working at a loss. It is a modernised, efficient and profitable plant with one of the best productivity records in Europe. The productivity of the Consett steelworks is about 240 tonnes of liquid steel per man year. The BSC average is 140 tonnes and its target is 180 tonnes. Consett is already performing well above the corporation's target figure, at a level that compares favourably with that of Germany, which has one of the most productive steel industries throughout Europe.

Consett is meeting all the criteria that have been laid down by the Government for survival but, seemingly, that has not been welcomed by the Government. The Government appear to be doing their best to discredit Consett's success in meeting their criteria. In reply to me in the House the Prime Minister has made great play of the fact that the Consett plant was unprofitable between 1975 and 1979 and that it became profitable only in the last quarter of 1979. Nobody is disputing that. How on earth could it become profitable until the loss-making

Mr. Neil Marten: The country papers and summaries will be placed in the Library immediately and the report as soon as it is available.

Somalia

73. **Mr. Brocklebank-Fowler** asked the Lord Privy Seal what contribution his Department is making to alleviate suffering amongst refugees in Somalia; and if he will make a statement.

Mr. Neil Marten: We have pledged a contribution of £850,000 for refugee relief in response to the international appeal by the UN High Commissioner for refugees, a large part of which will be provided as 5,000 tonnes of bilateral food aid. The British share of the food aid and emergency assistance provided to Somalia by the European Community since December 1979 amounts to over £2,200,000.

Tropical Medicines Research

Mrs. Renée Short asked the Lord Privy Seal what funds his Department provided for the work being carried on by the Tropical Medicines Research Board over the past few years; and what effects he expects Government spending cuts to have on this work.

Mr. Neil Marten: I refer the hon. Member to the reply given to her on Friday 11 July.

Zimbabwe Aid

Mr. McQuarrie asked the Lord Privy Seal if he will ensure that some part of the £75 million aid which it is proposed to grant to Zimbabwe over a three to four year programme should be provided in the form of canned fish products which have been processed in Scottish factories.

Mr. Neil Marten: Our aid programme to Zimbabwe is being allocated by agreement with the Zimbabwe Government; but there are no plans to devote any of it to the provision of canned fish or other food.

ENERGY

Electricity Supply Industry

Mr. Mudd asked the Secretary of State for Energy whether he has now considered the organisation of the electricity

supply industry in England and Wales; and what are his proposals.

Mr. David Howell: I have given careful consideration to how the electricity supply industry should be organised in England and Wales. I have consulted widely in the industry and have heard the views of other interests.

The industry's present structure dates from the 1957 Electricity Act and comprises 13 statutory boards—the Central Electricity Generating Board and 12 area boards—and the statutory Electricity Council which acts as a confederal body for the industry as a whole. It is the council's duty to advise me on questions affecting the industry and to promote and assist the maintenance and development of an efficient, co-ordinated and economical system of supply. In 1976 the Plowden committee recommended the unification of the industry into a single corporation. The last Administration published their proposals for such a corporation in a draft Bill which was the subject of pre-legislative hearings and a report by the Select Committee on Nationalised Industries towards the end of the last Parliament.

The question of the industry's organisation is not a new one. The need to strike a proper balance between healthy local independence and strategic decision-making at national level, and between generation and distribution, has been a theme for many years. The balance is not easily struck. Certainly, the creation of a large single corporation unifying the 13 boards and the council would carry significant risks of over-centralisation.

It was with this in mind that I informed the House last July that, although I did not rule out legislation to effect desirable change in the industry if it were necessary, I preferred to seek improvements if at all possible without it. I have now concluded that improved working arrangements of the kind I wished to see can be developed within the existing statutory framework.

For both technical and economic reasons the industry is divided into the generation and transmission of electricity through a high voltage grid, organised on a national basis on the one hand and its distribution by area boards on the other. I have not been persuaded that any benefits from bringing generation

and distribution together in a unified corporate structure would outweigh the risk of over-centralisation.

I have been impressed by the extent of co-ordination and co-operative working that already exists in the industry. I propose to build on the progress that has been achieved and, within the terms of the existing legislation, to develop relationships between the council and the boards, strengthening the co-ordinating and advisory role of the council and of its chairman, whom I regard as my main policy adviser within the industry, in the development of industrywide policies. I also look to closer links between the boards, particularly at local levels. The statutory responsibilities of the council and the boards will of course remain as defined by the relevant statutes. I have been assured by the council and the individual boards of their commitment to my policy. In particular, there is agreement to develop co-operative working in the following ways:

—when consulting the Electricity Council on capital programmes and tariff proposals the generating and area boards will provide full information on the underlying assumptions and costs relating to those programmes and tariff proposals bearing in mind the council's duty of advising me on the maintenance and development of efficient supply by the industry. I will seek specific comments from the council before approving capital programmes;

—the Boards will co-operate with the council in the development of an improved financial reporting system;

—the council will advise me on the further development of physical, technical and financial measures of performance by the boards;

—the council will review with the generating board and the area boards the structure of the bulk supply tariff with a view to considering whether changes are desirable and will report its conclusions to me;

—the boards will co-operate with the council in developing arrangements to encourage transfers of managerial staff between the two sides of the industry;

—the chairman of the generating board and the chairmen of the area boards will promote closer contacts between CEBG regions and the relevant area boards.

In my consideration I have very much had in mind the industry's relations with its customers. I value the close links which exist between the area boards and the communities which they serve and wish them to continue their efforts to improve customer relations at all levels. The industry has large responsibilities and I hope that senior members of the area boards and CEBG management at

regional as well as national level will continue to improve public understanding of the nature of their tasks, and their efforts to provide an economical, safe and efficient public service.

Finally I would like to thank all those in the industry both from management and the unions who have given me advice on this subject over the past months. I am conscious that widely different views are held. I believe however that all concerned will now work together to make improvements within the industry's existing statutory framework.

Power Station Manning Levels (International Comparisons)

Mr. Bright asked the Secretary of State for Energy if he will publish figures comparing manning levels in British power stations with those in France, West Germany and the United States of America.

Mr. Norman Lamont: Meaningful comparisons for power station manning levels in different countries are not available. The industry is pursuing methods of making valid international comparisons in this field.

Power stations in Scotland are the responsibility of my right hon. Friend the Secretary of State for Scotland.

Energy Policy

Mr. Skinner asked the Secretary of State for Energy if he will publish a regular policy statement to Parliament regarding energy prospects with all the alternative options for supply and conservation fully set out and costed.

Mr. John Moore: Our energy policy has been set out in a number of statements and speeches. My Department already publishes a good deal of the information requested. I would refer the hon. Member, amongst other publications, to "Energy Projections 1979" and "Energy Paper No. 39".

Oil-Fired Capacity (Conversion)

Mr. Whitehead asked the Secretary of State for Energy when oil-fired capacity will be converted to other fuels; and what revision of this programme is intended, following the Venice pronouncements.

cc/A August



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FROM THE LEADER OF THE HOUSE
HOUSE OF LORDS

8 August 1980

The Rt Hon David Howell, MP
Secretary of State for Energy
Thames House South
Millbank
LONDON SW1P 4QJ

Dear Secretary of State,

PRIVATE ELECTRICITY GENERATION

I have seen a copy of Norman St John-Stevas's letter to you of 28 July.

Next Session's Energy Conservation Bill is certainly one which I consider a strong candidate for early introduction in the Lords. It is vital that to achieve a better balance in next Session's programme, we agree that a good number of Bills are introduced in this way. Like Norman, I hope that nothing will be added to the Bill which might jeopardise introduction here.

I am copying this letter to the Prime Minister and to the other recipients of the letter from Norman St John-Stevas.

Yours sincerely,
J. Incheery.

Dictated by the leader.

SOAMES

11 AUG 1980



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SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLEBANK LONDON SW1P 4QJ

01 211 6402

The Rt Hon N St John-Stevas
Chancellor of the Duchy of Lancaster
Privy Council Office
Whitehall
London
SW1A 2AT

6th August 1980

De Anna

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PRIVATE ELECTRICITY GENERATION

Thank you for your letter of 28th July about my recent statement of our intention to remove the prohibition on the generation of electricity as a main activity.

I had discussed the proposition for some months with Keith Joseph and others and obtained the agreement of the Prime Minister and members of E and E(DL) to making an announcement in principle about our proposal.

I am sorry that I did not warn you in advance of my intention to include the announcement in the debate on Monday 21st July. However, I did say then that we would propose taking this step when a suitable legislative opportunity arose, and I did not wish to suggest that immediate action would follow. Therefore, when making bids for 1981/82 later this year I will include relaxation of the prohibition on private generation, unless there happens to be an earlier and convenient opportunity for bringing in the necessary changes, when I will of course consult you.

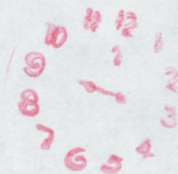
I am copying this letter to the Prime Minister, the Secretary of State for Industry, other members of E and E(DL) and to Sir Robert Armstrong.

D A R HOWELL

Howell

David

- 8 AUG 1980



~~cc~~ A Inghid.

VMS

01 211 6402

Lord Soames
Leader of the House of Lords
House of Lords
LONDON SW1

27 August 1980

Dear Amintor

will request
Inghid

Thank you for your letter of 18 August in which you propose that legisla-
tion to relax the prohibition on electricity supply as a main business
activity should not be included in the Energy Conservation Bill. You
will since have seen my letter of 8 August to Norman St John Stevas in
which I indicated that I propose to include this measure in our legisla-
tive bids for the 1981/82 Session, unless an earlier opportunity arises.
In considering any such opportunity, I will of course keep in mind the
desirability of introducing Bills in the House of Lords where possible.

I am copying this letter to the recipients of yours.

Yours

D A R Howell

Dan!

22 AUG 1980

