

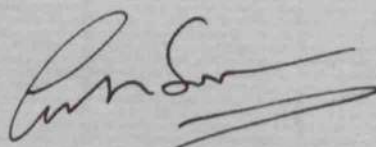
CONFIDENTIAL

PRIME MINISTER

10 June 1988

ACID RAIN: LARGE COMBUSTION PLANTS DIRECTIVE

1. Mr Ridley has written to you proposing that we should accept a Germany Presidency proposal involving a commitment to a 70 per cent reduction in SO<sub>2</sub> emissions by 2003, in return for less rigorous UK targets in 1993 and 1998. This could pave the way for agreement on the EC Large Combustion Plants Directive at the Environment Council on 16 July.
2. Mr Ridley's arguments are telling. Although acceptance of a 70 per cent reduction by 2003 could cost £670m-£775m in lost profits (£250m-£285m in tax receipts foregone), the benefit in terms of certainty for the industry would outweigh this. Uncertainty poses more of a threat to successful privatisation of the electricity industry than costs of this order. And it might be possible to strike a deal costing slightly less.
3. We think that the cost of adapting existing power stations, via retrofits, should be passed on to consumers (adding no more than  $\frac{1}{2}$  per cent to electricity prices). In due course the cost of building new power stations fitted with low acid technology will simply be part of the industry's costs, passed on in the usual way.
4. We recommend that you agree to Mr Ridley's proposal.



CAROLYN SINCLAIR