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PRIME MINISTER

I attach an article from today's "Economist" reporting on your forthcoming seminar on global climate. It has sparked some interest from PA and is likely to run in at least some of the Sundays.

The Economist was already fairly well briefed when they approached us. Bernard and I saw no harm in confirming who was coming and the overall purpose of the day. (This was bound to become public with an invitation letter going to more than forty people.) That is the first half of the Economist article. The second half is more speculative and less helpful since it equates action with "more money from Government".

In speaking to the Sundays, Bernard has been at pains to get across that this Seminar is about improving the consensus in this country on the scientific position, and it is on the basis of that that it would be right to consider what action is appropriate.

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7 April, 1989.

were themselves the subjects of a DTI inspectors' report in 1976, they had no such protection. They were criticised for a cavalier approach to company expenses and for contravening the government's economic sanctions against Rhodesia. On that occasion, the inspectors' report was handed to the press at the same time as it was referred to the DPP for possible criminal proceedings.

A number of other arguments have helped dissuade Lord Young and his colleagues from publishing the report:

- Before the *Observer* leaked extracts, ministers in the DTI took the view that publication would allow the Labour party to accuse them of jeopardising the rights of any defendants to a fair trial.
- Since the *Observer*'s leaks, indignant ministers do not want to give the impression of being bounced into publication.
- The government has already gone into court arguing that it is justified in not publishing the report—the case goes to the law lords on April 10th—and does not want to anticipate their decision.

If the law lords tell Lord Young to publish, he will breathe a sigh of relief and obey. If they order him not to do so, he will also be in an easier political position. The report's contents are not expected to be damaging to the government. Indeed, some Tory backbench MPs are relieved that the government is blessed with such a distraction from the weightier issues of the economy or the national health service.

Yet the handling of the report has made the government look fumbling and unprepared. Lord Young, a minister who has never had to face an election, has a meagre reservoir of affection and support among Tory backbenchers. The Harrods affair will not have helped his political career. ■

Environment

Green thoughts

Yes, green she is and by God she is going to prove it. Eight cabinet ministers have been summoned by the prime minister to an all-day seminar on climatic change on April 26th. They are the foreign secretary, the chief secretary o the Treasury, the agriculture minister, ind the secretaries for the environment, inlustry, education and science, transport ind energy. The seminar is intended to eduate them on climatic change and global varming. It has been arranged by Mr David isk, chief scientist at the Department of the nvironment. No excuses or substitutes will e accepted and Mrs Thatcher herself will pen and close proceedings.

An Australian physicist, Professor Tom Vigley, director of the climatic research unit the University of East Anglia, will open ie discussion with dire predictions of the npact of the greenhouse effect on the sea vel. His own university in Norwich could one of the first to be inundated.

Mr Ken Currie of the Energy Technolgy Support Unit at Harwell will then deribe what the rich world could do to mitite the effects. Sir Crispin Tickell, Britain's nbassador at the United Nations, who is pidly developing the sort of rapport with Mrs Thatcher that Lord Cherwell had with Churchill, has been summoned from New York to describe how the rest of the world can be brought into line.

Mr Martin Holgate, formerly chief scientist at the environment department and now director general of the International Union for Conservation of Nature and Natural Resources based in Geneva, will summarise the possible action to be taken—a role which he performed brilliantly at the recent London ozone conference.

Others attending may include Lord Marshall, chairman-designate of National Power, the larger of the two privatised electricity-generating companies; and Sir James Goldsmith, an international financier who has become increasingly interested in environmental issues. Sir James has been lobbying the prime minister for a scheme to use official aid money to buy up Third World debt, sell off the principal, and swap the right to interest payments for a lease on tropical rain forests.

Ministers have generally failed to grasp the implications of Mrs Thatcher's conversion to the cause of the environment. Only Mr Kenneth Baker, secretary of state for education, said promptly, "more money" and put in successfully for a rise in the science-research budget.

Some ministers, including Sir Geoffrey Howe, the foreign secretary, are simply not interested in environmental issues. Others have had difficulty in taking their departments with them. The minister in charge of the Overseas Development Administration, Mr Chris Patten, is a keen green, and helped to write Mrs Thatcher's how-green-I-am speech to last year's Tory party conference. But his department has been slow to ask for more cash for environmental aid to the Third World.

One project being reconsidered in the wake of the prime minister's conversion is Britain's contribution to a European scientific space satellite. Britain dropped out of the project when the space-research budget was cut last year, but the satellite would be particularly useful for monitoring the destruction of the Amazon forest and other aspects of climatic change.

The minister most in need of re-education, according to some of his Whitehall colleagues, is Mr Cecil Parkinson, the energy secretary. He and his department have been reluctant to discuss ideas for energy conservation, claiming that sulphur emissions from power stations have declined since 1979 (and ignoring the fact that they have risen since 1984, a side effect of faster economic growth). In particular, the energy department has been reluctant to talk about a carbon tax, an idea which Mr Nicholas Ridley, the environment secretary , has said in cabinet that he is keen to explore. The purpose of such a tax would be to make forms of energy which emit carbon dioxide, and thus contribute to global warming, more expensive compared with those (such as nuclear power) which do not.

The prime minister is still basking in the success of last month's conference on the ozone layer. One sign of its international impact has been a new willingness on the part of the Soviet Union, not traditionally regarded as an environmentally sensitive nation, to follow whatever lead the British set in getting rid of chlorofluorocarbons (CFCs). The conference has helped to establish the ministries most immediately concerned with organising it, the Environment Department and the Foreign Office, as the leaders in devising new environmental initiatives. The Foreign Office earned plaudits for roping in so many ministers (a total bag of 80), while Mr Ridley's visit to China in January was responsible for the important participation of the Chinese.

Mrs Thatcher is now anxious to find another equally striking initiative. She is keen on the idea of an international convention on the atmosphere. Before her conversion, she would doubtless have insisted on waiting for the results of a number of studies being conducted by an international panel on climatic change set up by the World Meteorological Organisation and the United Nations Environmental Programme. The panel is due to report late next year. But it now looks as though pressure for earlier action may surface at the United Nations in the autumn, led by Canada and Malta. Mrs Thatcher may feel it would be politically astute to take a lead in getting a convention under way.

This would involve the government in thinking about the need for new international institutions to oversee such a convention. One idea, being mooted by some of the Russian representatives at the United Nations, is that the UN's trusteeship council, set up to look after colonies en route to independence, be converted into a trusteeship council for the planet.

The danger for such grand schemes is that the developed countries will think up targets for the rest of the world to meet, without fully considering the implications for their own domestic policies. One effect of Mrs Thatcher's seminar may be to fix that point firmly in the minds of her ministers.

State industries

The rate for the job

SINCE the publication of the white paper on nationalised industries in 1978, Britain's public-sector companies have been required to make a pre-tax real return of 5% on their new investments. At the time, this looked reasonable enough: private-sector industrial and commercial companies (excluding North Sea operations) made a real return of 7% in 1978. Come 1981, and the deepest recession since the 1930s, a 5% rate of return looked downright demanding: by that time, Britain's private sector was returning just 3%.

The boom years of the 1980s, however, have seen private-sector profitability soar. Private rates of return have risen every year since 1981; in 1988 they hit 11%. Remember that this is the average rate: new investments should do better still. With the opportunity cost of capital so high, the Treasury reckons Britain's remaining public-sector industries ought to appraise their investments against a more realistic yardstick. On April 5th Mr John Major, chief secretary to the Treasury, announced that nationalised industries will now be required to make a return of 8% on new investments. The discount rate used to appraise projects in the non-trading part of the public sector will be nudged up from 5% to 6%.

Why change now? After all, private-sector returns have been above 5% and rising for the past five years. The Treasury reckons it needed to be sure of the trend. Unbelievers say that the rate-of-return rules hardly matter now, because the number of state industries has dwindled as Mrs Thatcher has sold them. Close as they are to being sold, That, cynics claim, is why the Treasury has marked time: had the electricity industry still been firmly in the public sector, an 8% rate-of-return requirement would have embarrassingly undermined the government's plans for capital-hungry nuclear-power stations. Back in 1986, for example, the Nuclear Energy Agency estimated that the Sizewell 'B' nuclear-power station now being built in Suffolk would be one-third cheaper than an equivalent coal-fired station at a 5% rate of return; at 10% the agency thought it would be dearer. It probably will be so at 8%, too. The planned nuclear station at Hinkley Point in Somerset is unlikely to be cheaper than a coal-fired one at any realistic rate of return.

The Treasury hopes that the new rates of return will make those companies still on the privatisation back-burner, such as British Coal and British Rail, leaner and more efficient. It will also make them more sellable. British Coal says that it is not worried by the change because these days it considers only projects which beat 8% by a decent margin. But part of British Rail's investment programme may suffer; so may its passengers' pockets after BR's financial targets are reviewed later this year.

In one indirect way, however, the new rate-of-return rules will affect the soon-to-be-privatised water and electricity industries. Some measure of expected rate of return will be incorporated in the price-regulation sums for parts of both industries. The figure being used? By strange coincidence, 8%. Bad news for consumers: on balance, the higher the figure, the greater

Local councils

Wobbly

COULD a local council go
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assumed not. They got a sho
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shock passed, but it has now b
doubts about the legality of c
est-rate swaps and swap option

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may yet have to sue for their r
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money today, agreeing to p
now tomorrow is here and the

Of course, councils can s
and rates. Two of London's r
have done just that: Brent has
up by 30%, Haringey by 56% a
rents by even more. But s
mostly poor, citizens simply d

That is a real risk. Last
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est; and even they must now
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have taken effect. Rent-collecti
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will be the make-or-break skill

What if a council finds

Downs and ups

Some London rate levels, pence in the