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AT 20/110

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

23 October 1984

The Rt. Hon. Peter Walker MBE MP
Secretary of State for Energy

Handwritten signature of Peter Walker.

CROSS CHANNEL LINK

Thank you for your letter of 16 October.

It is common ground that we do not need to decide yet whether to use the second link fully when it becomes available and whether to use the first after the initial two year period. But your public expenditure proposals already include many items, such as the CEGB's current plans for an investment in the French fast reactor, on which firm decisions have not been taken. The general rule is that these are included if there is a reasonable likelihood that the expenditure will in fact be incurred.

As the Prime Minister has commented (Andrew Turnbull's letter of 20 September), logic points to full use of both links to France. That must surely be the right basis for financial planning.

I quite accept the need for consistency with the assumptions made on coal. When we come to look at the NCB's external financing figures again after the strike, the consequential loss of sales will be one factor to be taken into account. But I do not accept that this should delay further the Board's return to break-even. We should also want to consider the implications of reduced markets for the NCB's investment programme. Indeed, there is a clear case for cutting back that programme further this year to help reduce the effect of the strike on public expenditure.

I am sending a copy of this letter to the Prime Minister. Since Peter Rees has suggested full use of the link as one of the methods of enabling the ESI's rates of return to rise to the 5 per cent level without real price increases, I am also sending a copy to Lord Whitelaw as Chairman of MISC 106, and to Sir Robert Armstrong.

NIGEL LAWSON

Handwritten signature of Nigel Lawson.

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The Rt Hon Nigel Lawson MP
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16 October 1984

CROSS CHANNEL LINK

In your minute of 18 September to the Prime Minister on the Cross Channel Link you said you would prefer Walter Marshall to negotiate at least the option to use the second link fully when it becomes available, and to maintain the use of the first link at full capacity beyond the initial two year period. You suggested that in the meantime our financial planning should assume full use.

I have seen Walter Marshall, and I have agreed that he should negotiate with EdF on the basis that he proposed for a two year agreement for the use of the first link. EdF are, at present, seeking no more than agreement for two years. It clearly makes no sense, on substance or tactics, to commit ourselves by offering a longer-term understanding to the French before they even ask for it; especially when we know that the French are likely to be eager, if not desperate, to sell surplus nuclear electricity. Marshall understands that the use of both stages of the link and the nature of any longer term contract with EdF will need to be further considered by the Government in due course.

It is therefore inappropriate that our financial planning should show any savings from the use of the Cross Channel Link beyond those expected from such a two year agreement on the use of the first link. Such savings would have to be made known to both the Electricity Council and the CEGB, and would pre-empt

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the decisions which I have told Marshall we have yet to take. Moreover if we were to start taking credit for policy decisions we have not yet made, we ought to score also the corresponding extra losses to the NCB from the loss of market for their coal. There is no way we can simply assume that they will forthwith make a further reduction of capacity to avoid these losses, over and above the reductions implicit in the present bold assumption of break-even by 1987/8. I cannot agree, therefore, that the savings to be shown in the IFR should go beyond those expected from the two year agreement.

Of course, there are benefits to be gained from a longer term agreement; but these must be considered against the implications for the coal industry. I will be putting my views to colleagues when I receive a further proposition from Walter Marshall.

I am copying this letter to the Prime Minister.

PETER WALKER

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ENERGY: CROSS-CHANNEL ELEC. LINK.

16 OCT 1984

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