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PRIME MINISTER

ELECTRICITY PRICES AND LARGE INDUSTRIAL CONSUMERS

Peter Walker sent me a copy of his minute of 26 July which enclosed a note produced by his and my officials analysing the "third tranche" scheme. I have also seen a copy of Nigel Lawson's and George Younger's response of 1 August. Let me start by saying that the competitive disadvantage suffered by intensive electricity users has concerned me for a long time and I therefore welcome the attention now being focussed on finding a remedy.

2 Though most of industry faces electricity charges broadly similar to those faced by their European competitors, there is no doubt that the very large users (for whom electricity accounts for a significant proportion of costs) do face higher charges - up to 20 per cent higher in some cases. On present trends, this competitive disadvantage appears likely to continue and the evidence suggests (as George Younger agrees for the Scottish examples) that it will be an important factor in determining future output and investment decisions. Where the companies have a choice of location within Europe - ICI is very much a case in point - higher electricity charges here will be a major factor against further investment in the UK. I thus hope that a defensible way can be found of alleviating these problems.

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3 In his minute Nigel suggests that the third tranche scheme amounts to a selective subsidy for industry. In so far as it amounts to that alone, I would not seek to justify it. But it primarily concerns the price of coal and I therefore agree with Nigel that any scheme must be consistent with our general policy on energy pricing and in particular our policy towards the coal industry. But, in concentrating on the present scheme, I think we should not lose sight of the wider issue, which is the competitive disadvantage faced by the large industrial users of electricity and the need to find a way of removing, or at least lessening it. In this context the possibility of obtaining low-cost electricity from France is relevant though it may be that it would be more difficult to pass the cost benefits of that on to any single class of customers.

4 I am copying this minute to Peter Walker, Nigel Lawson, George Younger, Nicholas Edwards, Tom King and to Sir Robert Armstrong.

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9 August 1985

Department of Trade & Industry

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