

10 DOWNING STREET

Prime Minister!

A major review as suggested by John Wybrew might turn out to be a waste of time. But the present uncertainties are likely to continue, whatever the actual oil price. Agree to commission the further work proposed here?

Yes -

DRW

31/7

but not

part - you

filled in on p. 3.

ENERGY POLICY

Peter Walker's brief review of policy work in progress is either a trailer for his 'paper on energy strategy in general' or a brush off. The confusion may reflect his doubts over the purpose of such an exercise. Any attempt by the Government to formulate energy policy in the sense of a definitive master plan would do more harm than good. Resilience against uncertainty is more important than devising the best strategy for a set of circumstances which cannot be predicted.

Wisely, Nigel Lawson, as Secretary of State for Energy in 1982, envisaged a more limited role for Government, ie:

'to set a framework which will ensure that the market operates in the energy sector with a minimum of distortion and that energy is produced and consumed efficiently'.

That remains the Government's last public pronouncement on the nature of energy policy.

Judged in this light the Government has been making good progress, for example, in abolishing BNOC and privatising British Gas. There is scope to go a lot further. Considerable progress has been made in changing the corporate culture of British Coal to that of a market-orientated business. The next step is to put coal onto the same diverse, private sector basis as oil and gas exploration and development. Privatisation of the electricity supply industry is a natural sequel to the successful privatisation of gas.

That said, I believe that there is a good case to review energy policy in a coherent way - not with the aim of formulating a definitive strategy, but to ensure that the framework around a liberalised UK energy market is consistent

with the Government's objectives. The following aspects could usefully be covered:

1. An explicit definition of objectives and their relative importance for example:
  - To ensure continuous secure supplies of fuels at prices which are internationally competitive;
  - To derive maximum economic benefit from the development of our indigenous energy resources;
  - In doing so to foster the development of British capability and technology to meet the needs of the energy supply industries both in the domestic market and in export markets.
  
2. Recognition of the daunting uncertainties which plans and decisions in the energy field are exposed to, for example:
  - Oil prices which by, say, 1990 might be anywhere between \$15 to \$50 a barrel.
  - Electricity demand which may be growing at an underlying rate double the 1.5% pa currently used for long term planning.
  - Events such as the coal strike or Chernobyl.
  
3. Consideration of strategic questions such as:
  - Given the increased uncertainty over the contribution of nuclear power to electricity supplies in the 1990s, the number of coal and oil-fired stations approaching retirement in a bunch, and the growing evidence of an increase in the underlying demand for electricity, what should the CEBB be doing to keep the lights on in the 1990s?

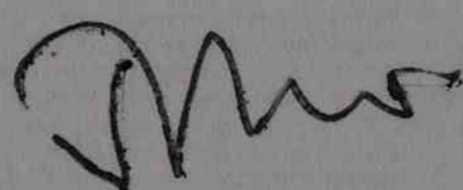
- What are the implications for the British coal industry and the process of retrenchment to a core of economic capacity?
- What assumptions is the CEGB to make about the security of supplies of British coal? (If the British coal industry is restructured and put onto a diverse private sector basis there should be less need for substantial coal imports).
- How much weight should be put on the potential damage to British industrial capability caused by the cycle of feast-to-famine-to-feast, for example in the construction of power stations and now the development of offshore oil and gas?

The Chancellor would not wish to lead on this. It is in any case already under discussion. *Pushed out*

As regards the latter, how much fiscal stimulus should the Government give to offset the collapse of oil prices with the aim of maintaining the momentum of exploration and appraisal, encouraging the continued development of production capacity and preserving independent British oil companies?

Conclusion

Many of these issues interlock. Most of them are prone to the same uncertainties. There is a case to review energy policy in a coherent way - not with the aim of formulating a definitive strategy but to ensure that the Lawsonian framework around a liberalised UK energy market is consistent with the Government's objectives. It might be worth inviting Peter Walker to amplify his views along the lines indicated above.



JOHN WYBREW



39. *WCBG*  
*Rachel Lomax*

*B.F. Sunday*

SECRET

COPY NO 1 OF 4

Prime Minister

*minutes attached.*

At E(A) in April we discussed the importance of agreeing a policy for fixing the coal price to the CEGB in the longer term and I said that before this happened I would submit a paper on energy strategy in general in the Autumn.

As you know, in the event we endorsed the NCB/CEGB five year settlement for the next two years and this in itself deals with one vital area.

On the other major sectors of energy policy, the rationalisation of the coal industry is proceeding at a pace faster than any of us could have anticipated and in fact the latest manpower figures show that almost 50,000 men have left the industry, with a further 4,300 under notice to leave. I am in close contact with Sir Robert Haslam, the incoming Chairman, and I will be submitting to the Treasury our review of the strategy for the industry over the next two or three years.

The gas industry will be privatised this Autumn. Naturally I am pleased that we have steered this legislation through the entire Parliamentary procedure with total success. The details of the forthcoming advertising campaign have been well prepared, and there is every prospect of a successful flotation.



SECRET

On the nuclear industry, I am unable to proceed with decisions until I receive the Sizewell Report this September, but we will then be ready to make proposals for the power station capital investment programme in the light of the recommendations of the report. Decisions on the strategy for nuclear energy and electricity generation must remain in abeyance until we know the details of the Report.

The final sector is oil, where we have correctly proceeded with a new round of licencing. We are agreed that we do not support restrictions on production and the only changes in strategy will be those that the Treasury decide upon in the light of new market conditions and their impact upon the most appropriate methods of taxation.

SECRETARY OF STATE FOR ENERGY  
23 July 1986

