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PRIME MINISTER

You will be aware that for some months there have been discussions on the possibility of a scheme to reduce the price of electricity to large industrial consumers.

The initiative for this came when the leading industrial interests concerned approached Sir Walter Marshall and had talks with the Coal Board. As a result of this a joint scheme has emerged which both Sir Walter and Ian MacGregor strongly support.

Their proposal is that the National Coal Board should supply to the CEGB a tranche of coal at a favourable price which the NCB consider represents their long run marginal cost of production, including a 5 per cent real rate of return. To the degree that this "third tranche" contained coal which is currently being purchased by the CEGB at a higher price, the Coal Board would lose money. But the Board believe that the scheme will result in consumption of electricity, and hence of coal, that would not otherwise take place.

I have discussed these proposals with the Department of Trade and Industry and I enclose a joint paper which has been prepared by officials of the two Departments. This identifies the areas in which the low price of electricity could save jobs that are otherwise going to be lost. It is of course more difficult to specify new jobs that can be created and new investment that would be obtained.





You will know that our major competitors in Europe have operated tariffs which give a distinct advantage to their big users. The Germans, French and Italians have all been very active in pursuing such policies.

For most of British industry energy costs now compare reasonably, and in some instances even favourably, with Europe. But for the bigger energy users there is no doubt that our competitors have been enjoying a substantial advantage. You will see from the DTI analysis of the industrial position that the chemical, steel, glass, cement and paper industries would benefit most from the proposal. DTI also bring to our attention the regional advantages, as many of the industries in question are situated in the North, Scotland, and Wales.

In my judgement, at a time when we have excess generating capacity, substantial stocks of coal, and when we hope to see coal production costs beginning to fall in real terms, this would be a good positive measure in respect of a number of industries that could otherwise be eliminated. It would at least give them the possibility of not having to meet the considerable advantages that their German, French and Italian counterparts enjoy.

The scheme will clearly have some adverse affect on the Coal Board's accounts. But Ian MacGregor's judgement is that some of his sales may disappear altogether unless these industrial users can obtain their electricity at a lower prices. If they do survive they will benefit further from the low cost coal production that he is hoping to achieve in the coming years.

The scheme has very considerable support. The pressure for it has recently come from the NEDC, under whose auspices Lord Gregson recently led a delegation to me which included senior representatives of ICI, the Tioxide Group, BSC, Reed Paper and Board, and Pilkingtons. It is they who subsequently





produced evidence suggesting that unless the scheme is put into operation there would, in their judgement, be 15,000 job losses in the next five years. The CBI have expressed their strong support for such a scheme, as have the trade unions involved in the electricity industry.

I am anxious to inform the industries that in principle we are prepared to go ahead with such a scheme, and do the necessary work to bring it into place. I would therefore be grateful to have the approval of colleagues for these proposals. If you feel there is a need for further discussion, I would be grateful for this to be arranged as soon as possible.

I am sending copies of this letter and paper to Nigel Lawson, George Younger, Nicholas Edwards, Norman Tebbit and Tom King and to Sir Robert Armstrong.

PP SECRETARY OF STATE FOR ENERGY  
(Approved by the Secretary of State  
and signed in his absence)

26 July 1985