



PRIME MINISTER

INDUSTRIAL ELECTRICITY PRICES

At its meeting on 10 June under your Chairmanship, the Ministerial Group on Energy Prices (MISC 56(81)3rd) invited the Secretary of State for Energy, in consultation with other Ministers where appropriate, to make proposals to reduce the prices charged to particular firms for their electricity supplies.

2 The Secretary of State for Energy and I have been considering which candidates of the many who have called for assistance would deserve help on this selective basis. I am convinced that the selection of only a handful of companies or plants, on the basis of inevitably arbitrary criteria, would be indefensible to the public and, more particularly, to the competitors of those companies which received help. There could be no guarantee that the assistance would be kept confidential; indeed the discussions which have been taking place with ICI have already received publicity. This has prompted enquiries from other companies, who see no difference between their own claims for help and those of ICI.

3 Further examination of the MISC 56 proposal for 'one-off' deals has also brought out legal problems in the areas of restrictive trade practices/competition legislation, undue preference contrary to the Electricity and Coal Acts and both the state aids and anti-competitive practices provisions of the Treaty of Rome. In practice these problems must rule out the 'cheap coal' route under which either the NCB would sell a tranche of cheap coal to the CEBG earmarked for a particular customer or the customer would purchase cheap coal from the NCB and invite the CEBG to convert it into cheap electricity. A direct Government discount from an individual firm's electricity bills would not give rise to the same difficulties under UK law, but there would still be EC difficulties, apart from the problems set out in para 2.

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Prime Minister
I am afraid this can only be resolved by a further meeting of MISC 56 under your chairmanship. I suggest we do this on Tuesday morning after the meeting on the CPAS report on the nationalised industries.

✓ Mr. Walters
Mr. Hodgson
Mr. Britton

Treasury

Yes

Agree?

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4 The Secretary of State for Energy and I have come to the conclusion that, if the Government are to help bulk intensive electricity users who are at a competitive disadvantage with continental firms, we need to reconsider the temporary implementation of a more general scheme along the lines of that recommended in MISC56 (81) 6. This proposed a 10% rebate on the bills of all industrial consumers with an annual maximum demand of at least 1 megawatt (MW) and an annual load factor of at least 50% or 30% load factor for steel firms. On the basis of 1980/81 electricity consumption data we estimate that in England, Scotland and Wales the scheme would benefit 67 plants in the chemicals sector, 70 in iron and steel, 46 in textiles and 75 in paper. Over 800 plants would be eligible under the scheme which would cost between £80 million and £90 million over the year the scheme would operate. Such a scheme is not expected to encounter difficulties in UK legislation and the temporary nature of the scheme - assistance would be given for one year only - may enable us to circumvent the EC difficulties. (It would be open to challenge, certainly under the state aids and possibly under the anti-competitive practices provisions of the Treaty).

5 It should be borne in mind that a 10% discount, whilst of undoubted help to many firms under severe cost pressures, is less than many of these firms say they require. It is possible that selective assistance in some form or other would still be sought in individual cases.

6 We as a Government need to decide urgently what assistance can be given to large industrial users. There is growing pressure from many large users, including ICI and Sheerness Steel, both of which would stand to benefit under the general scheme, and we need to tell them as soon as possible what the Government have in mind. The Secretary of State for Energy and I invite our colleagues to agree urgently in principle that a general scheme should be implemented. Consultation with the European

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Commission, whose approval would be required, and with the electricity supply industry could then be set in hand and a final decision on the scope of the scheme taken in the light of those consultations.

7 I am copying this minute to the other members of MISC 56, to the Foreign and Commonwealth Secretary and to Sir Robert Armstrong.

KJ

K J

27 July 1981

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