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E(79) 15th Meeting

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## CABINET

## MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at  
10 Downing Street on  
TUESDAY 23 OCTOBER 1979 at 10.00 am

## PRESENT

The Rt Hon Margaret Thatcher MP  
Prime Minister

The Rt Hon Lord Carrington  
Secretary of State for Foreign  
and Commonwealth Affairs  
(Items 2-4)

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP  
Secretary of State for Industry

The Rt Hon Lord Soames  
Lord President of the Council

The Rt Hon James Prior MP  
Secretary of State for Employment

The Rt Hon Peter Walker MP  
Minister of Agriculture,  
Fisheries and Food

The Rt Hon Michael Heseltine MP  
Secretary of State for the Environment

The Rt Hon John Nott MP  
Secretary of State for Trade

The Rt Hon David Howell MP  
Secretary of State for Energy

The Rt Hon John Biffen MP  
Chief Secretary, Treasury

## THE FOLLOWING WERE ALSO PRESENT

The Rt Hon George Younger MP  
Secretary of State for Scotland

The Rt Hon Sir Michael Havers QC MP  
Attorney General  
(Item 4)

The Rt Hon Norman Fowler MP  
Minister of Transport  
(Items 2 and 3)

Mr Wyn Roberts MP  
Parliamentary Under-Secretary  
of State, Welsh Office  
(Items 2 and 3)

Mr Philip Goodhart MP  
Parliamentary Under-Secretary of  
State, Northern Ireland Office  
(Items 2 and 3)

Sir Kenneth Berrill  
Head of the Central  
Policy Review Staff

## SECRETARIAT

Sir John Hunt  
Sir Robert Armstrong  
Mr P Le Cheminant (Item 4)  
Mr P Mountfield (Item 1)  
Mr G D Miles (Items 2 and 3)  
Mr A S D Whybrow

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## 1. NUCLEAR POWER POLICY AND THE NUCLEAR INDUSTRY

The Committee had before them a memorandum by the Secretary of State for Energy (E(79) 54) discussing his proposals for a future policy with regard to thermal nuclear power, and for the structure of the nuclear industry.

THE SECRETARY OF STATE FOR ENERGY said that a substantial nuclear programme of thermal reactors was essential to the nation's long term energy needs. In addition, as his paper showed the cost of nuclear power was likely to be significantly below that of the alternative fuels with the calculations robust against significant adverse movements in the assumptions. If progress was to be made it was important to have a vigorous nuclear construction industry capable of meeting the requirement. And for this, it was important that the industry should have faith in the Government's commitment to nuclear power. To this end he proposed a programme of constructing 15 GW of nuclear power over the period from 1982 as a basis for the industry's planning. Nuclear power elsewhere in the world was based on the Pressurised Water Reactor (PWR) which was generally thought to have cost advantages over other reactor types. Provided the necessary United Kingdom safety clearances could be obtained, this system should also be considered for United Kingdom stations. He therefore proposed that the licensing agreement which the National Nuclear Corporation (NNC) had with Westinghouse should be activated, so that detailed designs could be prepared for a United Kingdom PWR reactor. The construction of such a reactor would be made conditional only on safety clearances from the Nuclear Inspectorate and planning approval for the site. He also proposed that the industry should be reorganised, to strengthen the role of the National Nuclear Corporation relative to the Central Electricity Generating Board (CEGB). His aim would be that by the time the first PWR could be constructed, the NNC would be in a position to assume full responsibility for the station, and not merely for the "nuclear island". He proposed that NNC should end their supervisory management agreement with GEC, but that GEC involvement in NNC should remain close: stemming as it would from their shareholding and the rights this gave them to appoint directors to the company. The aim should be the creation of a strong company and management team capable of standing alone.

In discussion there was general support for the concept of a substantial nuclear programme, and for the inclusion in that programme of PWRs, provided always that they could be designed to satisfy the stringent safety requirements of the Nuclear Inspectorate. It was noted that such a programme would not reduce the long term requirement for coal, because of the likely decline in world oil supplies towards the end of the century. But a nuclear programme would have the advantage of removing a substantial portion of electricity production from the dangers of disruption by industrial action by coal miners or transport workers.

On the other hand, it was also noted that there were substantial problems in achieving a nuclear programme. Opposition to nuclear power might well provide a focus for protest groups over the next decade, and the Government might make more rapid progress towards its objective by a low profile approach, which avoided putting the Government into a position of confrontation with the protesters. The existing production of nuclear electricity in Britain using MAGNOX stations had a long record of safe operation, and local people near the various nuclear sites were generally content with them. It was important to build public confidence from that experience. A low profile by Government was not necessarily incompatible with giving a firm lead to the industry, since the industry involved only a few firms. But there would be a problem in maintaining a low profile once a decision was made to proceed with a PWR. Although the Three-Mile Island Reactor in the USA was not a Westinghouse design, it would be associated in the public mind with the PWR system. It would therefore be desirable to avoid any firm commitment until the report of the inquiry into that accident was available.

In further discussion the Committee noted that if the Westinghouse agreement was activated soon, a public inquiry into the siting of the first PWR could not take place before 1981 because the Nuclear Inspectorate would need the intervening period to carry out their safety assessment. On the one hand it was arguable that the first such inquiry should be wide-ranging, so as to establish the broad facts of the system. But on the other, there was a danger that a broad ranging inquiry would arouse prolonged technical debate between representatives of different facets of scientific opinion. In

considering tactics for inquiries, it would be important to bear in mind that, in parallel with the development of a thermal reactor programme, there was also a programme in hand for identifying sites for the disposal of nuclear waste, and the UKAEA would be bringing forward proposals for a Fast Reactor. Both of these would also involve inquiries.

Finally, it was suggested that in view of the substantial lawsuit between Westinghouse and Rio Tinto Zinc, on which an appeal court hearing would be taking place in Chicago early in November, it might be desirable to defer any commitment on the Westinghouse licensing agreement for a few weeks.

THE PRIME MINISTER, summing up the discussion, said that the Committee were agreed that the Government should aim to achieve a sizeable nuclear programme, and that this should include the prospect of PWRs, subject to satisfactory safety clearances being obtained. A decision on the balance between PWRs and other reactors in the programme would fall to be made at a later date. The Committee were also agreed on the proposals for restructuring the industry, and for enhancing the role of the NNC, as proposed in the paper from the Secretary for Energy. They recognised the great importance of appropriate presentation for achieving the Government's objective, and generally favoured a low profile approach. They were agreed that no commitment should be made towards a PWR, until the report of the Three-Mile Island accident was available, although if this were to be delayed beyond the end of the year, this decision might need to be reconsidered. The Secretary of State for Energy should consult with the Secretary of State for the Environment in preparing his proposals for handling the presentation of the nuclear programme, and should consult the Secretary of State for Trade before any approach was made to Westinghouse, so that the applications for the Rio Tinto Zinc lawsuit could be considered.

The Committee -

Took note, with approval, of the summing up of their discussion by the Prime Minister and invited the Secretary of State for Energy, the Secretary of State for the Environment and the Secretary of State for Trade to be guided accordingly.

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The Committee -

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## 2. PRIORITY STRATEGY PROPOSALS

Previous reference: E(79) 6th Meeting, Item 4

The Committee considered a memorandum by the Chancellor of the Exchequer (E(79) 42) reporting progress on the priority strategy proposals and seeking decisions about further action on some of them.

THE CHANCELLOR OF THE EXCHEQUER said that at the Committee's discussion of Strategy on 24 July 1979 (E(79) 6th Meeting, Item 4) Departments had been asked to press forward with studies on the priority items identified at that discussion, and to report to a Ministerial Steering Group (MISC 14) under his Chairmanship. This had been done. His memorandum gave progress reports on all the priority items, and also sought decisions on a number of them listed in the conclusions (paragraph 5 of E(79) 42). For Items a to e, he invited the Committee to endorse MISC 14's decisions to commission further work by officials. For Items f and g, he asked the Committee to agree that officials should produce interim reports on work which was in any case in progress. For Items h and i, he invited the Committee to reach decisions on the basis of recommendations by MISC 14.

The Committee then discussed Items a to i in turn, and the following main points were made -

- a. Review of planning procedures. Work was in progress at both official and Ministerial levels and positive results were expected.
- b. Goods Vehicle Licensing. The proposal for a review stemmed from discussions within the Conservative Party when in opposition, which had suggested that the adoption of different procedures in different licensing areas imposed heavy costs on companies. But no complaints had been made on this score to the recent Committee of Enquiry under Professor Christopher Foster into the system of operators' licensing. The remit to officials to report back could be discharged quite quickly in the light of the evidence to the Foster Committee.
- c. Different approaches to reducing restrictive labour practices. This was an in-house study by the Central Policy Review Staff (CPRS), which should be completed in another five or six weeks.

d. Reducing nationalised industry monopolies. Action was in hand in relation to the Post Office and the bus industry, but a first round of approaches to Departments had not produced any other candidates and a second round of approaches was now under way. The Secretary of State for Energy was formulating proposals in relation to the electricity industry. It was important that there should be more references of public enterprises to the new Monopolies Commission in the near future, preferably one in the energy field and possibly a water authority.

e. Contracting out of public sector services. Work was in hand at official level, looking right across the public sector.

f. Biases against investment in productive assets. MISC 14 had proposed that officials should be asked to produce an interim report by early 1980 on any items which might be appropriate for legislation in the 1980 Finance Bill.

g. Technical tax changes and other fiscal and tax measures to benefit small firms. The Chancellor of the Exchequer was proposing to legislate on these subjects in the 1980 Finance Bill, and MISC 14 had proposed that officials should be asked for interim reports during the autumn so that a pre-Budget announcement of measures to assist small firms could be considered by Ministers. In discussion, it was emphasised that real tax benefits were needed for small firms, since the scope for helping them in other ways was limited. The proper concern of the Inland Revenue to prevent abuse should not be given higher priority than the need for new initiatives. The same consideration applied to the need to find ways of involving employees in the ownership of shares in firms of all sizes.

h. Incentives for the lower paid. MISC 14 had recommended that an inter-departmental group of officials should be set up under Treasury chairmanship to review the various issues affecting such incentives. It was suggested that this would be a major undertaking, and perhaps for that reason should not be given high priority. On the other hand, it was argued that the problem of opening the gap between the net income

from working and from not working was of great importance and deserved urgent study. It was also argued that some at least of the remedies were plain to see. However, there might also be a case for introducing a large number of small changes, which would need detailed study. It was suggested that the best course would be to ask for a quick interim report, and then to consider how much further work would be appropriate.

i. Health and Safety at work. MISC 14 had recommended that the CPRS should examine the implementation of policies concerning health and safety at work including the institutional framework within which the policies were applied. It was pointed out that a review of the institutional framework could lead to a recommendation that the Health and Safety Commission should have a purely advisory function, which would require major and contentious legislation. On the other hand, it was clear that the current implementation of health and safety policies gave rise to justified complaints. The fault lay partly in the drafting of the current regulations, which could be changed, but insofar as it also lay in the institutional framework, the need for contentious primary legislation would have to be accepted. It was suggested that the review might be in two parts, with the first part covering points on which changes could be made quickly, and the second part looking towards the possibility of legislation in two years' time.

THE PRIME MINISTER, summing up the discussion, said that the Committee took note of the work in progress on the priority strategy items. On the items specified in the conclusions of E(79) 42, they endorsed MISC 14's decisions to commission further work by officials on Items a to e. In connection with Item d, they agreed that it would be appropriate to make early references of two further public enterprises to the new Monopolies Commission, and had noted the suggestion that one of these should be in the energy field and that the other should be a water authority. In connection both with Item d and with Item e, it was important that the reports to be considered by Ministers collectively should include all the proposals which had been considered by officials, even if they did not have the backing of the Department principally concerned. On Items f and g, the Committee agreed that there should be interim reports at the times suggested by MISC 14, and invited the Chancellor

of the Exchequer to take note of the points made in discussion about the need for real tax benefits for small firms. On Item h, the Committee agreed that there should be an inter-departmental review by officials under Treasury chairmanship, but the officials concerned should produce a quick interim report after which the Committee would consider whether more extensive work should be commissioned. On Item i, the Committee agreed to a study by the CPRS in consultation with the Department of Employment and other interested Departments. The study should produce an interim report on action which could be taken quickly, and a report on the case for institutional changes in time for legislation to be introduced if necessary, in the 1981/82 session of Parliament.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Endorsed the decision by MISC 14 to commission further work by officials on Items a - e in the conclusions to E(79) 42.
3. Invited the Chancellor of the Exchequer to arrange for reports on these items to be made to MISC 14 as soon as possible and to report to the Committee on the results.
4. Invited the Chancellor of the Exchequer to arrange for officials to produce interim reports on Item f by early 1980 and on Item g during the autumn of 1979, with a view to the preparation of legislation for the 1980 Finance Bill.
5. Invited the Chancellor of the Exchequer to take note of the points made in discussion of Item g.
6. Invited the Chancellor of the Exchequer to arrange for a group of officials to be set up under Treasury chairmanship to produce a quick interim report on issues affecting incentives for the lower paid, and to report their conclusions to the Committee.
7. Invited the CPRS in consultation with the Department of Employment and other interested Departments, to examine the implementation of policies concerning Health and Safety at work including the institutional framework within which the policies were applied, to produce an interim report on items on which action could be taken quickly, and to produce a report on the institutional framework in time for legislation if necessary in the 1981/82 session of Parliament.

3. ENTERPRISE ZONES

The Committee had before them a note by the Secretaries (E(79) 41) covering a note by officials which reported progress in developing the concept of enterprise zones, and a memorandum by the Chancellor of the Exchequer (E(79) 55) making recommendations on the various questions raised by the officials' report and covering a draft consultation document.

THE CHANCELLOR OF THE EXCHEQUER said that he envisaged enterprise zones as a means of overcoming concentrations of particular physical or economic decay and promoting economic revival by removing the hand of Government as far as possible. He recommended that the Government should proceed to consultation with local authorities and other interested bodies, on the basis that enterprise zones would be explicitly experimental, that their sites should be, at least initially, relatively small in size, probably up to about 500 acres and restricted to about 6 in number; that the final choice of sites would be taken in the light of soundings at the consultation stage; that the consultation document would indicate that the Government's mind was open on all the possibilities for de-restriction listed in Annex B to the officials' report; and that three possibilities for fiscal relaxations should be mentioned - the de-rating of industrial and commercial property, relief from development land tax and more generous capital allowances.

In discussion, there was strong support for the concept of enterprise zones, though there was general agreement that health and safety and fire regulations should be omitted from the proposals for de-restriction. It was also argued that the details of all the proposals needed further examination before any public announcement was made. The proposals for non-fiscal deregulation had not been fully thought through, and the fiscal proposals might create added complications for businesses. If time were taken now to work out the proposals in more detail, it might be possible to do without the public consultation stage and go straight to an announcement of firm proposals.

THE PRIME MINISTER, summing up the discussion, said that the Committee were in principle in favour of enterprise zones, which should at least initially be limited to a very small number and should offer a limited range of very attractive concessions rather than a more extensive range of less important

ones. However, the idea had not yet been worked out sufficiently for a public announcement. The Chancellor of the Exchequer should therefore arrange for his proposals to be considered in more detail at a meeting of the Ministerial Steering Group on Government Strategy (MISC 14) to which the Secretary of State for Employment, the Lord Privy Seal and the Secretary of State for Trade should be invited. The Committee would need to consider the subject again before any public announcement could be made, and the Chancellor of the Exchequer should report back to them as soon as possible in the light of MISC 14's discussion.

The Committee -

Took note, with approval, of the Prime Minister's summing up of their discussion, and invited the Chancellor of the Exchequer to be guided accordingly.

## SEVENTH ROUND OF OFFSHORE LICENSING

4. The Committee had before them memoranda by the Secretary of State for Energy (E(79) 55) and by the Central Policy Review Staff (E(79) 59) about the Seventh Round of Offshore Oil and Gas Licensing. They also had available, as background information, a report on Depletion Policy circulated by the Secretary of State for Energy (E(79) 58).

THE SECRETARY OF STATE FOR ENERGY said that his proposals involved a seventh round significantly larger, at 100 blocks, than the previous one. It was important to explore the United Kingdom Continental Shelf at the right rate, and to revive the momentum of exploration activity. No significant quantities of oil discovered under the new licences would flow before 1990, by which time the rate of production would be slowing down. Some 20 of the 100 blocks he proposed to offer would be in deeper unexplored waters. The industry had the capacity to undertake a round of this size, which would leave room for the smaller United Kingdom-based companies as well as for the international majors. The prospect of winning new licences was an important incentive to oil companies to fulfill their drilling obligations on present licences. He had regretfully ruled out the possibility of auctioning licences; this tended to squeeze out the smaller companies and produced little net revenue for the Exchequer because the costs could be offset against tax. His new proposals gave no preferential position to the British National Oil Corporation (BNOC).

In discussion, it was argued in favour of a large block that this was the best way of encouraging exploration, and establishing the likely extent of future reserves. It was in the Company's own best interests to explore as many blocks as possible, irrespective of the prospects of early development. A higher rate of exploration would provide a continual workload for the United Kingdom Offshore Oil Industry, which was important if it was successfully to secure overseas business.

Against this, it was argued that so large a round at this stage would reduce the Government's freedom of manoeuvre in future. The expected low level of economic activity meant that the period of self-sufficiency might extend late into the 1980s. Additional production was not necessary until later.



It was important that the United Kingdom industry should get a large share of the available acreage, if necessary at the expense of other international companies. Whatever the size of the round, a proportion of blocks should be situated in deep water, in order to promote the development of new technology.

THE PRIME MINISTER, summing up the discussion, said that the balance of opinion in the Committee favoured a smaller licensing round of 70 blocks. The distribution of this, between deep and shallow water, should be left to the Secretary of State for Energy to decide. No decision need be taken or announced at this stage about future licensing round beyond the seventh. The Secretary of State for Energy should make an early announcement, by way of Written Parliamentary Answer, on the lines of the Annex to his paper E(79) 55. He should agree the precise text of this with the Secretaries of State for Foreign Affairs, Secretary of State for the Environment, the Secretary of State for Scotland, the Chief Secretary, Treasury, and with her office. The Committee would discuss the wider issues raised by the paper on Depletion Policy (E(79) 58) at a later meeting.

The Committee -

Took note, with approval, of the Prime Minister's summing up of their discussion, and invited the Secretary of State for Energy to proceed accordingly.

Cabinet Office

24 October 1979