



Prime Minister (2)
I will gather reactions
from other Ministers.
To note meanwhile.

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AT 13/9 We must
go ahead. We
need the extra
investment.
me

PRIME MINISTER

CROSS CHANNEL ELECTRICITY LINK

I can now report a new development on this link, about which I minuted you on 15 August.

I asked Sir Walter Marshall to explore whether it was possible to obtain the agreement of the French to accelerate construction of the link with a much more limited commitment to take French electricity than that described in my minute of 15 August.

Sir Walter has now been able to tell me that he believes there is the prospect of a deal on this basis - though negotiations with the French will not be plain sailing.

The agreement he feels he can obtain would be as follows:-

- (i) one of the two links planned to become operational during 1986/87 would be accelerated with a view to completion by October 1985, giving a capacity of 1,000 megawatts;
- (ii) the link would be used to its full extent for supplying electricity to the UK for a period of 2 years from 1 October 1985;
- (iii) the price for the French electricity would be industrial tariff C, the rates of which are (as stated in my earlier minute) at all times of the day and week below CEGB's marginal costs at equivalent times.

The second 1,000 megawatt link would be completed during the period of this 2 year agreement, but the use of the second link would have to be the subject of a separate agreement.



A short term agreement of this kind would have different implications from one extending over 5 years - which is what CEGB have hitherto had in mind. Its importance would arise not just from providing a substantial tranche of low-priced electricity (saving up to £70m pa) but also from the added assistance or insurance it could give us in the recovery from the coal strike: in particular, in rebuilding coal stocks.

The nature and amount of the advantage to be secured on stock rebuild will depend on how soon the coal dispute ends. If we get a settlement by (say) early October, and coal stocks are built up as rapidly as feasible (both from pit head stocks and NCB production, and from imports and non-vested sources) there is, according to NCB and CEGB, a reasonable chance that CEGB could rebuild its coal stocks to around 30mt by the end of next summer. This assessment takes into account a loss of normal production resulting from damage to pits etc. In this event, the Channel Link would not contribute directly to the stock rebuild, but it would offer a useful measure of additional endurance in what could be an uneasy period in relations within the coal industry.

If, on the other hand, the coal strike were to run on through the coming winter to (say) April, coal stocks at power stations will have dwindled to very low levels; and it is unlikely to be possible to rebuild coal stocks to the 30 million tonne level by October 1985 particularly since more pits are likely to have suffered damage. The additional capacity provided by the Channel Link would then be extremely important to us: both in increasing the rate at which we could rebuild stock and in increasing endurance at any particular coal stock level.

A 2-year agreement on the lines envisaged would not be without its disadvantages. If the strike ends soon, the effect of the Link during its 2-year currency would be to "back out" between one and 2mt coal which CEGB would have otherwise have required. There will also, of



course, be a balance of payments cost. Moreover, there will be suspicions both among the coal and electricity unions that the 2-year agreement is simply a precursor to a longer-term commitment, which might well reduce jobs in both industries.

I think nonetheless that the balance of argument is in favour of authorising Sir Walter Marshall to enter into negotiations to secure a 2-year deal - provided that it is made absolutely clear to the French that there is no commitment as to the way in which the Link is used after October 1987. I believe he is also ready to secure that if completion is delayed beyond October 1985, the agreement still ends on 30 September 1987. I would be glad to know that you agree.

*Agreed
mt*

The public impact of such an agreement would need careful consideration. Sir Walter Marshall tells me that he could ensure some flexibility on the timing of any announcement by reaching a gentleman's agreement with the French and deferring any formal signature until the timing suited us. But complete confidentiality could obviously not be guaranteed.

I am copying this minute to the Foreign Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Chancellor of the Duchy of Lancaster and to Mr Gregson in the Cabinet Office.

SECRETARY OF STATE FOR ENERGY

13 September 1984

ENERGY
Cross - Channel
see link
to go to



COMPTON

1950