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P 03141

PRIME MINISTER

ACID RAIN: DRAFT EC LARGE COMBUSTION PLANTS DIRECTIVE

(Minute from Secretary of State for the Environment dated 8 June;  
minute from Minister of State for Energy dated 13 June)

DECISIONS

The EC Environment Council is to discuss the Large Combustion Plants Directive on 16 July to regulate the emissions of sulphur from power stations which help to cause acid rain. Mr Ridley seeks agreement to the negotiating brief for Lord Caithness.

2. The main question is whether the UK should accept a directive on emissions from power stations that would require substantial extra investment by the electricity industry by the end of the century. The main argument against doing so is the cost; the main argument for is the advantage of getting EC agreement on acid rain.

3. If the case in principle for a more stringent directive is accepted, the next question is what the best strategy is for the UK to follow. The Presidency are offering less rigorous UK targets for 1998 in return for a strong commitment by 2003. Mr Ridley wants to concede a higher target for 1998 for the sake of possible concessions by the Presidency for 2003. This would mean earlier expenditure for the sake of a reduction in the eventual cost. But in the last resort he would accept the Presidency's proposals.

BACKGROUND

4. In 1984 the Government set a target of a 30% reduction in 1980 levels of SO2 emissions, to be achieved by the end of the 1990s. To achieve this aim the CEGB is to retro-fit flue gas desulphurisation (FGD) equipment to 3 power stations. This equipment will

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begin operating between 1993 and 1997. This programme is expected to achieve the 30% target by the end of the century. But revised forecasts of trends after that suggest that subsequent reductions will be slower than had been expected, mainly because of buoyant demand for electricity.

#### MAIN ISSUES

5. The key issue is whether the substantial costs associated with the proposed deal are justified by the benefits of having an agreed Directive.

#### Benefits

6. The main benefits claimed for an agreement are:

- a. that it has environmental benefits for the UK, given new evidence that lakes and rivers in Wales, North West England and parts of Scotland will continue to deteriorate unless SO2 emissions are approximately halved from current levels;
- b. that there is therefore considerable pressure in this country. For example, the Select Committee on the Environment are expected to publish a critical report on 15 June;
- c. that it will settle the long-running dispute with other European Countries, particularly in Scandinavia, over acid rain. The paper suggests that if there is no deal, the Commission may take action under the Framework Directive on industrial air pollution. You may want to ask Mr Ridley for an assessment of the likelihood that this will happen, and of its likely effects;
- d. more particularly that we now have a chance of an accommodation that may not recur since the Germans are anxious to reach agreement under their Presidency. They have taken a hard line on the issue in the past and will revert to that when their Presidency is over;

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- e. that it will help privatisation of the electricity industry by removing a source of damaging uncertainty (see below).

Costs

7. The main argument against any major concession is the cost. Even if Mr Ridley can beat down the Commission, as he hopes, the present discounted cost of the extra FGD investment would be £560-670m. This could be met by:

either a corresponding reduction in privatisation proceeds. The Government would also lose tax receipts of £210-250m;

or an increase in electricity prices of 0.4%, if the consumer bears the cost, as Mr Ridley would prefer.

8. On the cost, Mr Ridley makes two points which you may wish to probe:

(i) some of the costs would have been incurred anyway, to meet our own plant standards;

(ii) there could be cheaper ways of meeting the new standards than installation of FGD. That may be why the CEGB's own cost estimates are lower.

9. Other arguments against an agreement are:

(i) Sulphur dioxide emission from our power stations will decline anyway, to less than 50% of the 1980 level by the end of the century (see figure 1 in Mr Ridley's paper). This is partly because we already have a programme of three retrofits at a capital cost of £700m. Why need we do more?

(ii) The possible effect on privatisation. Mr Ridley argues that an agreed directive would remove uncertainty. But might potential investors be deterred by his preferred method of paying for the costs - an increase in electricity

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prices, admittedly small but in a very competitive market? Mr Morrison also argues that uncertainty could be removed if the Government said that it did not expect more investment to be undertaken.

The strategy to be adopted

10. If the Sub-Committee accepts that in principle it would be right to pay for an agreed directive, the question is what would be the best strategy to pursue.

11. There are three stages:

- Stage 1, 1993
- Stage 2, 1998
- Stage 3, 2003.

The Presidency have proposed a new target of a reduction of 70% by 2003. This would require 5-6 additional retrofits in total, or replacements of ageing stations with new plant fitted with FGD (a substantial volume of fossil-fuelled plant will fall due for replacement in the 1990s). Mr Ridley's preferred strategy would be to concede a tighter target than at present for 1998 for the sake of a more relaxed target for 2003. If for example we could get the 70% target for Stage 3 reduced to 60%, or set back to 2005, we would need only 4-5 extra retrofits in total.

12. On this strategy, you may want to ask:

- If successful it would reduce eventual expenditure, but it would mean earlier expenditure. The extra cost of this does not seem to be quantified in the paper. What would it be?
- Mr Ridley says that if the tactic of offering a tighter target in Stage 2 for a looser one in Stage 3 does not work he would if necessary accept the Presidency proposal for Stage 3 for the sake of agreement. Would this mean getting

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the worst of both worlds: a tighter target both for Stage 2 (tighter than the Presidency proposes) and for Stage 3?

13. There is also a problem on Stage 1. We are being pressed to raise our target for 1993 but a higher target for that year is not technically achievable. Mr Ridley suggests that we could respond by accelerating the present FGD programme, with completion in 1995 rather than 1997. You may want to ask why, if we accept a tighter target for 2003 we need make this further concession as well.

#### VIEWS OF OTHER MINISTERS

14. The Energy Secretary is in the Far East, and has not yet been able to take a view about the concessions proposed by Mr Ridley. However the minute of 13 June by his Minister of State, Mr Morrison, makes clear his opposition to Mr Ridley's proposals. The Chancellor of the Exchequer is also likely to oppose Mr Ridley. The Parliamentary Under-Secretary of State, Department of Trade and Industry (Mr Atkins) is likely to support Mr Ridley, provided that there is a settlement of the other outstanding issues on the Directive on the terms agreed between officials. The Foreign Secretary will also support Mr Ridley.

\* Overtake. Chancellor will now take a neutral line, concentrating on the implications for privatisation.

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