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PART B

Part B

**SECRET**

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Begins: 2/11/87.  
Ends: 14/4/88.



PO -CH /NL/0246



PART B

Chancellor's (Lawson) Papers:

THE COAL INDUSTRY AND  
PRIVATISATION

Disposal Directions: 25 years

28/9/95

PO -CH /NL/0246  
PART B

copies: Chairman  
Mr R Proctor  
Executive Committee

BRITISH COAL  
HOBART HOUSE  
GROSVENOR PLACE  
LONDON SW1X 7AE

SIR KENNETH COUZENS KCB  
DEPUTY CHAIRMAN

01-235 2020

2nd November, 1987

The Rt Hon Cecil Parkinson, PC, MP,  
Secretary of State for Energy,  
Department of Energy,  
Thames House South,  
Millbank,  
London, SW1P 4QJ.

*Dear Secretary of State*

Future of the Opencast Coal Industry

When we discussed our problems on prospective income from opencast operations with Michael Spicer and yourself on 29 October, you asked us to write to you setting out the facts of the situation in which we find ourselves. We are finding this situation increasingly frustrating and perplexing, and we believe an important national economic interest is at stake in it.

Following the transfer from the Department of Energy to local authorities of responsibility for planning decisions for opencast coal sites, British Coal is encountering more and more difficulty in getting planning consents. Although our restoration techniques have now reached a very high standard, environmental objections are often pursued in extreme forms. On two recent occasions the Nature Conservancy has frustrated applications by "discovering" and designating Sites of Special Scientific Interest after our applications have been made - in one case on a derelict colliery site. There appears to be no appeal against the decisions to designate of the Nature Conservancy, notwithstanding that they can impose severe financial penalties on others. Left-inclined local authorities regularly refuse planning permission because they believe (wrongly) that opencast output displaces deep mined output, and it is the policy of the NUM to oppose all opencast mining, because, as you know so well, it is wholly outside their control and not undertaken by their members. Local authorities generally - and sometimes planning Inspectors - show no signs of accepting the argument that the economic case for opencasting is made out because the output can all be marketed at a good profit, and constantly argue that this output is "not needed" because it could be obtained somewhere by deep-mining, even if at heavy loss; or even by importing. And there is very naturally pretty uniform opposition to opencasting by those living near sites, as there would be to any major civil engineering project.

So we are having to carry a large majority of cases in England and Wales to appeal to the Secretary for the Environment or the Secretary for Wales. But the tenor of recent recommendations by planning Inspectors and of recent Ministerial decisions is encouraging the local authorities to go on saying No. We are reaching a situation in which the local authorities are determined to put the responsibility for decisions on Ministers; the Inspectors, rudderless, usually give their vote for the unquantifiable environmental arguments while recording their perplexity about the economic factors; and the Minister rarely differs from the Inspector.

According to the MMC Report on the NCB of 1982, five out of 144 opencast planning applications were ultimately rejected in the period 1973 to 1981. In the year since 1st September 1986 Mineral Planning Authorities have refused permission for 66% of the tonnage for which we have applied (88% since, 1 April 1987). Since September 1986 67.5% of the tonnage on which we appealed to the Secretary of State has been refused. These are not the same tonnages, since the appeal decisions related to planning refusals in an earlier period, but if this rate of refusal on appeal were maintained our final "success" rate, taking local and national decisions together, would be unlikely to be much over 50%. In fact however the refusal rate appears to be rising. Since 1 August we have had two appeals upheld (2.3m tonnes) and four rejected (10.4m tonnes), and our two successes are now being challenged by the local authorities in the High Court. The effects are cumulative because local authorities and Inspectors take their cue from Ministers' decisions.

The 15m tonnes of opencast output costs about £1 a gigajoule (£25 a tonne) to produce. At sale prices it contributes £500/£600m a year to national output. It is among the lowest cost energy we produce in the UK - cheaper than nuclear, cheaper than new North Sea oil or gas. It is budgeted to contribute over £270m to the operating profit of British Coal in 1987/8, and does at least something to make the British Coal industry a little more like the coal industries of the US or Australia with their big opencast components. By pulling out all the stops we may indeed achieve our £270m. for 1987/8, but we are fighting the probability of a steeply declining trend thereafter. If we in British Coal cannot get planning permissions for opencasting, there is every reason to expect that if and when the industry came to be privatised, our successors or would-be successors would get even fewer. As you know, the private sector already carries out the opencast operations for us and will suffer with us from the loss of planning permissions. Moreover the trend would be fully apparent by the time we got to privatisation, so there would be little or nothing to sell. On the contrary, the Exchequer would face the costs of another expensive round of redundancies in our opencast organisation. And this erosion of a low cost energy source will happen just as North Sea oil begins to run down. It will of course be replaced by imports in one form or another.

The opencast operating profit plays a crucial role in our business planning and in our IFR figures. This year we are looking for £278m of operating profit from opencast compared with the £101m from collieries. In 1988/9 (breakeven year) we have been looking for £296m at outturn prices, but in the light of experience on planning appeals in the last three months our

Opencast Executive has felt obliged to reduce that forecast by £25m. The financial implications for later years are much more serious unless the trend is changed.

I find it very difficult to accept this progressive destruction of a market viable energy resource and a valuable Exchequer asset. I do not believe this outcome was intended when planning responsibility was transferred to the local authorities and to the Department of the Environment.

I realise that the change to the local authority planning system has now been embodied in statute and would be very difficult to reverse. What I would hope however is that on broad economic, financial and "supply side" grounds, the Government would feel able to make a fresh statement by way of guidance to all concerned in the planning system on the strong market case for opencast coal; and the requirement, in the interests of the economy (including consumers), to allow at least the present level of output to go on being produced. Without such a piece of national guidance I do not believe that the planning system will give market considerations anything like the right weight in the decisions it produces. A new circular to local authorities is now in preparation, but without radical change it is likely to add to the present confusion rather than resolve it. It may indeed not be the right vehicle for the guidance I am seeking. Without such new national guidance I am afraid opencasting has a future of sharp decline in England and Wales. It is interesting that in Scotland the problems are so far less acute.

We shall continue to fight this case by case at all stages, but it would be an enormous boon if the Government could see its way to a new policy decision in this area. May I beg your help? It will cost the Exchequer and the economy a great deal if we do not reverse this trend.

*Yours sincerely*

*Ken Conyers*

---

*John*

NATIONAL COAL BOARD  
HOBART HOUSE  
GROSVENOR PLACE  
LONDON SW1X 7AE

SIR KENNETH COUZENS KCB  
DEPUTY CHAIRMAN

01-235 2020

Ch, pup BF 18/11  
to Jonathan  
Not yet copied out.

Perhaps just to FBI, PEM and  
Mr Monck?

12/12/11  
9/11/87  
Mr Parkin  
CC dept. -  
myself - post to  
Mr. M.

Dear Chancellor,

Please forgive me for bothering you on a personal basis about an economic problem which goes back to our joint time at the Department of Energy, and where I fear a significant national interest is now at stake. I will realise the other more important demands on you.

The story is set out in my letter to Mr. Parkinson attached.

MINISTERIAL BOARD

1978

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1978

As an old Treasury official I find it hard to swallow this destruction of what is both a market-viable national resource and an Exchequer asset without putting up a fight, especially as I have direct responsibility for it as Chairman of the Opencast Executive. It would help us enormously if the Treasury were able to support a fresh Government initiative on this.

Sorry to bother you! With every good wish,

Ken Coopers

14/1074

*Paper  
mess X*

CONFIDENTIAL

From: P. C Diggle  
13 November 1987

- 1. MR M L WILLIAMS
- 2. MR FER BUTLER
- 3. CHIEF SECRETARY

*Wm  
13.11*

*1. Trust this is no  
problem - this is 1988-89  
not 1988-89*

- cc Chancellor
- Mr Monck
- Mr Moore
- Mr Turnbull
- Mr Gieve
- Mrs Brown
- Miss Noble
- Mr Call

**BRITISH COAL EFL 1987-88**

This submission recommends that you should agree to increase British Coal's EFL by #115m, as proposed in Mr Parkinson's letter of 29 October. This ranks as a claim on the Reserve.

2. From early on in the financial year, it has been clear that British Coal (BCC) would be unable to cope with its EFL of #727m. We have been pressing since then for a justified proposal for revision. However, as Mr Parkinson says, BCC's cashflow has been under tight surveillance throughout against a probable revised cash limit in the range #820-850m. We have gone along with this approach because the business challenges facing BCC have been changing rapidly, mostly for the worse. The Reserve arithmetic already takes account of the projected overspend.

The need for revision

3. Mr Parkinson explains that BCC's revenues have dropped by nearly #500m during the year, mostly involuntarily. Both volumes of sales and the prices obtained have slipped. So far the impact of the overtime ban has been fairly limited, and no significant further cash slippage for this reason is expected.

4. British Coal has made strenuous efforts to contain the deterioration in cashflow. Some of the savings are identified in the attachment to Mr Parkinson's letter, though the largest item (#166m of cost reductions) is not analysed. From the consistency of British Coal's plans for cost improvements over the year, however, we are reasonably convinced that these are genuinely deliverable. The deterioration has also been limited by higher CEGB purchases, stimulated by the dismal output of the AGR (nuclear) stations.

Assessment

5. British Coal is a price taker so it has no scope to raise its prices to recoup lost cash flow. Indeed that is the main source of the problem. Most of the available cash saving remedies have already been applied, with two exceptions. The first is investment, where orders were placed and funds committed so early in the year that a moratorium would have been pointless. The second is the discretionary decision, to which you have already agreed, to increase the redundancy package in order to stimulate the job cuts judged commercially necessary. It would have been



false economy in the long term to do otherwise.

6. We therefore think that there is no option but to go along with raising the cash limit. It would restore control to do so.

#### Implications

7. It is a worrying feature of the department's (and our) control of British Coal's finance that significant revisions such as this seem to happen every year. Last year the original EFL was revised by #95m, and then this higher level was overspent by #85m. The previous year BCC was protected by post strike restocking, but without it there would have been a similar overrun. The main problem is that British Coal perceive their targets in terms of profit rather than cashflow. For this reason they give a greater priority to investment than we think desirable in their straitened circumstances. It might be helpful to include a mild hint about the desirability of more responsible budgeting in your reply.

8. Mr Parkinson does not spell out in his letter that the deterioration in profitability he describes will have serious consequences in the medium term. There is a risk that the loss this year might be so great that it could not be matched by deficit grant, in which case BCC's reserves deficit would worsen. Similarly, the established objective of break-even in 1988-89 looks vulnerable. With approaching privatisation of the electricity industry, BCC's main customer, commercial prospects for BCC's recovery look bleak without radical adjustment action.

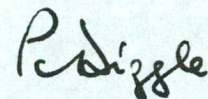
9. You have already agreed with Mr Parkinson that it would be desirable to have a strategic review over the winter to develop a response to this difficult outlook. We are starting to get concerned that he has still not established the modalities of this with Sir Robert Haslam. We suggest it would be helpful for you to give him a gentle reminder in your reply. His officials are already pressing him to write to Sir Robert.

#### Recommendation

10. A draft letter is attached:

- agreeing to the proposed EFL increase;
- hoping for better cash planning in the future;
- asking for the agreed strategic review to get started in good time to influence the planning for 1988-89.

11. This submission has been cleared with GEP.



P C Diggle

CONFIDENTIAL

Draft letter to:

Rt. Hon. Cecil Parkinson PC MP,  
Secretary of State for Energy  
Department of Energy  
Thames House South  
Millbank  
LONDON SW1P 4QJ

November 1987

**BRITISH COAL EFL 1987-88**

Thank you for your letter of 29 October.

2. I share your disappointment that it has not been possible to revise the EFL before now even though the need to do so has been clear for some time. I am reassured that control has not been relaxed in practice, and I hope in future that it will be possible for British Coal to stay within the EFLs we agreed in our IFR discussions. I am content with the proposed change in the EFL for this year, especially as British Coal has made such efforts to contain the deterioration in cashflow. I note your warning about the possible need for further revision if British Coal achieve more redundancies as the year goes on.

3. However, I am concerned about the severe drop in British Coal's profitability you explain in your letter. The drop in proceeds over the last two years has been dramatic and shows little sign of slackening. I should therefore very much welcome a thoroughgoing review of British Coal's strategic choices, on the lines you suggested in your letter of 28 September. I hope that it will be possible for radical options to be explored, and that my officials can be involved in the work. I am sure that it is common ground that we need to reach conclusion in good time to influence British Coal's plans for next year.

4. It would be helpful if your officials could agree the terms of the PQ announcing the revised EFL with mine, in the usual way.

JOHN MAJOR



*mpw*

FROM: MISS M P WALLACE

DATE: 17 November 1987

PS/CHIEF SECRETARY

cc Mr F E R Butler  
Mr Monck  
Mr D J L Moore  
Mr Turnbull  
Mr M L Williams  
Mr Gieve  
Mrs Diggle  
Mrs Brown  
Miss Noble  
Mr Call

**BRITISH COAL EFL 1987-88**

The Chancellor has seen Mrs Diggle's submission of 13 November. He has commented that he trusts there is no follow-through to a 1988-89 overspend.

*mpw.*

MOIRA WALLACE

CONFIDENTIAL

CC-cx, Mr Anson

Mr Mack, Mr Moore

Mr Turner, Mrs Diggle

Mr Williams, Mr Carr

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Cecil Parkinson MP  
 Secretary of State for Energy  
 Department of Energy  
 Thames House South  
 Millbank  
 London  
 SW1P 4QJ

19 November 1987

**BRITISH COAL EFL 1987-88**

Thank you for your letter of 29 October.

I share your disappointment that it has not been possible to revise the EFL before now even though the need to do so has been clear for some time. I am reassured that control has not been relaxed in practice, and I hope in future that it will be possible for British Coal to stay within the EFLs we agreed in our IFR discussions. I am content with the proposed change in the EFL for this year, especially as British Coal has made such efforts to contain the deterioration in cashflow. I note your warning about the possible need for further revision if British Coal achieve more redundancies as the year goes on.

However, I am concerned about the severe drop in British Coal's profitability you explain in your letter. The drop in proceeds over the last two years has been dramatic and shows little sign of slackening. I therefore attach great importance to the thoroughgoing review of British Coal's strategic choices you suggested in your letter of 28 September. I hope that it will be possible for radical options to be explored against the prospect of electricity privatisation, and I should be particularly grateful if my officials can be involved in the work. I am sure that it is common ground that we need to reach robust conclusions in good time to influence British Coal's plans for next year.

It would be helpful if your officials could agree the terms of the PQ announcing the revised EFL with mine, in the usual way.

JOHN MAJOR

SECRET



Financial Secretary  
Sir P Middleton  
Mr Anson  
Mr Monck  
Mr D J L Moore  
Mr Houston  
Mrs Diggle  
Mr M L Williams  
Mr Call

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

25 November 1987

Stephen Haddrill Esq  
PS/Secretary of State  
Department of Energy  
Thames House South  
Millbank  
LONDON  
SW1

*J - Simon S wanted  
to know if Britoil  
was discussed  
at all.*

*M*

*Ken Stephen*

**CHANCELLOR/SECRETARY OF STATE BILATERAL**

The Chancellor of the Exchequer had a bilateral meeting with your Secretary of State this morning.

**Electricity privatisation**

Your Secretary of State reported on recent developments. He planned to report to the Prime Minister's "Chequers Group" again in December or early January. It looked likely that the report would favour Option C. He hoped that there could then be an early discussion in E(A). The Chancellor said that he agreed that the only real choice was between Option C and Option D: he favoured Option D. Under either Option, steps should be taken to ensure that the grid became a passive common carrier. It was critical to separate the grid from generation.

It was agreed that the Chancellor and your Secretary of State would have a further bilateral meeting before the Chequers Group meeting, on the basis of a draft paper for that Group. There would also need to be later discussion of how best to maintain nuclear generation capacity, and of the timing of the privatisations. Your Secretary of State reported Kleinworts' view that the distributors should be sold first, in one flotation. Flotation of 100 per cent of the distribution capacity involved a figure of around £15 billion. Kleinworts thought that if there were scope for the institutions to choose between different distributors, they would "cherry pick". The Chancellor noted that it might be possible to sell less than 100 per cent of the capacity in the first instance.



### Coal

The Chancellor agreed to a one year extension of the BCC/CEGB commercial understanding, with no change in the EFL. Your Secretary of State confirmed that there would be a fundamental review of the commercial relationship between the two industries in line with the discussion at Chequers and of British Coal's strategic response.

The Chancellor undertook to arrange a meeting to discuss the paper by Department of Energy officials on licensed coal production by the private sector (your Secretary of State's letter of 28 October to the Chancellor). This office will be in touch about dates.

*Yours sincerely*

*J M G Taylor*

J M G TAYLOR  
Private Secretary

CONFIDENTIAL

From: SIR PETER MIDDLETON

Date: 26 November 1987

CHIEF SECRETARY

cc Chancellor —  
Mr Monck  
Mr M L Williams  
Mr L Watts  
Mrs DiggleBRITISH COAL: CREDITWORTHINESS

... You might wish to glance at the attached submission.

2. The measures which are proposed and the letter I intend to send are in the mildest possible terms given the circumstances. There is no reference to privatisation in the letter because I do not want to put anything in writing which could cause problems either for the department or British Coal. But the position is serious. If the proposed strategic review is either over leisurely or over vague, Ministers may be faced with the need to provide the Coal Board with an alternative source of finance over the next 12 months. NLF funding is looking increasingly inappropriate.

P E MIDDLETON

CONFIDENTIAL

From: P C Diggle  
16 November 1987

1. MR M L WILLIAMS
  2. MR MONCK
  3. SIR P MIDDLETON
- agreed in draft*  
*18/11*

cc Mr Anson  
Mr Turnbull  
Mr Moore  
Mr Scholar  
Mrs Lomax  
Miss Noble  
Mrs Brown  
Mr L Watts  
Mr W White  
Miss Wheldon  
TSol

### BRITISH COAL: CREDITWORTHINESS

This submission reviews the propriety of NLF lending to British Coal (BCC) and recommends that you should withhold access to loans for maturities of longer than a year forthwith.

2. When you agreed earlier this year to allow British Coal NLF loans of up to 5 years, it was clearly envisaged in the correspondence (attached) that it would be necessary to keep the position under review. The conclusion of the IFR offered an appropriate opportunity, since British Coal had once again failed to deliver a regular corporate plan as had been envisaged.

3. Since your decision in January, there have been two broad kinds of change in BCC's business prospects, both unfavourable:

(a) the trading environment has softened. The deterioration is just within the bounds of the risk assessment and would probably not, taken alone, justify alteration of NLF access;

(b) the decision to privatise the electricity industry and its emerging implications for BCC's sales will inevitably require BCC to retrench further over the medium term than its earlier plans envisaged, seriously damaging profitability.

4. This is explained in the attached note, which has been prepared in consultation with DEN to help establish a common factual understanding of the problem. (a) is serious because it means that the reserves deficit may worsen this financial year and quite conceivably in 1988-89 too. The crucial factor is clearly (b), which means that BCC's ability to service and repay its NLF debt over the next three to five years is in doubt. Worst of all, BCC have mentioned the attraction to them of writing off debt in a balance sheet reconstruction. This proposition has not been put formally to ministers or endorsed by them. But it underlines the importance of a proper assessment of risk and creditworthiness now.

5. In these circumstances we think it would be wrong for you to continue to allow BCC access to term lending. We simply do not

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*1 suspect all  
for (Mun 2-3)  
extra ✓*



see how you could defend loans of more than temporary duration now that the idea of debt write-off has been seriously floated.

6. There is arguably also a case for suspending all new NLF credit to BCC. However, we think you need not go so far at this stage. We think you could continue to allow temporary borrowing, ie loans of terms less than a year. This would increase the scope for replacing NLF finance by, eg grant or soft loans, if it were later felt that reducing NLF exposure were desirable. For that reason the legal advice is that withdrawing term lending would put you in a more defensible position than continuing to allow 5 year loans. We know enough about BCC's prospects to be reasonably confident that they should be able to meet their commitments to the NLF over the year or so ahead: the main assessed risk (b) relates to the medium term. We feel reasonably confident that our surveillance of BCC is sufficiently close that we should be quickly alerted to the emergence of any new or serious problems.

7. Ministers have agreed in principle on a strategic review of BCC's policy options over the winter. This should enable us to take an informed view of the commercial risks facing the coal industry and the scope for the development of the business to achieve creditworthiness over the medium term. At that stage we should obviously reconsider NLF policy toward BCC. It is possible that this process will confirm that only temporary lending can be justified. It could throw up doubt about even that. It seems unlikely that it will reassure us enough to feel able to recommend resumption of term lending, though this is not inconceivable if one of the easier and slower adjustment scenarios emerges as a tolerable response to the business problems.

8. We have recently heard that Mr Parkinson is reluctant to write to Sir Robert Haslam formally to commission the review, but plans instead to discuss with him the scope for strategic rethinking. In that sense para 22 of the paper is out of date. We do not know whether The Secretary of State is in practice backing away from the review, but the Chief Secretary has already written (in the context of outstanding correspondence about the coal EFL) to urge that the review should begin soon. Tactically, we think it would be best to assume that we will shortly be back on track.

9. Because of the uncertainty about the direction of NLF lending policy to BCC over the next few months while the review is proceeding, we do not believe it would be appropriate to announce the policy change now. There is a precedent for doing so: in 1979 it was decided to continue lending and make an explanatory statement during a review (see attached PQ). But in this case the risks ahead seem too severe to await the outcome of a review. And we need to retain the flexibility to further adjust the NLF's policy toward BCC at its conclusion. So the logical response seems to be to plan for a firm statement when the review is concluded. This reinforces the case for selecting action now which need not be made public, but is still a credible response to BCC's situation should we later face criticism.

10. In the meantime we suggest that it would be appropriate for you to write to Mr Gregson to tell him of your misgivings and conclusions about NLF lending to BCC and allowing him an opportunity to reassure you if he feels able to do so. We believe he will be advised not to challenge your judgement, since DEN

officials understand our position and agree with the assessment in the paper. It is possible that BCC may themselves resist, but it seems more likely that they will be more interested in their cost structure, which will be little affected, if at all, by denying them term lending.

11. To summarise, we recommend that you should:

- (i) restrict BCC to temporary loans only;
- (ii) reconsider this policy at the end of the strategic review next March;
- (iii) in the meantime, not announce the policy change (i); but
- (iv) plan to announce your conclusions from the review (ii);
- (v) write to Mr Gregson to tell him of all this now.

12. A draft letter is attached. FIM agree.

13. If you are content with this approach, we will tell the Chief Secretary in a separate note, as we did when you decided to resume funded lending in January.

*P C Diggle*

P C Diggle

CONFIDENTIAL

**BRITISH COAL: NLF BORROWING**

This note examines the creditworthiness of British Coal (BCC) and considers the propriety of NLF lending to the Corporation.

**British Coal's status as a borrower**

2. BCC is insolvent: it has negative reserves. The reserves have been prevented from deterioration by matching each year's accounting loss (in historic cost terms) by deficit grant. BCC is able to continue trading because there are annual government statements of comfort (issued as PQs).

3. The legislation on advances from the NLF requires that the Treasury cannot on-lend at a loss; and cannot lend at all unless there is a reasonable expectation that the loans will be serviced and repaid. Where there is doubt about a borrower's creditworthiness, continuing NLF lending can be justified if a careful and well-informed assessment suggests that debt commitments will continue to be met. In those circumstances the Accounting Officer of the NLF (Sir P Middleton) has to consider his personal position very carefully.

4. The framework in para 2 was in place during the 1984-85 strike but was judged insufficient security for NLF term lending. In view of the risk that loans might not be serviced in the medium term, access to the NLF was restricted to temporary loans, ie for terms of less than one year. This broadly matched the horizon of the government guarantee.

5. This restriction was relaxed only in early 1987, when BCC were permitted borrowing for terms up to 5 years (see para 8 below). This was the first opportunity after the strike when it was possible to review BCC's business prospects in adequate depth to assess creditworthiness. The trigger was the business information made available in the 1986 IFR, supplemented by DEN's risk analysis. Sir Peter Middleton, the Accounting Officer of the NLF, made the liberalisation conditional on a satisfactory outcome to the discussions on the corporate plan intended for the spring of 1987. At that stage it was hoped that it might be possible to make available the whole range of NLF facilities to BCC some time in 1987.

6. In practice BCC declined to make the corporate plan available and there was no discussion of it. This presented a difficulty for the renewal of the statement of comfort shortly after the election in June. Sir Peter Middleton made it clear at that stage that continuing with NLF lending was barely justified. The Treasury therefore told the Department of Energy that the autumn IFR round would need to be associated with a viability review.

7. The IFR did reveal sufficient business planning information to permit a reassessment of BCC's creditworthiness. In particular, a letter from the Chairman (Sir Robert Haslam) to the Energy Secretary sketched out the main lines of the current business plan. This was amplified at a presentation to Treasury officials at the end of October.

### BCC's business prospects: short term

8. The decision to resume term loans to BCC in early 1987 rested on the projections that BCC would:

- (a) break even in historic cost terms after social grant in 1988-89;
- (b) achieve steadily improving profits after that;
- (c) eliminate the reserves deficit by 1990-91;
- (d) be able to respond flexibly to the foreseeable business risks so as to deliver (a), (b) and (c);
- (e) not need any debt write-off in any future capital reconstruction despite the qualification about asset values in the accounts.

9. Since the decision to resume funding in January, BCC has indeed adapted its strategy to market conditions. Redundancies were brought forward at the end of 1986-87. Markets have largely been retained in the face of the downward drift of international coal prices though BCC has had to make large price concessions to do so, with a loss of revenue of over #300m a year. Altogether adverse commercial swings of some #500m have hit BCC during the year. Offsetting savings for most of this business deterioration have been secured. The presence in the unprofitable coke and export markets has been scaled down. Involuntary stockbuilding has been avoided, but largely because of the fortuitous drop in output from the CEGB's nuclear power stations. Both profit and cashflow for 1987-88 are likely to be worse than originally projected. The commitment (b) to breakeven next year remains unshaken but will prove significantly harder to achieve.

10. In the near term these changes mean that the security of NLF lending is slightly poorer. If BCC's accounting loss were to exceed #200m in 1987-88 (cf the #90m originally planned) it would be impossible to match it with deficit grant because of the statutory limit on this grant (which cannot be raised without primary legislation). In that case the reserves would weaken further. The latest projected loss has risen to #195m, largely because of acceleration of pit closures, which require asset write-offs. Any shortfall against budget late in the year, or further closure decisions, could easily push the loss over #200m.

11. Even if this can be avoided in 1987-88, there is still a risk that any loss next year might not be matched by deficit grant. The #200m limit on deficit grant applies to all grant available for 1987-88 and 1988-89. So, given the projected loss for this year, almost any loss next year would damage the reserves.

12. These developments, though serious, are still within the range considered at the time the decision to resume funding was taken. In effect, it is now more likely - though still not probable - that BCC's reserves deficit might deteriorate this year or next. The creditworthiness of British Coal is therefore poorer than when the decision to resume funding was taken.

### BCC's business prospects: medium term

13. From the viewpoint of the NLF as BCC's banker, this might be tolerable if it were clear that the remainder of the prospectus in para 8 remained unshaken. But that is not the case. It is true that the IFR reduced future cash requirements somewhat (comparisons with baseline, #m):

1988-89	1989-0	1990-91
-13	-58	-162.

14. More important, there has also been a fundamental adverse change because of the decision to privatise BCC's biggest customer, the electricity industry. Ministers intend not to require continuation of the present de facto import protection for BCC. It is not yet clear how quickly the existing restriction may be relaxed, but it is unlikely that there will be much change for a year or so.

15. This will pose a major challenge for BCC. It will not be possible to adjust immediately.

16. The drop in oil prices last year pushed down coal prices, which continued to slide even when oil prices stabilised and firmed. Imports are currently available (landed) at less than half BCC's average deepmined production costs. Spot prices in international coal markets now are at unsustainably low levels. Yet there is little assurance of any significant firming in the next decade or so given strong supply side buoyancy. Import capacity is limited to perhaps 10-15 mtonnes a year at the moment given the existing infrastructure; but this could be raised to 20-25 mtpa quite quickly, and probably to 30-35 mtpa within 3-5 years if an import terminal were constructed.

17. This sets the realistic maximum pace of the adjustment required. The scale of adjustment is potentially very large compared to the size of the total business, which currently produces some 105mtpa, 90mtpa of which is deepmined. The problem is exacerbated by the need to shut capacity to balance out the 10mtpa of production from Selby which is now coming on stream. Despite greatly reduced production costs since the strike (eg productivity has improved by over 50%), international prices have dropped away much faster. The imponderable is how much UK customers, crucially the electricity industry, will be willing to pay for (relative) security of supply.

18. So the trading prospects for British Coal are extremely uncertain. There is clearly a strong chance that British Coal will have to make further price concessions to hold on to its existing business, and may have to concede some of its market (perhaps 10mtpa) to imports as well.

19. The CEBG has estimated the discount required at some #750m a year. While this is clearly a negotiating posture, BCC realistically expect to lose perhaps some #300m a year by the early 1990's. British Coal are doubtful whether they could push through by then retrenchment on the scale necessary to accommodate such serious price concessions. A major round of pit closures would also have a damaging effect on profits in the short term because of the frictional closure costs and, potentially, the need for asset write-offs.

20. This means that the underlying fundamentals on which the resumption of funded lending rested (para 8) have deteriorated seriously:

- (i) break-even as at (a) in 1988-89 can probably just be achieved, but there is now less confidence about this projection, even if, as seems likely the current trading understanding between BCC and CEGB persists for a further year or so;
- (ii) further redundancies and pit closures, involving substantial costs outside the existing business plan, are likely to be required on a scale which is not yet clear but will probably be substantial;
- (iii) the timescale over which the adjustment (ii) will need to take place is very uncertain, but is unlikely to be more than about four or five years, and could be less;
- (iv) given the magnitude of the likely transitional costs at (ii), BCC is unlikely to move securely into profit for a few years after 1988-89;
- (v) unless the government's grant regime is changed, (iv) means that the reserves deficit could temporarily worsen, although not necessarily significantly;
- (vi) in view of the adjustment required, BCC have already mentioned the possibility of a capital reconstruction involving write-off of some #0.75bn of debt (corresponding roughly to the drop in asset values caused by the prospective lower market price of coal; this might be coupled with conversion of perhaps #2.5bn of debt to equity, which would be serviced on less demanding terms, saving some #100m a year.

21. From the viewpoint of the NLF, (vi) is a disturbing signal. BCC are not yet making a firm proposal for a capital reconstruction since the scale of the adjustment required is still so uncertain. No government response has been made to the idea, which runs counter to understandings reached when the Chairman's objectives were agreed in January 1987. The fact that debt write off is suggested at all seems to imply tacit recognition that the auditors' reservations about asset values may be well founded. It follows that the security of the assets against which NLF debt is in effect secured is also impugned.

#### The future business plan

22. In view of all the uncertainties in the prospectus at para 20, it has been agreed by ministers that over the winter there should be a tripartite review of BCC's policy options. Mr Parkinson is expected to write to Sir Robert Haslam to establish the terms of reference shortly. Evaluation of the range of responses available will lead naturally into the reworking of BCC's 1988 corporate plan before the start of 1988-89.

23. It is not yet clear whether the review will be able to identify with any confidence the scale (ii) and speed (iii) of the necessary adjustment. These will be determined by decisions on

the structure of the electricity industry which will not be taken much before the beginning of 1988, if then. It could be some time after that before the trading relationship with British Coal crystallises.

24. As things stand at the moment (ie with access to 5 year term loans), BCC are likely to need to borrow the following sums from the NLF over the IFR period (#m):

	1988-89	1989-90	1990-91
gross funding	787	750	895
net requirements	277	201	127.

25. These sums are consistent with the outcome of the IFR but British Coal's detailed plans may have changed. Policy decisions in the review could also affect the amounts required, eg a decision to go for faster adjustment would mean higher cash requirements in the near term and potential for savings later, though some of the costs would be met by grant.

#### The policy response

26. NLF lending on the scale of para 24 must clearly be carefully justified against the statutory background of para 3. We need to decide whether the deterioration in prospects from those summarised at para 8 to those in para 20 is sufficiently severe to justify an alteration in the lending policy of the NLF. The situation appears worrying.

27. In increasing order of severity, the options available are:

- (1) imposing a risk premium on all or some of NLF loans to BCC, as a commercial banker would;
- (2) restricting NLF lending to temporary terms only, ie to accord with the annually renewed statements of comfort;
- (3) ceasing all NLF lending and financing BCC through voted loans (under 1980 legislation);
- (4) giving Consolidated Fund guarantees on the authority of the Estimates pending taking new grant powers.

#### Summary

28. British Coal (BCC) has suffered fairly severe deterioration in its trading conditions. the considerations which justified partial resumption of term loans appear to be robust enough for the short term, although still subject to substantial uncertainty. However BCC's medium term prospects have markedly worsened because of the imminent liberalisation of the electricity industry's coal supply policy.

29. We need to decide:

- (a) whether the outlook is now so grave as to require us to suspend or substantially restrict BCC's access to NLF facilities again;

- (b) if so, what adjustment(s) should be made;
- (c) whether any change is warranted before the intended strategic review over the winter;
- (d) depending on the outcome of the review, whether a longer term view of the propriety of NLF lending can be taken.

H M TREASURY  
NOVEMBER 1987



**CONFIDENTIAL**

**DRAFT LETTER FROM:** Sir Peter Middleton

**TO:** P L Gregson Esq CB  
Department of Energy  
Thames House South  
Millbank  
LONDON  
SW1

**BRITISH COAL: CREDITWORTHINESS**

When we decided to resume NLF term lending to British Coal earlier this year, we agreed that we might need to reassess British Coal's status as a borrower. As you suggested in your letter of 29 January, the conclusion of the IFR provides a convenient opportunity to do so.

2. It is a pity that the corporate planning discussions we envisaged never took place, but the year is clearly turning out worse than expected for British Coal. Though a strong effort has been made to accommodate adverse market developments, both profitability and cashflow are significantly lower than projected before the beginning of the year. And though the Chairman's commitment remains as strong as ever, the confidence with which breakeven is projected for next year must also be much reduced.

3. More seriously, medium term prospects have also deteriorated. The prospect of liberalisation and the structural weakness of international coal prices are bound to put further pressure on revenue. British Coal has a reserves deficit and the accounts continue to be qualified because of uncertainty about asset values; their interest in debt write-off in the medium term underlines these difficulties.

4. All this casts doubt on the propriety of further NLF borrowing where the crucial question is British Coal's ability to repay

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its debt. I clearly cannot agree to continue to lend for periods greater than a year. With some hesitation I should be prepared to allow lending for shorter periods - where the trading position is covered by the Government's letter of comfort. This is on the understanding that the strategic review which Ministers have agreed will clarify the position before the end of 1987-88 and that there will be a further opportunity at that point to consider the options.

5. Since the review may itself suggest changes in the financing arrangements for British Coal, I am inclined against an announcement for any moment. I think it would be preferable, if there is time, to make any announcement as part of a coherent set of decisions about financing at the conclusion of the strategic review.

6. I should be grateful to know whether you are content.

[PEM]



Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

Austin Mitchell Esq, MP  
House of Commons  
LONDON SW1A 0AA

7 December 1987

*Austin Mitchell*

Thank you for your latest restatement of your case for devaluation and inflation. No-one could accuse you of inconsistency, but I regret I find your arguments as unconvincing as ever. If your proposals were to be put into effect, they would be disastrous for the economy in general and for industry in particular.

*Nigel Lawson*

**NIGEL LAWSON**

FROM AUSTIN MITCHELL MP



HOUSE OF COMMONS  
LONDON SW1A 0AA

AM/JB

16 December 1987

Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

*Dear Nigel:*

*Fall in £ in 1988, although  
necessary adjustment to  
price collapse, but not  
as much as we coming down  
have done @ low inflation  
Competitiveness is, of course,  
of the form importance  
to a fundamtl  
falling to  
equator  
competitiveness  
with a  
weak  
exchange  
rate.*

Dear Nigel

Thank you for your brief reply (of 7 December) to my case for stopping the escalation of the pound. If you think this is a case for inflation, could I ask why the fall in the pound in the period up to the election which has been widely agreed to be beneficial to British industry was not also inflationary in the way you suggest?

Secondly, if competitiveness is in your view disastrous for industry can I ask what representations you have received in favour of the rise in the pound as against the dollar which has taken place since the election and the rise in relation to the D Mark since earlier this year? If a fall in your view is disastrous are we to see these rises as beneficial?

I look forward to hearing from you again.

Yours sincerely

*Austin Mitchell*  
AUSTIN MITCHELL

CONFIDENTIAL



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

*Handwritten signature*

The Rt Hon Cecil Parkinson MP  
Secretary of State for Energy  
Thames House South  
LONDON  
SW1P 4QJ

CH/EXCHEQUE	
REC.	17 DEC 1987 <sup>7/12</sup>
ACTION	MS DIGGLE
COPIES TO	PS/CSF PS/EST
	Sr PM. ddb/ten
	Mr. Anson, Mr. Mack
	D. Moore, Mr. Bigney
	P. Gray

16 December 1987

*Dear Cecil,*

LIBERALISATION OF THE LICENSED COAL INDUSTRY

I was grateful to have sight of your letter of 28 October and the paper produced by your officials. I am also aware that Michael Spicer announced on 20 November the Government's hope that agreement would be reached by Christmas between British Coal and the private sector operators over minor changes in the licensing arrangements covering production at opencast sites.

Anything which increases competition in the coal sector is of course welcome. But I wonder nonetheless if all of this goes far enough. The present system is basically unfair and unduly restrictive in that British Coal is sole judge of whether to issue licenses and on what conditions. The ultimate answer to this is the creation of a completely free market in coal production through privatisation. But in advance of privatisation (which cannot be soon) there is surely a strong case for more thoroughgoing liberalisation.

It was for this reason that I was disappointed that your officials' paper was so quick to dismiss the more radical options which we might contemplate at this stage. In particular, I am reluctant to accept that the practical arguments cited against vesting rights of license in the Crown rather than British Coal need be overwhelming. It does seem to me that we shall not make significant headway in opening up the coal sector to competition unless we can find ways to resolve these obstacles to divesting British Coal of the right to control the activities of its private sector competitors. I wonder whether it would be possible for your officials to look at this, and other more radical options, again? I should be sorry to think that we could not do more at this stage to unfetter the private sector.

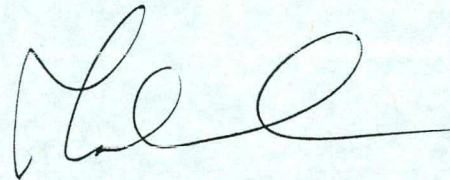
A major extension of private opencast activity at this stage would speed up British Coal's rationalisation of its less economic deep mines, and so result in a more viable British Coal in operation pre-privatisation.

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Conversely, the indefinite continuation of the present arrangements will not only defer the incentive to British Coal to undertake that process of rationalisation, but also frustrate and inhibit the existing private sector whose support we shall need when we do come to privatise. On all scores therefore the case for doing as much as possible at this stage to open up the licensing regime seems to me a strong one. I should be grateful for your further thoughts on this.

A copy of this letter goes to Nigel Lawson, David Young, and Sir Robert Armstrong.

Yours ever,  


MALCOLM RIFKIND

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*pm*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

18 December 1987

Austin Mitchell Esq MP  
House of Commons  
LONDON  
SW1A 0AA

*Austin Mitchell*

Thank you for your further letter of 16 December.

The fall in the pound in 1986, although a necessary adjustment to the oil price collapse, did indeed prevent inflation coming down as much as it would otherwise have done at that time. Competitiveness is, of course, of the first importance to industry, but it is a fundamental fallacy to equate competitiveness with a weak exchange rate.

*Nigel Lawson*

**NIGEL LAWSON**



DEPARTMENT OF ENERGY  
THAMES HOUSE SOUTH  
MILLBANK  
LONDON SW1P 4QJ

Direct Line 01-211 3390  
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PARLIAMENTARY UNDER  
SECRETARY OF STATE

Ms Jill Rutter  
Private Secretary to  
The Rt Hon John Major MP  
Chief Secretary to  
The Treasury  
Parliament Street  
LONDON  
SW1P 3AG

*Ch*  
You may like to glance  
at these pps. You will recall that  
Sir K Couzens telephoned about this in  
November, + that ~~December 1987~~ 1988  
you subsequently had a word with Mr Ridley.  
4 January  
25/11  
Has Mr R  
seen Sulec?

Dear Jill

My Minister has asked me to ensure that these papers are brought to the attention of yours.

*your sincerely  
A M Frewin*

A M FREWIN  
Private Secretary

CHIEF SECRETARY	
REC.	- 5 JAN 1988
ACTION	Mr M Williams
COPIES	X Mr Anson Mr Mordaunt Mr Burgess Mr Moore.

2

*TWA  
Mike  
Williams*

*Ch*  
Mr Ridley did see Sir K Couzens,  
and took note of his points. That meeting  
postdated Mr Waldegans's letter of 12 November,  
so there is some likelihood that DoE may  
be able to be a little more helpful to  
Deneg when they reply to Mr Spruce's letter.

*25/11*





PARLIAMENTARY UNDER  
SECRETARY OF STATE

The Hon William Waldegrave MP  
Minister of State for Housing & Planning  
Department of the Environment  
2 Marsham Street  
LONDON  
SW1P 3EB

DEPARTMENT OF ENERGY  
THAMES HOUSE SOUTH  
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Direct Line 01-211  
Switchboard 01-211 3000

CC PS/BCS  
RS/JS  
MR GUINNESS  
MR BUCKLEY  
MR ATKINSON  
MR FASIT  
MR GRANATT

8 December 1987  
MR DERRICK  
MR Hill O/F

Dear William

#### FUTURE OF OPENCAST COAL INDUSTRY

Thank you for your letter of 12 November and the enclosed copy of the draft guidelines on opencast mining which you plan to issue when the opencast provisions of the Housing and Planning act 1986 come into force. I am sorry that we have been unable to meet your deadline for comment.

Opencast coal can be extracted at a cost which is competitive with all other energy, and it is a fundamental aim of our energy policy to encourage and develop such low-cost UK production. However there are particular reasons at present why it has become especially important to promote the opencast sector. Our success in privatising the electricity industry will depend in no small measure upon our being able to reduce coal costs between now and the early 1990s on a quite unprecedented scale. British Coal are moving as fast as they can to reduce the costs of deep mined production. We are opening up the possibility of imports, although the scope for this is limited by the constraints of port and rail infrastructure. But I regard a fuller contribution from the opencast sector as absolutely crucial.

Both British Coal and I have become increasingly alarmed by the way in which the present circular (3/84) has been working in practice. Application after application has been turned down by the planning authorities in respect of sites which in several cases were regarded only a few years ago as likely to be generally acceptable for opencasting. A much higher proportion of these rejections than before have been upheld on appeal. I accept that there may be some scope for improvement in British Coal's sensitivity to environmental concerns; but I have no doubt that much of the problem lies in the attitude taken by local planning authorities and in the terms of circular 3/84. British Coal have calculated that if the current level of refusals continues opencast production would fall to 7mt in England and Wales by 1991/92. This would be a quite unacceptable outcome. Besides the damage to our energy policy, there would be a loss to British Coal of nearly £150 million pa.



Our officials have consulted closely on the new guidelines, and they go some way towards eliminating the most undesirable features of Circular 3/84. A number of amendments are nevertheless still necessary even to achieve this. I set these out at Annex B. But I have considerable doubts that the balance struck in the draft guidelines adequately recognises the importance of opencast coal as an energy resource; nor, frankly, do I believe it will be sufficient to offset the rooted opposition - sometimes politically motivated - on the part of local authorities. There is already a presumption in favour of development in the guidelines, but it is given little prominence. I would like to see this presumption considerably strengthened and I attach at Annex A a form of words to replace the existing paragraph 4 which I believe is necessary to achieve that.

You may wish to discuss some of these suggestions.

I understand that Malcolm Rifkind has it in mind to issue similar guidelines for Scotland very soon; I would hope that these can be delayed until we have resolved these central policy issues.

I am copying this letter to John Gummer, James Douglas-Hamilton and Ian Grist.

MICHAEL SPICER

4. As the Government's 1983 White Paper "Coal and the Environment" made clear, the main objective of energy policy is to ensure adequate and secure energy supplies at the lowest practicable cost to the nation, consistent with broader economic objectives and with the protection of the environment. The Government's role in relation to energy supply is therefore to help create the conditions necessary for the free operation of the market.

4A. There is thus no Government target for UK coal production or for opencast output. But because opencast coal is one of the cheapest forms of energy available to this country, it is clearly in the national interest to maximise production where that can be done in an environmentally acceptable way. Opencast coal also enables some British deep-mine production which would otherwise be unsalable to be made acceptable to customers and in doing so contributes further to domestic energy production and to employment. There is therefore a presumption on national policy grounds in favour of opencast coal development, additional to the normal presumption in favour of allowing applications for development, unless there are particularly strong and over-riding objections on environmental grounds.

4B. Within this framework, it is for the industry to make commercial decisions about the sites they wish to work and the level of output for which they wish to aim in any period in the light of market conditions. It is the responsibility of mineral planning authorities to examine the acceptability of specific projects, and the conditions which should apply if they proceed.

Delete Paragraph 6.

Amendments to Minerals Planning Guideline Note 3

Para 2

An additional sentence is required at the end of the paragraph on the following lines:

"Opencast coal is not in competition with deep mined nor is the justification for opencast output the filling of some gap between the deep mined output and total demand for coal".

The purpose is to emphasize that opencast coal does not destroy jobs in deep mines and should not be regarded as marginal to other BCC production.

Para 5

a) Line 2 Delete: "...which could not readily be replaced by UK deep mined coal."

This phrase might be seen as carrying the implication that coal not of a "special quality" ought to be replaced by deep mined coal.

b) Add at end;

"The export of low-cost opencast coal may also help the balance of payments."

British Coal or private operators may well wish to export opencast coal from future sites and we see no reason to preclude the possibility by not mentioning it in the guidelines.

Para 7

Redraft the fourth sentence on the following lines:

"There may also be economic benefits such as the low resource cost of the coal; the need for a certain grade of coal for blending or specialised needs; the contribution to local employment, economic side-benefits such as the need to avoid sterilisation of reserves or the efficient extraction of other minerals from the site; and other benefits discussed in paras 4, 4A and 5."

This clarifies that the low resource cost of the coal is an important factor to be taken into account; (the formulation in the draft was is ambiguous ) and makes it clear that any of the benefits in paras 4, 4A and 5 should be weighed in the balance.

#### Para 8

- a) Replace the first sentence with:

"Likewise, the greater the environmental objections to a particular site, the more material will be the possibility of supplying the market from less damaging alternative sites or other secure sources of supply which are economically and commercially competitive in the relevant market".

The idea of "meeting the requirement" harks back to the idea that the planning system should try to balance supply and demand which is contrary to the philosophy outlined in para 4. "Other sources of supply" should certainly be secure; for example very low spot prices on the international market should not be a part of comparison for opencast coal. And our formulation is, we believe, much clearer about the criteria alternative sites or sources of supply must fulfill if they are to displace opencast production. The words "reasonable cost or economically competitive rates in a free market" seem to us ambiguous and to invite further dispute.

- b) Line 15 - Delete "if the development is acceptable in planning terms".

It would not be reasonable to refuse planning permission for a site which was acceptable simply on the grounds that an alternative site or source of supply are available.

#### Para 9

- a) Line 1 Delete "Nonetheless" and insert "also" after "Government". As drafted this paragraph could be interpreted as giving overriding consideration to the environment, irrespective of the benefits of the proposal. Our amendment restores the balance.

- b) Delete last sentence.

The last sentence might be interpreted as suggesting that on some occasion the environmental impact would not need to be weighted against other considerations, as para 7 requires. For the avoidance of doubt we think it better deleted.

Para 15

Line 15 Replace "in" with "from"

Not all opencast coal is sold in the region in which it is produced. Durham opencast coal is often sold into Thameside power stations.

Para 16

Line 6 Make "need" plural.

The BCC's "national assessment sits uneasily with their market-related approach, but they are committed to such assessments. It would be helpful if the plural were used since it would refer back to para 5 rather than discredited volume targets and limits.

Para 23

Replace with:

The developer should be prepared, if it is desired by local interests, to set up a liaison committee consisting of representatives of the developer, the contractors working the site, local authorities and local residents to meet regularly to provide an opportunity for any queries to be brought forward and for information about future activities to be given to those concerned. The setting up of a liaison committee would not in any way reduce the developer's responsibility for day to day supervision of the opencast coal operations. The possibility of establishing liaison committees should be discussed with private operators in circumstances where residents are likely to be affected by the operations".

The current liaison committees work extremely well in maintaining good relationships with local residents and permit a forum for concerns to be expressed and discussed. The proposals in the guidelines would fundamentally change the nature of these committees, by setting them up with the local authorities as equal partners and not clarifying that the local authorities should not reduce the developer's responsibility for day to day supervision of the operations.

Minister of State for  
Housing and Planning



Department of the Environment  
2 Marsham Street  
London SW1P 3EB  
Telephone 01-212 3434

12 November 1987

*D. Michael,*

### OPENCAST COAL GUIDELINES

As you may know we are soon to implement the opencast coal provisions in the Housing and Planning Act 1986 to complete the arrangements for bringing British Coal's opencast operations within the normal minerals planning machinery. The transitional arrangements in DOE Circular 3/84 will no longer apply and the opportunity is being taken to issue a new circular and new guidance to mineral planning authorities on the issues they need to take into account when considering opencast coal proposals. Copies are attached.

We received a considerable number of responses to the consultation draft. While the industry generally supported the terms of the draft, the majority of comments were from local authority and environmental interests who were highly critical of certain aspects of it. In particular many considered the draft to have shifted too far in favour of opencast mining and against the protection of the environment and were concerned that it was proposed that applicants would no longer have to justify the specific need for the coal they wished to extract.

In the light of these comments I have felt it necessary to make certain changes. In particular, we must ensure that the question of BCC's financial position is not seen to prejudice proper planning considerations. However, you will see that we continue to stress the general importance of opencast coal as a source of low cost energy. But it is important to strike the right balance between the need for the coal and environmental considerations. We have set this out fully in paragraphs 7 & 8 of the guidelines.

you will see that since we consulted on the draft my Department has decided that future guidance to local authorities should be issued in a new format. We intend to issue details of changes in legislation in circulars in the usual way but to publish guidance about policy matters in a new series which we believe will be clearer and more helpful. The new guidance notes will of course have the same force as circulars in respect of planning decisions. We hope to launch this series in early December and I would very much like to include opencast coal as part of the package. I would be very grateful therefore for your views within the next 2 weeks and would of course be happy to discuss if you wish.

I am copying this letter and the enclosures to John Gummer, James Douglas-Hamilton and Ian Grist.

<sup>2</sup>  
Wm

WILLIAM WALDEGRAVE

Michael Spicer Esq MP

FROM: PUS (ENERGY'S) OFFICE	
TO <i>Mr Atkin</i>	COPIES TO
FOR ADVICE AND DRAFT REPLY IF APPROPRIATE PLEASE BY:	<i>IS/SOS</i> <i>IS/PUS</i> <i>Mr Gummer</i> <i>Mr Buckley</i> <i>Mr Green</i> <i>Mr Chyden</i> <i>Box</i>
<i>20/11/87</i>	



## DRAFT CIRCULAR

October 1987

## Opencast Coal Mining

1. We are directed by the Secretary of State for the Environment and the Secretary of State for Wales to explain new statutory provisions relating to opencast coal. This Circular supersedes Department of the Environment Circular 3/84 (Welsh Office 13/84) which set out transitional arrangements for dealing with proposals by the British Coal Corporation (BCC) to carry out opencast coal mining. Provisions in the Housing and Planning Act 1986, which are brought into force [on                   ] by the Housing and Planning Act 1986 Commencement (No    ) Order 1987 (SI No    ), amend the Opencast Coal Act 1958 and complete arrangements for bringing BCC within the normal minerals planning machinery. Advice to local authorities on the exercise of planning control over opencast operations is given in DOE and Welsh Office Minerals Planning Guidance Note 3 available from HMSO, price £    .

2. The effect of the legislative changes is that BCC will continue to seek planning permission from mineral planning authorities but will no longer require authorisation from the Secretary of State. However they may continue to make orders under section 4 of the Opencast Coal Act 1958 (the "1958 Act"), as amended by the Housing and Planning Act 1986 (the "1986 Act"), to compulsorily acquire temporary rights of occupation and use of land for opencast coal mining. These orders continue to be subject to confirmation by the Secretary of State and an inquiry or hearing must be held if a valid objection is made by an owner, lessee or occupier of land which is the subject of an order. BCC may also apply to the relevant Secretary of State for an order under section 15 of the 1958 Act, as amended by the 1986 Act, to suspend non-vehicular rights of way. An inquiry must be held if an objection is made by a county or district council in relation to an application for an order in their area. A compulsory rights order may not be

confirmed and a section 15 order may not be made until planning permission is granted. If an inquiry has to be held to consider any such orders for the same site, the Secretary of State intends that they should be considered concurrently, together with any appeal against refusal of opencast planning permission, where this is applicable. Existing powers and arrangements for prospecting under Class XX of the General Development Order 1977 and under section 39 of the 1958 Act remain unchanged.

3. The provisions in the 1986 Act relating to opencast coal are set out in Part V and Schedule 8 to the Act. Section 39 repeals section 1 of the 1958 Act and the associated provisions in sections 2 and 9(2), which are consequential on the repeal of section 1. Essentially, these remove the requirement on BCC to seek authorisation from the relevant Secretary of State for their opencast coal proposals. Section 39 also provides saving provisions to ensure that any actions previously permitted under these sections can continue to be carried out. The rest of the 1958 Act is primarily concerned with BCC's powers to acquire compulsory rights over land to facilitate opencast working, the consequential payment of compensation and provision for the temporary closure of footpaths and bridleways. The new Act does not alter these powers. However, a considerable number of consequential amendments to the 1958 Act were necessary as many of the other provisions in this Act were linked to authorisation. Amendments to replace the references to authorisation with opencast planning permission have therefore been made in the 1986 Act. The requirement in section 3 of the 1958 Act (as amended by paragraph 1 of Schedule 8 to the 1986 Act), that BCC should have regard to the preservation of amenity when formulating proposals for opencast working and in any subsequent restoration of sites, has been retained. In some cases, notably sections 14 (agricultural tenancies) and 15 (suspension of certain public rights of way) of the 1958 Act, the provisions were so inextricably tied to authorisation that it was necessary to rewrite the sections. However, they will continue to operate broadly as they have previously done.

4. As a consequence of the changes made by the 1986 Act, it has also been necessary to amend the Opencast Coal (Authorisation and Compulsory Rights Orders) Regulations 1975 and the Town and Country Planning (National Coal Board) Regulations 1974. The 1975 Regulations have been replaced by the Opencast Coal (Compulsory Rights and Rights of Way) (Forms) Regulations 1987 and are brought into force [on                      ]. These Regulations prescribe the forms to be used by BCC when giving notice of their intention to apply for orders suspending rights of way and when making compulsory rights orders. The changes only take account of the repeal of the authorisation provisions in the 1958 Act. The Town and Country Planning (British Coal Corporation) (Amendment) Regulations 1987 are also brought into force [on                      ]. These simply amend the definition of "specified land" in the Regulations to ensure that BCC's entitlement to compensation under the Town and Country Planning Act 1971 is confined to the same circumstances as those which apply to other mineral operators.

5. BCC will continue to apply to the Secretary of State for Transport or for Wales (as appropriate) for orders to be made under section 209 of the Town and County Planning Act 1971 for the closure and diversion of highways.

6. This Circular does not alter mineral planning authorities functions and is not therefore expected to have any new expenditure or manpower implications. DOE Circular 3/84 (Welsh Office 13/84) is hereby withdrawn.

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DEPARTMENT OF THE ENVIRONMENT/WELSH  
OFFICE  
MINERALS PLANNING GUIDANCE NOTE 3  
OPENCAST COAL MINING

INTRODUCTION

1. These guidelines provide advice to mineral planning authorities on the exercise of planning control over opencast coal mining. In particular they indicate the national policy considerations which need to be taken into account in drawing up opencast coal policies and programmes and some of the factors to be considered when determining individual planning applications, whether submitted by the British Coal Corporation (BCC), or by others. The advice relates only to opencast coal mining and does not extend to associated activities such as disposal points or processing plants. DOE Circular /87 (Welsh Office /87) explains the recent legislative changes made by the Housing and Planning Act 1986.

2. Opencast Coal is an important national resource. The Government recognises this and also recognises that proposals for opencast operations need to be considered with full regard to their potential environmental effects and the scope for mitigating those effects, including the satisfactory restoration of the site. It is therefore essential to strike the right balance between the nation's interest in exploiting this mineral resource and that of protecting the environment. These planning guidelines seek to provide local authorities with advice to help them resolve the conflicting interests which inevitably arise in considering particular development proposals. It is hoped that the guidance will also be useful to the opencast industry in indicating the main considerations they will need to take into account in formulating their proposals. A map of the exposed coalfield areas is shown at Figure 1.

Opencast Coal Production

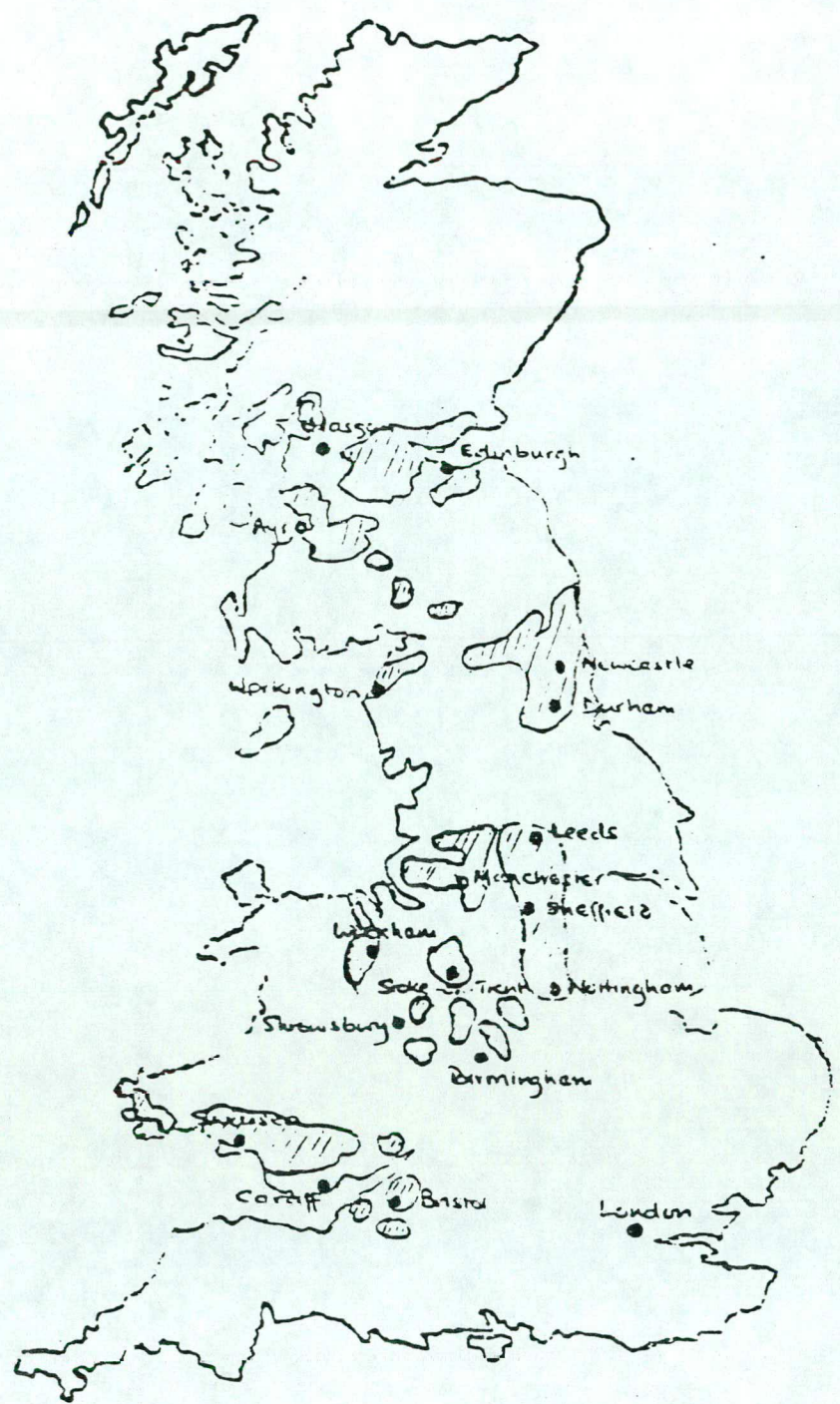
3. Opencast coal can often be produced cheaply and profitably, and

is an important source of low cost energy. In recent years opencast output has been between 14-16 million tonnes a year, 80%-90% of which comes from BCC sites. In 1986/87, private licensed sites produced 2 million tonnes of opencast coal - see table 1. Opencast coal is also an integral part of British Coal's overall production and makes a vital contribution to their finances. The achievement of British Coal's financial objectives as laid down by Government in March 1987 depends upon maximising low cost output, and opencast coal has an important role to play in this.

GUIDELINES

NATIONAL POLICY CONSIDERATIONS

4. As the Government's 1983 White Paper "Coal and the Environment" made clear, the main objective of energy policy is to ensure adequate and secure energy supplies at the lowest practicable cost to the nation, consistent with broader economic objectives and with the protection of the environment. The Government's role in relation to energy supply is therefore to help create the conditions necessary for the free operation of the market. There is thus no target for overall coal production, and it follows that it would be inappropriate for there to be a target for opencast output. Subject to the need to obtain planning permission, the overall level of opencast production is determined by market forces and is not appropriate for local authority resolution. Commercial decisions to work particular sites are for the industry to make and they will decide the level of opencast output which they wish to aim for and the markets they wish to supply. It is the mineral planning authorities responsibility to determine the acceptability of specific projects in relation to relevant planning considerations as with any other application for planning permission.




 Areas of shallow deposits of coal

Figure 1

OPENCAST COALENGLAND, WALES, SCOTLAND

	1976/77	77/78	78/79	79/80	80/81	81/82	82/83	83/84	84/85*	85/86*	86/87
<u>Licensed Sites</u>											
output, million tonnes	0.9	1.0	0.9	1.0	1.1	1.1	1.2	1.4	1.5	2.0	2.0
<u>Opencast Executive</u>											
output, million tonnes	11.4	13.6	13.5	13.0	15.3	14.3	14.7	13.8	13.6	14.1	13.3
operating profit £ million	65	88	97	110	157	157	192	211	142	343	244
<u>Total Opencast Output</u>											
million tonnes	12.3	14.6	14.4	14.0	16.4	15.4	15.9	15.2	15.1	16.1	15.3
<u>Deep Mines</u>											
output, million tonnes	108.5	106.3	105.5	109.3	110.3	108.9	104.9	90.1	27.6	88.4	88.0
operating profit £ million	32	0	-26	-122	-107	-226	-317	-595	-1673	232	41

\*Results affected by industrial dispute

Source: British Coal Report and Accounts 1986/87

Table 1

A proportion of opencast coal production is of special quality which could not readily be replaced by UK deep mined coal. Coal won by opencast means, by virtue of its method of extraction, has less extraneous dirt, less free moisture, better sizing and so better handling characteristics than deep mined coal. Almost all opencast coals have much lower chlorine contents than the average deep mine coal. Some deep mines rely on a supply of opencast coal to provide an overall quality acceptable to the customer, particularly at power stations and in some general industrial markets. One example is in Staffordshire where deep mined coal must be blended with low chlorine coal to achieve an acceptable chlorine content. Opencast production therefore supports a proportion of jobs in BCC's deep mines by allowing blending with coal which would otherwise not be saleable. Opencast coal mining employs around 10,000 people in its own right and provides a significant element in the work of the civil engineering industry. Opencast coal also competes directly with imports, particularly in certain markets such as that for anthracite and coking coal.

6. Whilst recognising the importance of opencast coal the Government is firmly committed to the protection of the environment. It wishes to ensure that the right balance is struck between the national interest in developing these resources and in protecting the environment. Mineral planning authorities will therefore need to make a balanced judgement on each application, taking into account the applicant's case for the proposed development and the environmental implications of carrying it out.

7. Where there are clear planning objections to a particular proposal, the applicant will need to show how these can be overcome or how any detrimental environmental effects can be mitigated. The applicant will no doubt wish to advance, and the mineral planning authority should consider any material arguments which might outweigh these objections to the proposed development. In some cases

these may include environmental benefits such as the clearance of dereliction or other improvement of the quality of the site. There may also be economic benefits of the sort described in paragraphs 4 and 5 above, for example, the importance of the coal as a source of low cost energy, the need for a certain grade of coal for blending or specialised needs, or the contribution to local employment; or economic side-benefits such as the need to avoid sterilisation of reserves or the efficient extraction of other minerals from the site. The greater these benefits are the stronger the environmental objections would need to be to deny permission.

8. Likewise, the greater the environmental objections to a particular site, the more material will be the possibility of meeting the requirement from less damaging alternative sites or sources of supply, although a factor to be considered here is whether the coal could be supplied at reasonable cost or economically competitive rates in a free market. However, the existence of an alternative site or source of supply is not normally a sufficient reason for refusing planning permission if the development is acceptable in planning terms. It is not the function of the planning system to seek to regulate an industry's own commercial judgements on how best to meet the demands of the market eg through the appropriate mix of deep-mined and opencast coal or the balance of opencast output between coalfields. Reasons for refusal must always be based on sound environmental considerations or on other planning grounds.

9. Nonetheless, the Government recognises the impact opencast coal mining can have on a locality. Environmental controls are vital to the acceptability of opencast coal working and must be adhered to if sites are to meet current environmental standards. However, even with the best practicable environmental controls there will be cases where the impact would be such that development should not be permitted.

## National Parks, AONBs, SSSIs, ETC

10. Special policy considerations apply to mineral working, including opencast coal, in areas given protection for environmental reasons. The fact that a site for which an application has been made lies in one of these areas is not sufficient reason in itself for rejecting the proposal, but mineral planning authorities should take account of the advice in DOE Circular 4/76 (Welsh Office 7/76) which states that proposals for new mineral workings or extensions of existing workings affecting National Parks should be subject to the most rigorous examination. This would normally include an assessment of:

- (i) the need for the development, including the extraction of the mineral, in terms of national considerations and the impact of permitting or refusing it upon the local economy.
- (ii) the availability and cost of alternative sources of supply.
- (iii) any detrimental effect on the environment and the landscape and the extent to which that could and should be moderated.
- (iv) whether in the light of this assessment the proposed development would be justified in the public interest.

Proposals in Areas of Outstanding Natural Beauty, National Nature Reserves and Sites of Special Scientific Interest should be subject to similar considerations.

11. The mineral planning authority will also need to consider the effect of the proposals on features of archaeological interest and on the built heritage. Where development involves the demolition or alteration of a listed building, listed building consent is required. Consent is also needed for the demolition of an unlisted building in a conservation area. Where proposals affect the site of a monument scheduled under the Ancient Monuments and Archaeological Areas Act 1979 scheduled monument consent from the Secretary of State will be required. In cases where

unscheduled monuments are likely to be affected, the guidelines published in the CBI's Code of Practice for mineral operators should be followed.

12. Under Section 3 of the Opencast Coal Act 1958 (as amended by paragraph 1 of Schedule 8 to the Housing and Planning Act 1986), British Coal have a duty to have regard to the preservation of amenity when formulating proposals for opencast working and in any subsequent restoration of sites. It is expected that private operators will wish to have regard to similar considerations.

## Green Belts

13. Policy on Green Belts is set out in PPG2. Minerals can be worked only where they are found, and opencast coal extraction need not be incompatible with Green Belt objectives, provided that high environmental standards are maintained and that the site is well restored.

## Agricultural Land

14. The policy on development involving agricultural land is set out in PPG8. This emphasises that in deciding any application for planning permission affecting agricultural land, the agricultural implications, including land quality, must be considered together with the environmental and economic aspects. The Circular also recognises that minerals have to be worked where they occur, and mineral workings provide valuable raw materials for industry and can contribute to the rural economy. It points out that these factors and the feasibility of a high standard of restoration need to be considered in deciding planning applications for mineral working affecting agricultural land.

## Development Plans

15. Where appropriate mineral planning authorities should draw up policies for opencast coal mining in their area. These should be consistent



With the national policy considerations set out above and include the criteria to be applied in determining individual applications, including the restoration and aftercare of sites. As indicated earlier, the Government does not consider it appropriate to set limits or targets for production either nationally or regionally. The market demand for opencast coal in a particular region will vary over time. However they recognise that it will be helpful for the industry and local authorities to discuss at regular intervals and so far as possible agree long-term programmes for opencasting.

16. The Government therefore welcomes BCC's agreement with the local authority associations on a revised Code of Practice for opencast coal mining. Under this BCC will prepare a national assessment of their need for opencast coal, for discussion with the local authority associations with a view to their endorsing it and commending it to individual authorities. It is intended that this assessment will be updated at least every two years in consultation with the local authority associations. BCC will prepare regional coalfield statements indicating the regional impact of the assessment for discussion with mineral planning authorities in each region, and will discuss with individual mineral planning authorities a programme of proposed sites.

17. Similarly it is hoped that private operators will discuss their future working requirements where possible, both with BCC and the local authorities.

18. Mineral planning authorities will wish to take account of any measure of agreement for working sites that they have achieved with the industry following consultation for their area. Although sites within the programme must still be considered on their merits in the normal way, this does provide a helpful indication of where opencasting might be acceptable. Where programmes have been

agreed the Secretary of State will have regard to them in approving development plans and deciding opencast appeals.

#### HANDLING SPECIFIC DEVELOPMENT PROPOSALS

##### Consultations

19. Proposals for opencasting can give rise to considerable concern because of the potential environmental impact operations can have on a locality. The industry should therefore explain fully and as early as possible the nature of their proposals indicating the ways in which they intend to deal with the environmental factors that will arise. Mineral planning authorities should encourage this dialogue.

20. Before an application is submitted to the mineral planning authority for determination, it is desirable for the developer to discuss his proposals with the relevant local authorities and any other organisations whose interests may be affected by the development. Technical issues such as drainage, access arrangements, working methods, pollution control, restoration and after-use should also have been discussed with the appropriate bodies. As a result, once planning applications are submitted, decisions should be reached sooner.

21. Where proposals relate to large sites or sites that may be worked over many years it may be particularly helpful for the applicant to discuss the proposals at an early stage with the local community for example by arranging public meetings and exhibitions. In this way the industry can be alerted to the issues of local concern and seek to meet those concerns as far as possible before submitting formal proposals to the mineral planning authority.

22. Following receipt of a planning application for opencast coal working, the mineral planning authority will undertake, as appropriate, the

consultations specified in Article 15 of the Town and Country Planning General Development Order 1977. In addition they should also consult the Department of Energy, the Ministry of Agriculture, Fisheries and Food or the Welsh Office (as appropriate) where there is likely to be an agricultural afteruse, and any others they consider necessary. The Forestry Commission should be consulted where areas of forest are likely to be affected by opencast coal working or where forestry planting forms part of a reclamation scheme. The Countryside Commission should be invited to comment on any application which has a major impact on the landscape and the Nature Conservancy Council where the proposals affect a National Nature Reserve, SSSI, or other area of ecological importance. English Heritage (or Cadw, where appropriate) should be consulted on cases where proposals for opencast coal working could affect features of archeological interest or the built heritage.

23. Should permission be granted, particularly for major operations, developers are encouraged to set up a liaison committee or advisory panel with the local authorities involving members of the local community and interested bodies to ensure a proper understanding of the working practices in relation to approved opencast workings. Such committees can provide a useful opportunity for interested parties to discuss issues arising out of the day to day operations of a site, and so help work proceed smoothly and with a minimum of inconvenience to those most affected.

#### Specific Impacts

24. Mineral planning authorities will need to have regard to all material considerations when determining applications including the national policy considerations outlined above and relevant policies in approved structure plans. They will need to consider in detail the environmental, nature conservation, agricultural, landscape, traffic and other effects of the proposal that are relevant to the planning decision.

25. The environmental effects of working an opencast coal site can be considerable and developers will need to demonstrate that these can be kept to an acceptable level. For example, the visual intrusion of a site, the effects of dust, noise and vibration from blasting and heavy traffic movements can be reduced by careful planning of operations, including the siting of boundaries and baffle banks, limiting the height of overburden heaps and by moving work away from residential areas quickly. However, there may be cases where these factors either singly or together add up to such a severe effect on the environment and on the quality of life for a locality that the authority will conclude that planning permission should not be given.

26. It follows that the acceptability of opencast coal working will depend in part on the likely environmental impact of the proposals and on the steps to be taken by the developer to minimise those effects. Where a major development is proposed it may be helpful for the environmental issues to be brought together in an environmental assessment.

27. Operators should seek the mineral planning authority's views at an early stage on the preparation of environmental assessments appropriate to the scale of the development and the sensitivity of its location. Opencasting falls within Annex II of the EC Directive on Environmental Assessment (Number 85/337/EEC) under which environmental assessment will be required where a project is judged to have significant effects on the environment. The Directive will come into force by 3 July 1988. Further guidance will be issued before then on the identification of relevant projects.

28. In all cases the mineral planning authority will need information about likely environmental effects as part of the material accompanying an application for planning permission. High standards of managing and

operating sites are essential and mineral planning authorities will wish to consider how best these can be achieved through the appropriate use of planning conditions and agreements made under Section 52 of the 1971 Act. General advice on the imposition of conditions and the use of Section 52 agreements is given in PPG1.

29. Appendix A indicates the main issues which can be raised by an opencast proposal and which are likely to result in conditions being attached to any planning permission which may be granted.

#### Particular Considerations

30. Subject to the effects on the environment, and other factors indicated above, being fully assessed, mineral planning authorities should also take into account the following considerations:

- applications may be considered favourably if the coal would otherwise be sterilised by other forms of development, including major road constructions. It is important that every effort should be made to secure the extraction of economically workable deposits prior to such development commencing, providing this can be done in an environmentally acceptable way.
- opencasting may also afford the opportunity for bringing about environmental improvements in the longer term, for example, by the subsequent restoration of previously derelict sites. Where there is overall environmental benefit to be gained the Government expects the industry and mineral planning authorities to give priority to proposals involving derelict sites, particularly those which would enable former colliery sites to be released quickly for reclamation. This should reduce pressure on sites which are more environmentally sensitive and assist in enabling dereliction to

be cleared more quickly than would otherwise be possible. BCC have agreed to provide local authorities with copies of maps showing areas of known coal deposits which they may wish to work by opencast methods. These should assist authorities in considering applications for other development in the exposed coalfield areas and provide a valuable input to their decisions on priorities for dealing with dereliction;

- where appropriate, authorities will also wish to consider the extent to which the extraction of coal from a site would facilitate the efficient and economic working of other mineral deposits on that site. Where opencast coal seams are found in conjunction with other minerals such as fireclay or brickclay, or are covered by sand and gravel deposits, it is important that the opportunity to work these other minerals commercially is fully explored with mineral operators. This can avoid wasteful restoration, minimise subsequent environmental disturbance and prevent the unnecessary sterilisation of valuable mineral reserves;
- mineral planning authorities will also need to have regard to the extent to which the proposals would facilitate the comprehensive working of the coal deposits of an area in an efficient and environmentally satisfactory manner within a long term programme. Unprogrammed piecemeal working can prolong the environmental disturbance in a locality and developers should avoid seeking to return to areas where working and restoration have only recently ceased. Every effort should therefore be made to establish from the developer the extent of resources in an area before permission is granted.

## RESTORATION AND AFTERCARE

31. Much progress has been made in recent years in restoring former opencast sites to effective use and it is important to continue with this momentum. Proposals for the restoration and aftercare of sites to a subsequent beneficial use should form an important part of the information submitted with a planning application and in earlier informal discussions.

32. This information should be sufficiently detailed for a realistic view to be taken of the after-use intended, including phasing of progressive restorations and the final landform and landscape intended. Whenever possible this should be agreed in advance of planning permission being granted, by the mineral planning authority, district council, site operator, land owners, farming, local community and other relevant local interest groups (eg nature conservation).

33. The principles of restoration should be settled at the time planning permission is granted, although it may sometimes be sensible for the details to be agreed at a later stage. The intended after-use must also be decided when permission is granted, but in the case of longer-term sites the detailed aftercare programme can be settled in a scheme agreed subsequently. Detailed advice on the imposition of aftercare conditions is contained in DOE Circular 1/82 (Welsh Office 3/82).

34. In cases where agriculture is the intended after-use, it is essential that both restoration and after-use should be considered thoroughly at the outset, and in full consultation with the Agriculture Departments, environmental and other interests as appropriate. In cases where forestry is the intended after-use, consultations on its appropriateness and on aftercare requirements should be with the Forestry Commission.

35. In areas given protection for environmental reasons the advice of the Nature Conservancy Council or the Countryside Commission may be appropriate. The Nature Conservancy Council are also willing to offer technical advice on opportunities to restore land to nature conservation value or create new wildlife habitats.

36. The current agency arrangements whereby the Agriculture Departments monitor site working and restoration and manage and supervise the agricultural aftercare programme at BCC opencast sites will continue to be available. Where appropriate, for amenity end-uses, developers might approach bodies such as the Nature Conservancy Council or local authorities to supervise the aftercare programme on an agency basis.

## SPEEDING THE PLANNING PROCESS

37. The Government accepts that opencast coal applications are often complex and can arouse considerable local controversy, and it is important that all material issues receive careful consideration. However, they expect mineral planning authorities to consider applications expeditiously. Pre-application discussions, as recommended in paragraphs 20 and 21 above, between the developer, the local community and the authority are often helpful in speeding the consideration of proposals. Applicants should aim to provide authorities with as much information as possible. If an authority needs additional information from an applicant every effort should be made to ensure that the applicant is not repeatedly approached with different questions: the guidance given in the Annex to MPG2 should help avoid this.

38. Mineral planning authorities are reminded of the advice in PPG1 that "There is ... always a presumption in favour of allowing applications for development, having regard to all material considerations, unless that development would cause demonstrable harm to interests of acknowledged

importance". Reasons for refusal should be complete, precise, specific, and relevant to the application. The attention of mineral planning authorities and appellants is drawn to the information given in DOE Circular 2/87 (Welsh Office 5/87): Award of Costs Incurred in Planning and Compulsory Purchase Order Proceedings.

## MAIN ISSUES WHICH CAN BE RAISED BY OPENCAST PROPOSALS

Visual Impact

1. The degree of visual impact which an opencast coal site can have will depend on a number of factors such as the topography of the area and the proximity to main transport routes and urban development.
2. Visual disturbance will arise from a number of sources, namely, the intrusion in the landscape which in many cases will be rural in character, the development of the site leading to the erection of soil and overburden mounds during the period of extraction, and from the presence of plant and mobile machinery. The need to reduce visual disturbance should be taken into account when planning the site operation. Mounds are built as a matter of routine at the boundary of sites, but to achieve maximum benefit they need to have regard to the topography of the area and the local landscape. Tree planting and landscaping may reduce the visual impact but this solution offers little advantage in the short term before the planting has matured. Trees require to have been planted well in advance of extraction taking place if an effective screen is to be established.
3. Topsoil and subsoil mounds are normally formed close to the site boundary and while they can be a short-term source of disturbance, they can serve not only as baffles against noise and dust but also as a visual screen to the site. These mounds should be grassed down and kept weed free. Careful consideration of the local topography and landscape is required if the maximum screening effect is to be achieved by these mounds. The siting, surface treatment and profiles of soil and overburden mounds will often be important planning considerations. However, mineral planning authorities should be aware that the siting and construction of temporary mounds at opencast coal sites is subject to a voluntary but detailed code of practice drawn up by a joint working party nominated by the Federation of Civil Engineering Contractors and BCC. The code was prepared in consultation with HM Inspectorate of Mines and Quarries. It is intended that a requirement to observe the code of practice should be incorporated into future contracts awarded by BCC. A mineral planning authority should ensure that any conditions which they may wish to attach to a planning permission do not conflict with this code. The Agriculture Departments also have an interest in the construction of mounds since their form and landscape treatment could affect the potential of soils for reinstatement purposes.

Consideration should also be given to minimising the likely impact of restored sites on the surrounding environment. Where appropriate final contours should have regard to the topography of the area and the local landscape, including the provision of hedges, walls and the planting of small copses and woodland where these are characteristic of the area.

### Noise

5. Noise can be a major cause of disturbance, arising from a number of sources; soil stripping, the creation of baffle mounds, workings within the site, blasting and the transportation of the coal. The initial period of earth moving normally lasts approximately 4-6 weeks and is carried out by machinery similar to that used for road construction. Subsequently the baffle mounds and the working depth of the site will reduce the noise level of the site operations outside the site, although their effectiveness may be reduced in situations where housing is located on adjacent higher ground or where machinery is used at a level higher than the top of the baffle mound.

6. The British Standard Code of Practice for noise control applicable to surface coal extraction by opencast methods (BS 5228), which has been approved by the Secretary of State under section 71 of the Control of Pollution Act 1974<sup>1</sup>, will provide useful guidance to mineral planning authorities. The Department of the Environment is also undertaking a research project<sup>2</sup> investigating noise emissions from surface mineral workings with a view to providing further advice on noise limits for mineral sites and how compliance with limits might be monitored.

### Blasting

7. Blasting operations can lead to complaints from the public in areas surrounding an opencast coal site. There are three impacts associated with blasting, namely, ground vibration, air blast wave and projected rock particles (flyrock). The extent of the disturbance will be dependent on the type and quantity of explosive, the degree of confinement, the distance to the nearest buildings, the geology and topography of the site and the atmospheric conditions (temperature inversions, foggy and hazy conditions lead to increased noise levels). Ground vibration is measured in peak particle velocity (mm/sec) and at a level about 100 mm/sec damage to buildings can occur. If a planning authority is

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<sup>1</sup> Codes of Practice approved under section 71 of the Control of Pollution Act 1974 do not have the force of law - their function is to give advice on appropriate methods of minimising noise.

<sup>2</sup> Control of Noise from Surface Minerals Workings

considering imposing planning conditions to protect the surrounding areas from blasting they should consult HM Inspectorate of Mines and Quarries since it is important to ensure the planning conditions are not at variance with good and safe practice under the Mines and Quarries legislation.

### Dust

8. This problem arises through the handling of overburden and coal and the movement of plant over stripped areas. The severity of the problem will vary according to the time of year, time of day, moisture in the soil, temperature, humidity and wind direction.

9. Some action can be taken to reduce disturbance from dust, but by the nature of the problem, it is unlikely to be eradicated in its entirety. Measures which can be applied include ensuring that haulage roads are dampened at all times during dry weather; the surfacing of main site haulage roads with tarmac or concrete; and ensuring that vehicles using public roads undergo wheel washing before leaving the sites. In addition special arrangements can be made for controlling tipping on overburden tips or for dragline casting during periods of high wind.

10. Dust is the only air pollutant associated with opencast mining which is likely to be a problem. In certain conditions, opencast mining could greatly increase the amount of dust deposited. Pasture could have its usefulness to livestock reduced and dwellings could experience nuisance from dust. The problem would normally be confined to periods of dry weather and its effects can be substantially reduced by preventative measures, as outlined in the preceding paragraph.

### Watercourses

11. There is a substantial body of legislation concerned with water pollution problems and it will only be in exceptional cases that additional planning conditions will be necessary.

12. The principal outflow of water from an opencast site is caused by the water that has to be pumped from the excavation to keep the working dry. Suspended solids and acidic drainage from solution of pyrites and other minor minerals in the waste rock are the main potential pollutants, and even quite small amounts or concentrations, if they find their way into natural watercourses, can be harmful to fluvial habitats. Leaching from waste heaps is also a potential source of pollution.



13. Water pollution is an important consideration in assessing an opencast application, although the effects can be difficult to assess particularly if the existing pattern of drainage is complicated and the actual mining operations involve diverting or altering streams in the area. The consent of the Water Authority is required prior to discharging water into water courses. They lay down conditions on the quality of water which is acceptable.

14. Factors such as the collection and treatment of surface water run-off may limit the choice as to how the site is to be worked and where overburden mounds are to be located.

15. The effect of opencast working on drainage patterns and watercourses should be considered not only in respect of the period when a mine is in operation, but also when extraction has been completed and artificial controls such as pumping have ceased. If these matters have not been thoroughly assessed during the extraction and restoration phases of opencast mining, the legacy may prove intractable.

#### Transportation

16. Only in exceptional cases is it likely to be economical to transport the coal directly from the site by rail to fixed investment such as washing plants, and ultimately to disposal points. Road transport is likely to be the norm, and depending on local circumstances, problems from the heavy road vehicle traffic could arise. In the majority of cases public roads will be used and, consequently, conditions attached to the planning permission might stipulate access points, vehicle washing equipment and the operating hours. Consultation with the highway authority and, where appropriate, the relevant Transport Department in relation to trunk roads will be essential. The Agriculture Departments should be consulted at an early stage to ensure that any private access road has the least damaging effect on the structure of agricultural units.

17. In certain circumstances other means of transportation such as pipelines and conveyor belts may be used to move the coal from the opencast site to the washing plant or disposal point.

## Land Use and Built Heritage

18. Much of the land likely to be affected by opencast mining is in agricultural use. In addition to the period when a site is being worked for coal and agricultural production ceases, full exploitation of farming land is restrained for a period after restoration to assist re-development of soil structure.
19. Where pockets of woodland or forests exist consideration should be given to retaining these not only for their intrinsic amenity and ecological qualities, but also for their screening value and their potential to act as dust filters.
20. Opencast coal working can affect, directly or indirectly, areas of nature conservation or other ecological value. Particular care should be given to this matter. In addition to advice from the Nature Conservancy Council, information on areas of value or interest can be obtained from the Countryside Commission, the Wildlife Trust, Royal Society for the Protection of Birds and similar bodies.
21. Opencast coal mining may damage or destroy structures and remains that are of importance to the national heritage. Every effort should be made to preserve Ancient Monuments or at least to provide an opportunity to excavate archaeological sites before they are destroyed. English Heritage (or Cadw as appropriate) should be consulted about such cases and consent should be sought from the Secretary of State where a scheduled monument is likely to be affected.
22. Consideration should be given to the impact which extraction could have on listed buildings and on buildings within conservation areas which might be affected directly or indirectly by opencast coal proposals. Listed building consent is required if such a building is proposed for demolition. In considering whether to grant planning permission special attention should be given to the effect which opencast coal extraction may have on the setting of a listed building or the character or appearance of a conservation area.

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Compulsory Purchase Order Proceedings

DOE /87 (WO /87)

-

Opencast Coal Mining

Planning Policy Guidance Notes

PPG1 - General Policy and Principles

PPG2 - Green Belts

PPG8 - Agricultural Development

Minerals Planning Guidance Notes

MPG2 - Applications, Permissions and Conditions

Other

EEC Directive on Environment Assessment No 85/337/EEC

British Standard Code of Practice for Noise Control - BS 5228

CONFIDENTIAL

FROM: M L Williams 8  
DATE: 12 January 1987

CHIEF SECRETARY

cc - Chancellor  
Financial Secretary  
Mr Anson  
Mr Monck  
Mr Moore  
Mr Instone  
Mr Houston  
Mrs Diggle  
Mr Call

**OPENCAST COAL PRODUCTION**

Mr Spicer and Mr Waldegrave have been corresponding about the guidance to be given to mineral planning authorities on the issues that they should take into account when considering opencast coal proposals. This is an issue in which the Treasury has an interest and, after some proding, Mr Spicer's office has sent across the papers, giving you a locus for comment.

2. The problem is how the guidance should strike the balance between economic and environmental issues. BCC and DEn are extremely concerned at the way in which the present guidance is working, in particular planning authorities are increasingly tending to reject applications that they would have passed a few years ago. The DOE's attempt to draw the balance is at Annex B to Mr Waldegrave's letter (Annex A is a technical circular which has now been issued). Mr Spicer has suggested a number of amendments (his Annex B). However, prompted by BCC (specifically Sir Kenneth Couzens), Mr Spicer has proposed an additional set of amendments (his Annex A) which tips the balance further in presumption of development "to offset rooted opposition...of local authorities."

3. The continued mining of opencast coal is of considerable importance to the Treasury:

- 1) Production costs of opencast are substantially (about one-third) less than of deepmined coal. Without opencast

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production, BCC's deficit and hence their EFL would be over £200m greater; Mr Spicer estimates that if present planning trends continued, BCC might be losing £150m a year (ie nearly ~~10m~~) on this account by 1991-92;

2) the expansion of opencast coal has an important role to play in our plans to liberalise the private sector coal mining industry, so that the UK coal industry generally is more able to compete with imports when the market is opened up with the privatisation of the electricity industry;

3) access to opencast coal will also be a valuable asset, whether sold separately or with deep mines, when we come to privatise BCC.

4. I therefore recommend that you write in support of Mr Spicer. There is no need to commit yourself to his specific drafting proposals (although none is objectionable); you can write in general terms. I do not know how DOE are likely to respond, but I understand that Mr Grist has said that he is content with all Mr Spicer's amendments save one which he thinks is too extreme (the last sentence para 4A in Mr Spicer's Annex A).

5. I attach a draft.



M L WILLIAMS

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DRAFT LETTER FROM CHIEF SECRETARY TO THE HON W WALDEGRAVE MP  
MINISTER OF STATE FOR HOUSING AND PLANNING, DEPARTMENT OF THE  
ENVIRONMENT, 2 MARSHAM STREET, LONDON SW1P 3EB

**FUTURE OF THE OPENCAST COAL INDUSTRY**

Michael Spicer has shown me your recent exchange of letters on the guidance to mineral planning authorities on opencast coal applications.

May I briefly record that I think it vitally important that non-economic barriers to opencast coal production are kept to a minimum. Not only do BCC, and hence the public sector, stand to face a substantial additional burden if the benefits of low cost opencast coal are lost; but a healthy opencast sector is also crucial if the UK coal industry is to be able to meet the challenges of greater competition from low cost imports as the market is increasingly opened up with electricity privatisation and beyond. I therefore very much hope that you can see your way to accepting amendments along the lines proposed by Michael.

I am copying this letter to John Gummer, James Douglas-Hamilton and Ian Grist.

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SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ

01 211 6402

The Rt Hon Malcolm Rifkind MP  
Secretary of State for Scotland  
Scottish Office  
Dover House  
Whitehall  
LONDON  
SW1A 2AU

13 January 1988

Dear Malcolm,

Thank you for your letter of 16 December about the liberalisation of the licensed coal industry.

There appears to have been some misunderstanding of British Coal's attitude to the development of opencast pits. They have certainly not obstructed such development and the operators of such pits have been very willing to confirm this. In fact a large proportion of British Coal's net income is derived from their revenue from opencast mines.

The question of the ownership of coal reserves is important and you are right to raise the point. It will certainly need to be addressed as part of the sort of fundamental restructuring of the coal industry which I believe is inevitable and desirable before too long. However, as I explained in my earlier letter I believe it would be wrong to embark on such a fundamental change outside the context of a major restructuring. It would create considerable controversy prematurely and probably endanger the chances of bringing about restructuring in an orderly fashion. I am also concerned that it could distract British Coal's senior management from their immediate task of achieving break-even and of putting the Corporation into shape for restructuring.

Yours  
Cecil Parkinson

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CECIL PARKINSON



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SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ

01 211 6402

CHIEF SECRETARY	
REC.	20 JAN 1988
ACTION	Mr M Dillan
COPIES TO	CX FST Mr Anson
	Mr Monck Mr Burgess
	Mr Moore Mr Turnbull
	Mr Greve Mr Diggle

Mr Call

The Rt Hon John Major MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

*Bf with advice w*  
*25/1*  
*[Signature]*

20 January 1988

*Dear John,*

**BRITISH COAL FINANCE**

I am writing to seek your agreement:-

- (a) to a revised shadow cash limit on restructuring grants to British Coal in 1987/88;
- (b) to an increased EFL for 1987/88;
- (c) to the terms of the order governing restructuring grants to British Coal for 1988/89;
- (d) to an order to increase the deficit grant available.

The market pressures on British Coal this year have been severe. At the same time productivity has improved and costs have been cut, though not to the extent we had previously hoped. The difficult industrial relations climate has not helped. To remain on course for breakeven next year the Corporation are reducing manpower and closing pits at an accelerated rate. The supplementary redundancy lump sum of £5,000 is proving successful in encouraging men to leave the industry; British Coal now hope that this year's manpower rundown will be over 16,500.

I am sure that we should increase the shadow cash limit on this year's restructuring grant to help British Coal achieve these vital cost savings. The Corporation's best estimate of grant requirement is £232 million; I understand that our officials have examined this figure and are satisfied that it is reasonable. I would therefore be grateful for your agreement to a new limit of £232 million.

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Soley as a result of these extra redundancies, British Coal expect their external financing requirement in 1987/88 to increase to £920 million from the existing £842 million. Again, I am sure it is appropriate for the EFL to be increased to allow British Coal to achieve these important savings and I seek your agreement to this. I suggest that the increase should be announced as soon as possible, and that our officials should agree on an appropriate form of words.

Bob Haslam's acceptance of the breakeven objective for next year was based on a three-year package of Government support for restructuring costs agreed with Peter Walker and John MacGregor. I see no case for disturbing this agreement. I therefore propose that the scope of the restructuring grants order should be unchanged from last year, and that the percentage rate of grant on Heads 1, 2, 5 and 6 should be 72.5%. As last year, a financial limit will be put on Head 4 for technical reasons; a figure of £26.1 million has been agreed with British Coal.

The aggregate of expenditure on restructuring grants will almost certainly exceed the current statutory limit of £300 million during 1988/89. With your agreement I therefore propose to increase the limit to £500 million, which should provide headroom for most eventualities next year. A considered assessment of next year must await the outcome of the strategic review. However on a 'no-change' scenario British Coal expect to need £116 million cash restructuring grant in 1988/89. This assumes 4,300 redundancies, nearly half of them non-industrial. I would prefer not to set a shadow cash limit for next year until the results of the strategic review are known. But if you think that a limit should be set now, I would be prepared to set a limit of £116 million on the understanding that it is subject to the results of the strategic review.

The extra redundancy costs, and extra depreciation costs on early closure of collieries together with the very weak markets during the year have caused the Corporation to increase their forecast deficit for 1987/88 to £285 million. Under the Coal Industry Act 1987, powers exist to pay only £100 million grant towards this deficit. However this can be increased by Order to £200 million, which is the statutory maximum. I propose that we lay the Order allowing the full £200 million to be paid at the same time as the restructuring order.

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The additional redundancies should reduce the wages bill next year, but this saving is likely to be swallowed up by further shortfalls in proceeds. The EFL for 1988/89 will need to be reviewed in the light of these and other factors following the review of the Corporation's business strategy.

*Yours truly,*  
*Cecil*

CECIL PARKINSON

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BF to 28 29/1  
pp. 1!



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Cecil Parkinson MP  
Secretary of State for Energy  
Thames House South  
LONDON  
SW1P 4QJ

CH/EX/IN/QUER	
REC.	22 JAN 1988
ACTION	Mrs Duggie
COPIES TO	PS/CST, PS/FST Su P. Middleton Mr Anson Mr Monck Mr O Moore Mr Burgner

Other pp too, pl.  
(eg. 5/3 lms of 28/10)  
Mr Williams

21 January 1988

Mr MacAulian

Dear Cecil,

LIBERALISATION OF THE LICENSED COAL INDUSTRY

Thank you for your letter of 13 January, in response to mine of 16 December.

I am disappointed that you have not felt able to look again at the practicality of a more radical approach. The issue, as I see it, is not whether British Coal is in practice obstructing opencast development by private operators, but that the present system whereby British Coal is the sole arbiter is inherently unsatisfactory. I remain of the view that we could do more now to tackle this, but I note your position.

A copy of this letter goes to Nigel Lawson, David Young and Sir Robin Butler.

Yours as,  
Malcolm Rifkind

1. cc PS/Chance how

a. Your office was going to arrange a ministerial meeting on this issue (see Mr Taylor's letter of 25 Nov to Mr Parkinson's PS). Any progress?

MALCOLM RIFKIND

b. Please send future action copies to me.

2. to me pce

Malcolm Rifkind

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25/1

1/1/88

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SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Cecil Parkinson MP  
Secretary of State for Energy  
Thames House South  
LONDON  
SW1P 4QJ

22/1

CH/EXC/NEQUER	
REC.	22 JAN 1988
ACTION	Mrs DIGGLE
COPIES TO	PS/CST, PS/FST
	Mr P Middleton
	Mr ANSON
	Mr Monck
	Mr D Moore Mr Burgner

21 January 1988

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A copy of this letter goes to Nigel Lawson, David Young and Sir Robin Butler.

Yours as,  
Malcolm Rifkind

MALCOLM RIFKIND

we haven't recieved the letter of 13 Jan their P.O. is sending it Sarah

Rung again Sarah 1/2

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*Thomson*  
*PHP*

*J.P.B. P.P.*

cc  
Chancellor  
FST  
Mr Anson  
Mr Monck  
Mr Moore  
Mr Instone  
Mr M L Williams  
Mr Houston  
Mrs Diggle  
Mr Call

Treasury Chambers, Parliament Street, S'

The Hon William Waldegrave MP  
Minister of State  
Department of the Environment  
2 Marsham Street  
London  
SW1P 3EB

*[Handwritten signature]*

22<sup>nd</sup> January 1988

Dear Minister,

**FUTURE OF THE OPENCAST COAL INDUSTRY**

Michael Spicer has shown me your recent exchange of letters on the guidance to mineral planning authorities on opencast coal applications.

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I am copying this letter to John Gummer, James Douglas-Hamilton and Ian Grist.

*Yours sincerely,*

*[Handwritten signature]*

**JOHN MAJOR**

(Approved by the Chief Secretary and signed in his absence)

✓ my

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EcS Division, Dept. of Energy, Thames House South,  
Millbank, London SW1P 4QJ phone:01-211-4368

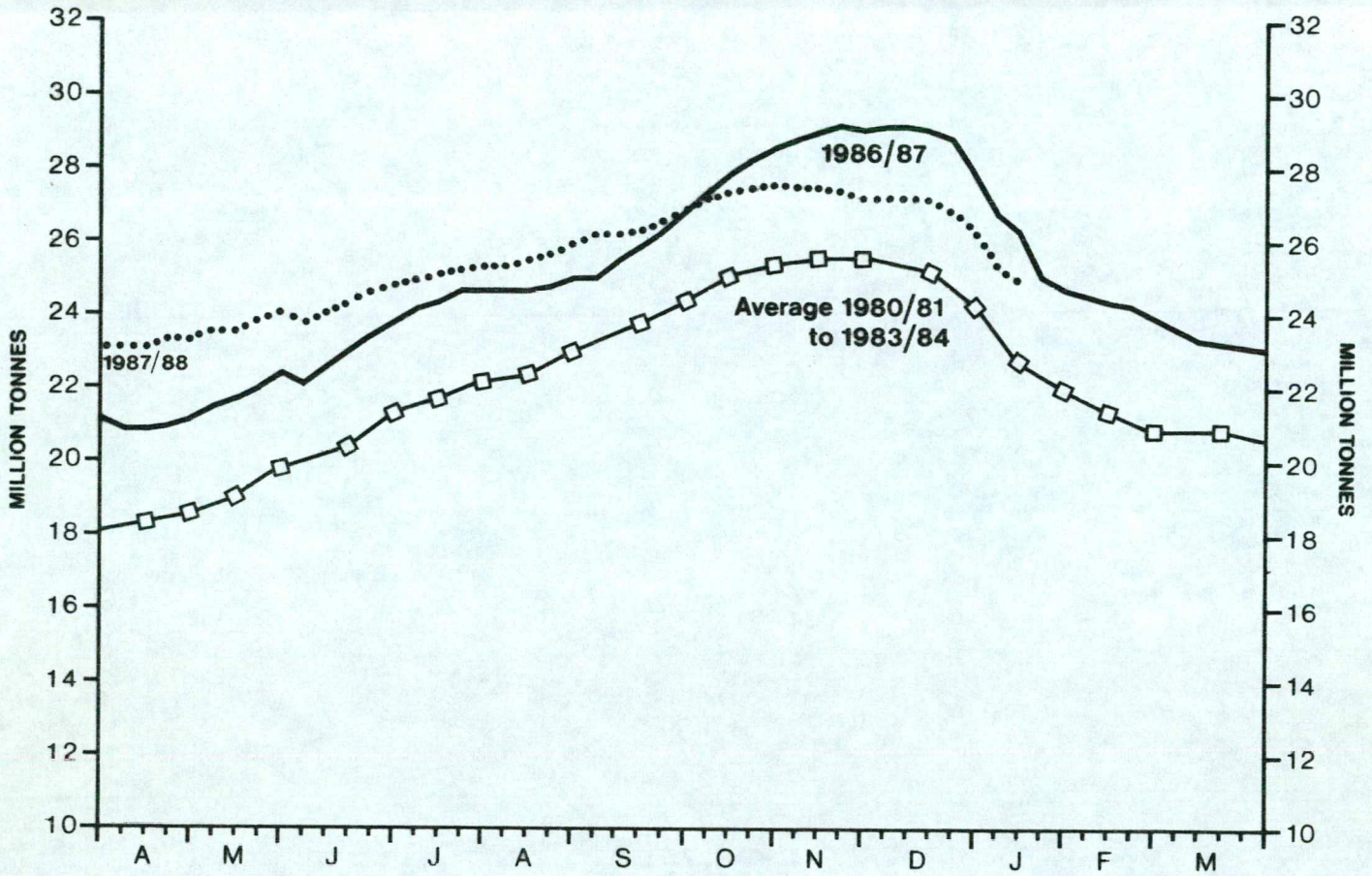
25 JANUARY 1988

Week ending.....		10.1.87	19.12.87	26.12.87	2.1.88	9.1.88
COAL	PRODUCTION (m.tonnes)					
	deep mines+	1.84	1.99	1.02	0.08	1.71
	opencast+	0.25	0.30	0.03	0.02	0.28
	TOTAL	2.09	2.28	1.04	0.11	1.98
	PRODUCTIVITY(2) (tonnes/manshift)					
	'overall'	3.39	4.03	3.28	1.01	3.58
	'production'	14.82	18.07	15.37	6.51	16.34
	UNDISTRIBUTED STOCKS (m.tonnes)					
	deep mines:					
	England	2.84	2.40	2.26	2.16	2.17
S.Wales	2.34	2.18	2.22	2.08	2.05	
Scotland	0.76	0.58	0.53	0.56	0.54	
opencast	2.67	1.33	0.92	1.20	1.15	
TOTAL	8.62	6.50	5.92	6.00	5.90	
POWER STATION	COAL STOCKS (m.tonnes)					
	TOTAL CEBG	24.59	25.44	24.92	23.91	23.64
	Scotland	1.85	1.45	1.41	1.38	1.42
	TOTAL Gt.Britain	26.44	26.89	26.33	25.29	25.06
	COAL CONSUMPTION (m.tonnes)					
	TOTAL CEBG	1.93	1.81	1.48	1.27	1.75
	Scotland	0.11	0.22	0.14	0.04	0.10
	TOTAL Gt.Britain	2.04	2.03	1.62	1.30	1.85
	COAL RECEIPTS (m.tonnes)					
	CEBG	1.49	1.69	0.96	0.26	1.48
Scotland	0.11	0.16	0.10	0.01	0.14	
Gt.Britain	1.60	1.85	1.06	0.27	1.61	
OIL STOCKS(3) (m.tonnes)						
CEBG	0.79	0.72	0.76	0.78	0.76	
Scotland	0.19	0.11	0.09	0.07	0.07	
Gt.Britain	0.98	0.83	0.85	0.85	0.83	
OIL CONSUMPTION (3) (m.tonnes)						
CEGB	0.08	0.07	0.02	0.01	0.05	
Scotland	0.01	0.02	0.03	0.02	0.02	
Gt.Britain	0.09	0.09	0.05	0.03	0.07	
OIL RECEIPTS(3) (m.tonnes)						
CEGB	0.01	0.10	0.07	0.03	0.03	
Scotland	-	0.04	-	-	0.03	
Gt.Britain	0.01	0.13	0.07	0.03	0.06	
GAS CONSUMPTION (m.therms)	CEGB	-	-	-	-	-
ELECTRICITY(4) SUPPLIED (GWh) TOTAL						
Nuclear	989	793	865	996	958	
Other Steam	5,059	5,122	3,933	3,229	4,618	
TOTAL	6,048	5,915	4,798	4,225	5,577	
TOTAL, temperature corrected		5,825	6,010	5,085	..	..

(1) Great Britain unless otherwise stated. All latest figures are subject to revision. (2) British Coal mines only. (3) Oil-fired boilers only. (4) Steam stations only. +includes licensed production.

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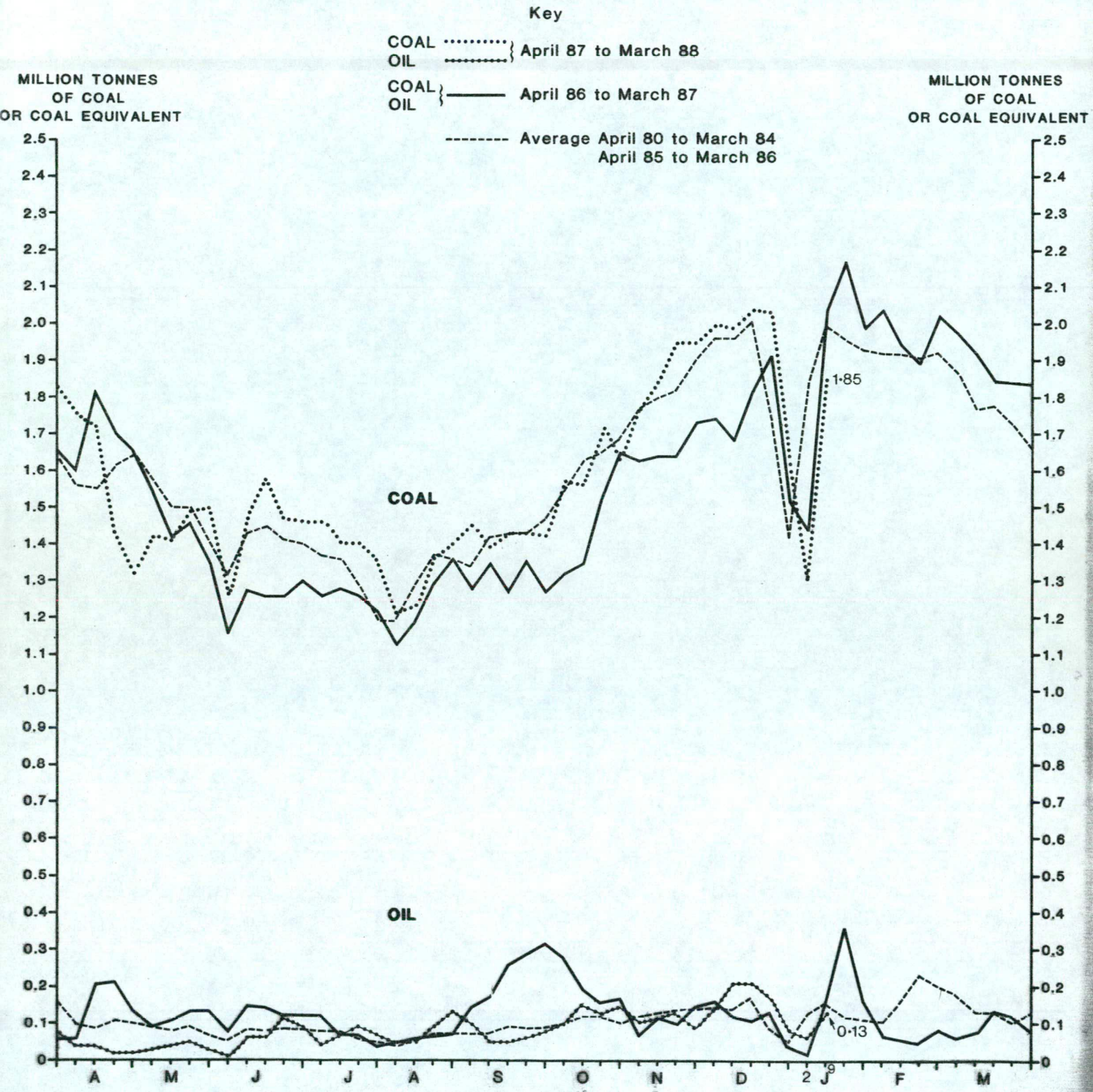
COAL STOCKS AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN





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### COAL CONSUMPTION AND OIL CONSUMPTION (OIL FIRED) AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN



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✓ pmp

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WEEKLY COAL AND POWER STATION STATISTICS (1)

EcS Division, Dept. of Energy, Thames House South,  
Millbank, London SW1P 4QJ phone: 01-211-4368

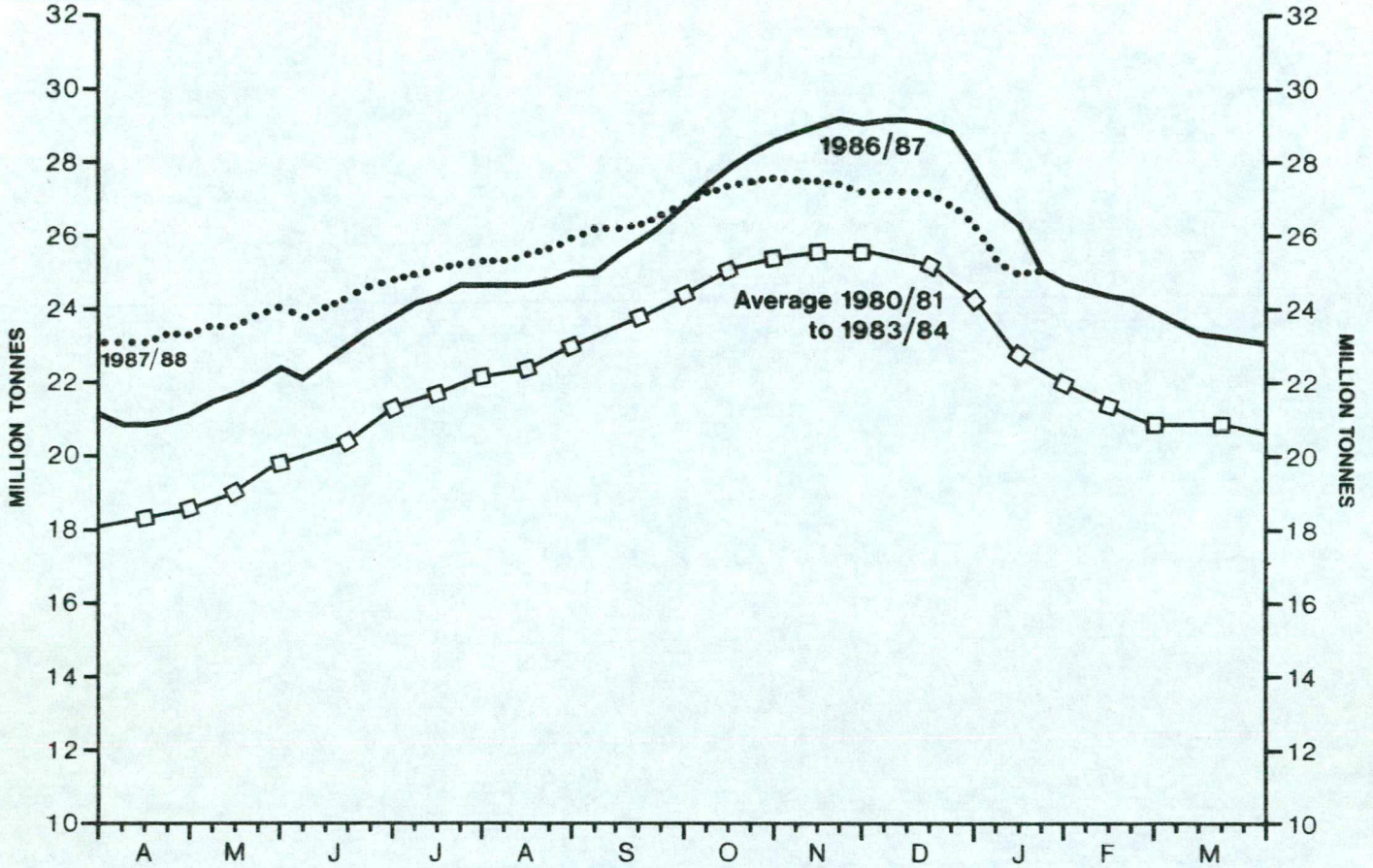
28 JANUARY 1988

Week ending.....		17.1.87	26.12.87	2.1.88	9.1.88	16.1.88
C O A L	PRODUCTION (m. tonnes)					
	deep mines+	1.70	1.02	0.08	1.71	1.95
	opencast+	0.16	0.03	0.02	0.28	0.33
	TOTAL	1.86	1.04	0.11	1.98	2.28
	PRODUCTIVITY(2) (tonnes/manshift)					
	'overall'	3.30	3.28	1.01	3.58	3.92
	'production'	14.32	15.37	6.51	16.34	17.58
	UNDISTRIBUTED STOCKS (m. tonnes)					
	deep mines:					
	England	3.53	2.26	2.16	2.17	2.35
	S.Wales	2.40	2.22	2.08	2.05	2.03
	Scotland	0.78	0.53	0.56	0.54	0.51
	opencast	2.63	0.92	1.20	1.15	1.12
	TOTAL	9.32	5.92	6.00	5.90	6.02
	COAL STOCKS (m. tonnes)					
	TOTAL CEEB	23.34	24.92	23.91	23.64	23.47
	Scotland	1.73	1.41	1.38	1.42	1.43
	TOTAL Gt. Britain	25.08	26.33	25.29	25.06	24.89
	COAL CONSUMPTION (m. tonnes)					
	TOTAL CEEB	1.99	1.48	1.27	1.75	1.78
	Scotland	0.18	0.14	0.04	0.10	0.14
	TOTAL Gt. Britain	2.17	1.62	1.30	1.85	1.91
P O W E R	COAL RECEIPTS (m. tonnes)					
	CEEGB	1.75	0.96	0.26	1.48	1.60
	Scotland	0.06	0.10	0.01	0.14	0.15
	Gt. Britain	1.81	1.06	0.27	1.61	1.75
S T A T I O N	OIL STOCKS(3) (m. tonnes)					
	CEEGB	0.69	0.76	0.78	0.76	0.72
	Scotland	0.18	0.09	0.07	0.07	0.10
	Gt. Britain	0.86	0.85	0.85	0.83	0.82
	OIL CONSUMPTION (3) (m. tonnes)					
	CEEGB	0.19	0.02	0.01	0.05	0.05
	Scotland	0.02	0.03	0.02	0.02	0.03
	Gt. Britain	0.21	0.05	0.03	0.07	0.07
	OIL RECEIPTS(3) (m. tonnes)					
	CEEGB	0.09	0.07	0.03	0.03	0.01
	Scotland	-	-	-	0.03	0.06
	Gt. Britain	0.09	0.07	0.03	0.06	0.07
	GAS CONSUMPTION (m. therms)					
	CEEGB	-	-	-	-	-
	ELECTRICITY(4) SUPPLIED (GWh)					
	Nuclear	965	865	996	958	965
	Other Steam	5,891	3,933	3,229	4,618	4,770
	TOTAL	6,855	4,798	4,225	5,577	5,735
	TOTAL, temperature corrected	5.736	5.085	4.847	5.833	5.801

(1) Great Britain unless otherwise stated. All latest figures are subject to revision. (2) British Coal mines only. (3) Oil-fired boilers only. (4) Steam stations only. +includes licensed production.

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COAL STOCKS AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN



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### COAL CONSUMPTION AND OIL CONSUMPTION (OIL FIRED) AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN

Key

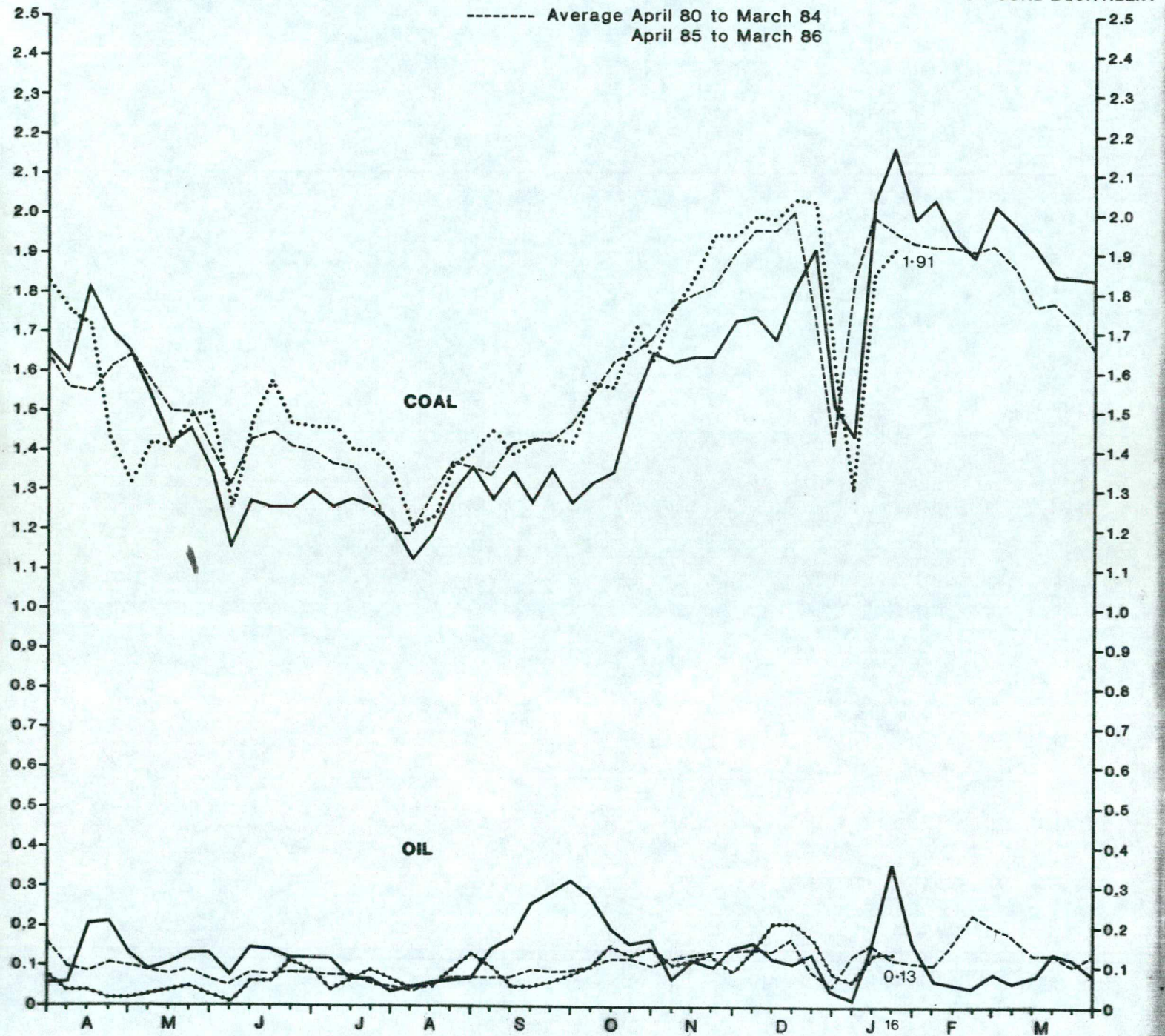
COAL ..... } April 87 to March 88  
OIL ..... }

COAL } ——— April 86 to March 87  
OIL }

----- Average April 80 to March 84  
April 85 to March 86

MILLION TONNES  
OF COAL  
OR COAL EQUIVALENT

MILLION TONNES  
OF COAL  
OR COAL EQUIVALENT



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WEEKLY COAL AND POWER STATION STATISTICS (1)

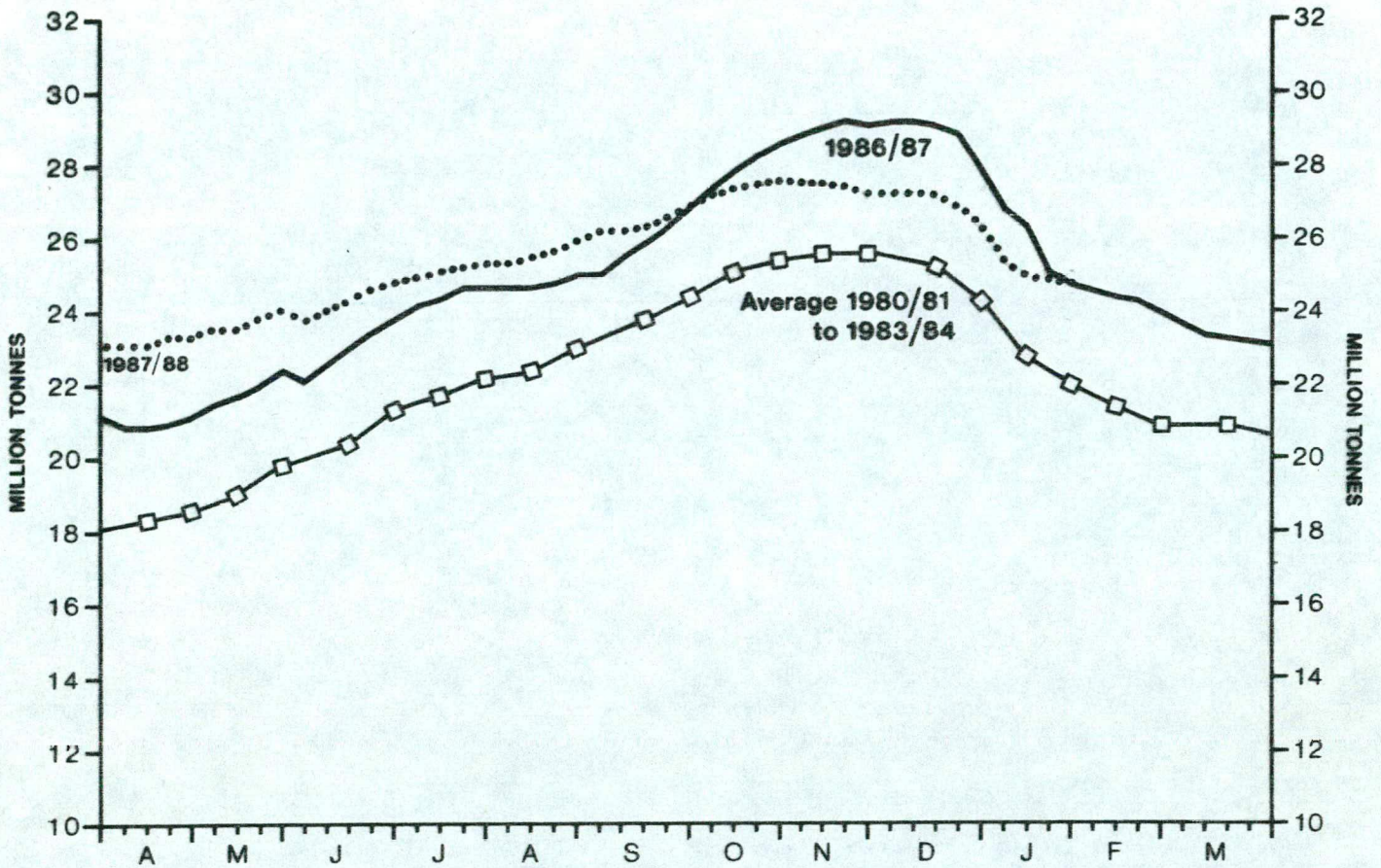
EcS Division, Dept. of Energy, Thames House South,  
Millbank, London SW1P 4QJ phone:01-211-4368 4 FEBRUARY 1988

Week ending.....		24.1.87	2.1.88	9.1.88	16.1.88	23.1.88		
C O A L	PRODUCTION (m. tonnes)	deep mines+ opencast+	1.90 0.29	0.08 0.02	1.71 0.28	1.95 0.33	1.99 3.30	
		TOTAL	2.20	0.11	1.98	2.28	5.29	
	PRODUCTIVITY(2) (tonnes/manshift)	'overall' 'production'	3.48 15.14	1.01 6.51	3.58 16.34	3.92 17.58	3.96 18.07	
U N D I S T R I B U T E D S T O C K S	UNDISTRIBUTED STOCKS (m. tonnes)	deep mines: England S.Wales Scotland opencast TOTAL	3.54 2.43 0.75 2.57 9.29	2.16 2.08 0.56 1.20 6.00	2.17 2.05 0.54 1.15 5.90	2.35 2.03 0.51 1.12 6.02	2.53 2.03 0.49 1.14 6.17	
	C O A L S T O C K S	TOTAL CEGB	23.06	23.91	23.64	23.47	23.26	
		Scotland	1.74	1.38	1.42	1.43	1.44	
		TOTAL Gt. Britain	24.80	25.29	25.06	24.89	24.70	
	C O A L C O N S U M P T I O N	TOTAL CEGB	1.83	1.27	1.75	1.78	1.81	
Scotland		0.16	0.04	0.10	0.14	0.15		
TOTAL Gt. Britain		1.99	1.30	1.85	1.91	1.96		
P O W E R	COAL RECEIPTS (m. tonnes)	CEGB Scotland Gt. Britain	1.56 0.16 1.72	0.26 0.01 0.27	1.48 0.14 1.61	1.60 0.15 1.75	1.61 0.14 1.75	
	S T A T I O N S	OIL STOCKS(3) (m. tonnes)	CEGB Scotland Gt. Britain	0.67 0.18 0.85	0.78 0.07 0.85	0.76 0.07 0.83	0.72 0.10 0.82	0.70 0.10 0.80
		OIL CONSUMPTION (3) (m. tonnes)	CEGB Scotland Gt. Britain	0.10 - 0.10	0.01 0.02 0.03	0.05 0.02 0.07	0.05 0.03 0.07	0.06 0.02 0.08
OIL RECEIPTS(3) (m. tonnes)		CEGB Scotland Gt. Britain	0.08 - 0.08	0.03 - 0.03	0.03 0.03 0.06	0.01 0.06 0.07	0.04 0.03 0.07	
GAS CONSUMPTION (m. therms)	CEGB	-	-	-	-	-		
E L E C T R I C I T Y	ELECTRICITY(4) SUPPLIED (GWh) TOTAL	Nuclear Other Steam	1,030 5,069 6,098	996 3,229 4,225	958 4,618 5,577	965 4,770 5,735	993 4,905 5,898	
	TOTAL, temperature corrected		5,958	4,847	5,833	5,801	5,911	

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COAL STOCKS AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN



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### COAL CONSUMPTION AND OIL CONSUMPTION (OIL FIRED) AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN

Key

COAL ..... } April 87 to March 88

OIL - - - - - } April 87 to March 88

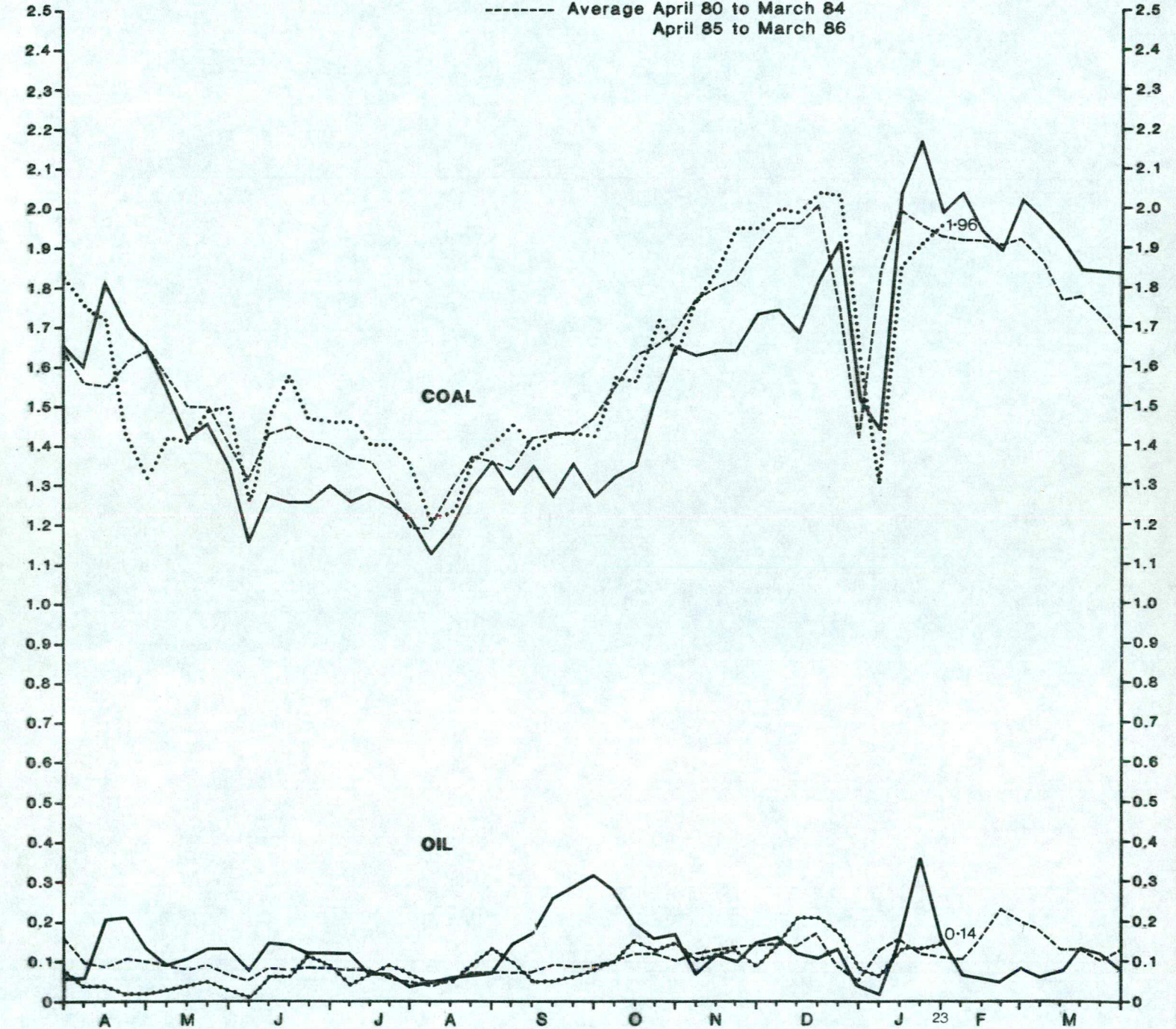
COAL } April 86 to March 87

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- - - - - Average April 80 to March 84  
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MILLION TONNES  
OF COAL  
OR COAL EQUIVALENT

MILLION TONNES  
OF COAL  
OR COAL EQUIVALENT



CONFIDENTIAL



CHIEF SECRETARY	
REC.	12 FEB 1988
ACTION	Mr M. Williams
COPIES TO	Mr M. Anson
	Mr M. ... Mr B. ...
	Mr M. ...

2

PPS - M. ...

My Ref: W/PSO/28135/87

11 February 1988

L. ...

✓

Thank you for your letter of 8 December, commenting on the draft opencast coal guidelines.

I agree that opencast coal is an important source of low cost energy but it is essential to balance the economic benefits that its extraction can bring against the environmental disbenefits. It is very important to strike the right balance in the new guidelines. I am anxious to meet your concerns as far as possible, and I can accept many of your proposed amendments. But we must avoid antagonising the mineral planning authorities, since we need their co-operation.

To deal first with the present position, I have to say that the picture presented to you by British Coal does not accord with our understanding of the situation. British Coal assert that on present trends production will fall to 7 mt in four years time. I see no need to take such a pessimistic view. Average output in England and Wales over the last 7 years has been 11.5 mt per annum. Approved reserves of coal in March 1987 were 51 mt and so far this year a further 9 mt has been authorised. The fact is that, since opencasting was brought within the planning system (but excluding the year of the miners' strike) British Coal have done somewhat better in terms of the average amount of coal authorised than when the Secretary of State for Energy was solely responsible for issuing authorisations. Since 1985/6 the average amount receiving planning permission has been 15.1 mt whereas in the four years up to March 1984 the average was 10.1 mt. However, I have to say that I do not regard it as the function of the planning system to deliver a particular level of coal: each case must be considered on its merits in the light of proper land use considerations. That is why the guidelines emphasise that the overall level of production will be determined by the market subject to the acceptability of individual projects. This is not to say that we can afford to be complacent about the way in which



local planning authorities deal with this aspect of their planning control responsibilities. When David Trippier met the local authority associations recently he emphasised the economic importance of opencast production and urged them to take a positive and realistic attitude towards the industry. The associations fully accepted the importance of opencast coal and would I am sure be willing to co-operate with British Coal providing the Corporation recognises the need to take proper account of environmental concerns. It is essential to build up a good working relationship between the two sides, and the new guidelines can help to do this provided that they reflect a balanced approach and do not appear to be biased.

With regard to your proposed amendments, I am afraid I could not possibly accept that there should be an "additional" presumption in favour of opencasting. We have said in our Circular 14/85 that "there is therefore always a presumption in favour of allowing applications for development, having regard to all material considerations, unless that development would cause demonstrable harm to interests of acknowledged importance". We hold to that but to go further than this in favour of one particular industry would provoke enormous controversy and would do nothing to advance the interests of British Coal. It would certainly lead to pressure for a similar "presumption" from other types of developer. Nor can I accept your proposal to delete paragraph 6, which I regard as indispensable. However I have carefully considered your suggestions and am willing to make a series of further amendments to the guidelines as set out in the attached annex. For convenience I also enclose the full revised text of paragraph 4 which is the key passage and I hope now fully meets your concerns. Could I draw attention in particular to para 4B which emphasises the benefits of opencasting and stresses that there is a strong case in the national interest for allowing these resources to be developed unless there are overriding environmental reasons.

I believe that, with these amendments, the guidelines strike a practical balance between the interests of the industry and the environment, and that they will encourage mineral planning authorities to carry out their functions in a sensible manner. It would be very detrimental to the industry if the guidelines were perceived as having been unduly influenced by them, or if their publication led to a further round of controversy. I trust that we can now move forward and that the guidelines can be issued as soon as possible.

I am copying this letter to John Gummer, James Douglas-Hamilton, Ian Grist and John Major.

W  
W

WILLIAM WALDEGRAVE

Michael Spicer Esq MP

Replacement paragraph for Paragraph 4 of the Guidelines  
National Policy Considerations

4. As the Government's 1983 White Paper "Coal and the Environment" made clear, the main objective of energy policy is to ensure adequate and secure energy supplies at the lowest practicable cost to the nation, consistent with broader economic objectives and with the protection of the environment. The Government's role in relation to energy supply is therefore to help create the conditions necessary for the free operation of the market.

4A. There is thus no Government target for UK coal production or for opencast output. But because opencast coal is one of the cheapest forms of energy available to this country, it is in the national interest to maximise production where that can be done in an environmentally acceptable way. Opencast coal also enables some British deep-mine production which would otherwise be unsaleable to be made acceptable to customers and in doing so contributes further to domestic energy production and to employment.

4B. In addition opencasting is a temporary use of land which generally lasts no more than a few years. A very small proportion of the material worked leaves the site as coal and sites can therefore be restored to a high standard which can produce landscape improvements particularly in the clearance of derelict or despoiled land. For all these reasons there is a strong case in the national interest for allowing these resources to be developed unless there are overriding environmental considerations.

4C. Within this framework, it is for the industry to make commercial decisions about the sites they wish to work and the level of output for which they wish to aim in any period in the light of market conditions. It is the responsibility of mineral planning authorities to examine the acceptability of specific projects, in relation to relevant planning considerations. Subject to the need to obtain planning permission therefore, the overall level of opencast production is determined by the market.

ANNEX

Para.2

Your proposed additional sentence will be inserted at the end of paragraph 3.

Para.4

Amend as follows:

"4. As the Government's 1983 White Paper .....

4A ..... But because opencast coal is one of the cheapest forms of energy available to this country, it is in the national interest to maximise production where that can be done in an environmentally acceptable way. Opencast coal also enables some British deep-mine production which would otherwise be unsaleable to be made acceptable to customers and in doing so contributes further to domestic energy production and to employment.

4B. In addition opencasting is a temporary use of land which generally lasts no more than a few years. A very small proportion of the material worked leaves the site as coal and sites can therefore be restored to a high standard which can produce landscape improvements particularly in the clearance of derelict or despoiled land. For all these reasons there is a strong case in the national interest for allowing these resources to be developed unless there are overriding environmental considerations.

4C. .... examine the acceptability of specific projects in relation to relevant planning considerations. Subject to the need to obtain planning permission therefore, the overall level of opencast production is determined by the market".

Para.5

Agreed.

Para.6

This must be retained as it forms an essential statement on the

need to take a balanced view of opencast proposals.

Para.7

Agreed.

Para.8

(a) Your proposed amendment is likely to lead to more fruitless debate about alternative sources of supply. My officials had previously agreed to a request from yours to qualify this reference but it is not usual for specific alternative sites to be considered: the fundamental question in planning terms is whether, if there are material objections to a particular development, the requirement could reasonably be met from elsewhere. Therefore, I now intend to end the first sentence after "reasonable cost".

(b) I do not understand your proposed deletion. The reason for including this sentence is, as you say, to ensure that planning permission is not refused simply because an alternative site or source of supply is available.

Para.9

(a) Agreed.

(b) We must retain the last sentence to maintain a proper balance.

Paras.15 & 16

Agreed.

Para.23

Amend as follows:

"Should permission be granted, particularly for major operations, developers are encouraged to set up a liaison committee or advisory panel consisting of representations of the developer, the contractors working the site, local authorities and members of the local community and interested bodies to ensure that operations proceed smoothly and with minimum inconvenience to those most affected."

## CONFIDENTIAL

## WEEKLY COAL AND POWER STATION STATISTICS (1)

ECS Division, Dept. of Energy, Thames House South,  
Millbank, London SW1P 4QJ

phone:01-211-4368

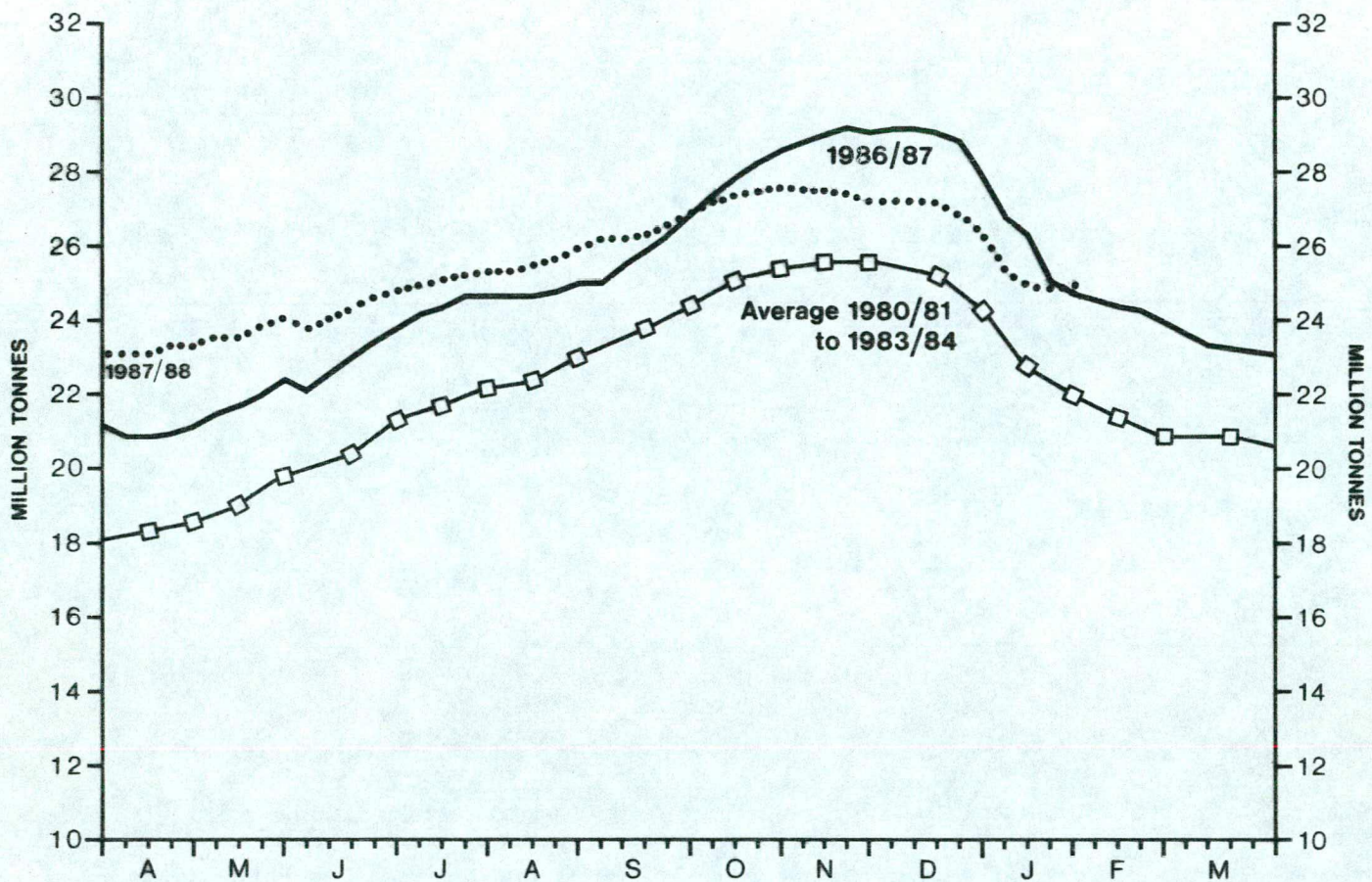
12 FEBRUARY 1988

Week ending.....		31.1.87	9.1.88	16.1.88	23.1.88	30.1.88	
C O A L	PRODUCTION						
	(m.tonnes)	deep mines+	1.93	1.71	1.95	1.98	1.87
		opencast+	0.32	0.28	0.34	0.33	0.33
	TOTAL	2.25	1.98	2.28	2.31	2.20	
C O A L	PRODUCTIVITY(2)	'overall'	3.54	3.58	3.92	3.95	3.76
	(m.tonnes/manshift)	'production'	15.28	16.34	17.58	18.07	17.34
U N D I S T R I B U T E D	STOCKS	deep mines:					
	(m.tonnes)	England	3.53	2.17	2.35	2.53	2.57
		S.Wales	2.46	2.05	2.03	2.03	2.06
		Scotland	0.75	0.54	0.51	0.49	0.46
		opencast	2.57	1.15	1.12	1.14	1.16
	TOTAL	9.31	5.90	6.02	6.17	6.24	
C O A L	STOCKS	TOTAL CEEGB	22.81	23.64	23.47	23.26	23.12
	(m.tonnes)	Scotland	1.75	1.42	1.43	1.45	1.44
		TOTAL Gt.Britain	24.55	25.06	24.89	24.71	24.55
C O A L	CONSUMPTION	TOTAL CEEGB	1.89	1.75	1.78	1.81	1.84
	(m.tonnes)	Scotland	0.15	0.10	0.14	0.13	0.15
		TOTAL Gt.Britain	2.04	1.85	1.91	1.95	1.99
P O W E R	RECEIPTS	CEGB	1.64	1.48	1.60	1.61	1.69
	(m.tonnes)	Scotland	0.16	0.14	0.15	0.15	0.14
		Gt.Britain	1.80	1.61	1.75	1.76	1.84
S T A T I O N	STOCKS(3)	CEGB	0.71	0.76	0.72	0.70	0.71
	(m.tonnes)	Scotland	0.18	0.07	0.10	0.10	0.10
		Gt.Britain	0.89	0.83	0.82	0.81	0.82
S T A T I O N	CONSUMPTION (3)	CEGB	0.04	0.05	0.05	0.05	0.05
	(m.tonnes)	Scotland	0.04	0.02	0.03	0.02	0.03
		Gt.Britain	0.04	0.07	0.07	0.08	0.08
O I L	RECEIPTS(3)	CEGB	0.08	0.03	0.01	0.04	0.07
	(m.tonnes)	Scotland	-	0.03	0.06	0.03	0.02
		Gt.Britain	0.08	0.06	0.07	0.06	0.09
G A S	CONSUMPTION	CEGB	-	-	-	-	-
	(m.therms)						
E L E C T R I C I T Y	SUPPLIED	Nuclear	1,034	958	965	1,004	890
	(GWh)	Other Steam	4,927	4,618	4,770	4,856	4,982
		TOTAL	5,960	5,577	5,735	5,860	5,872
TOTAL, temperature corrected			5,604	5,833	5,801	5,960	5,966

(1) Great Britain unless otherwise stated. All latest figures are subject to revision. (2) British Coal mines only. (3) Oil-fired boilers only. (4) Steam stations only. +includes licensed production.

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COAL STOCKS AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN



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### COAL CONSUMPTION AND OIL CONSUMPTION (OIL FIRED) AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN

Key

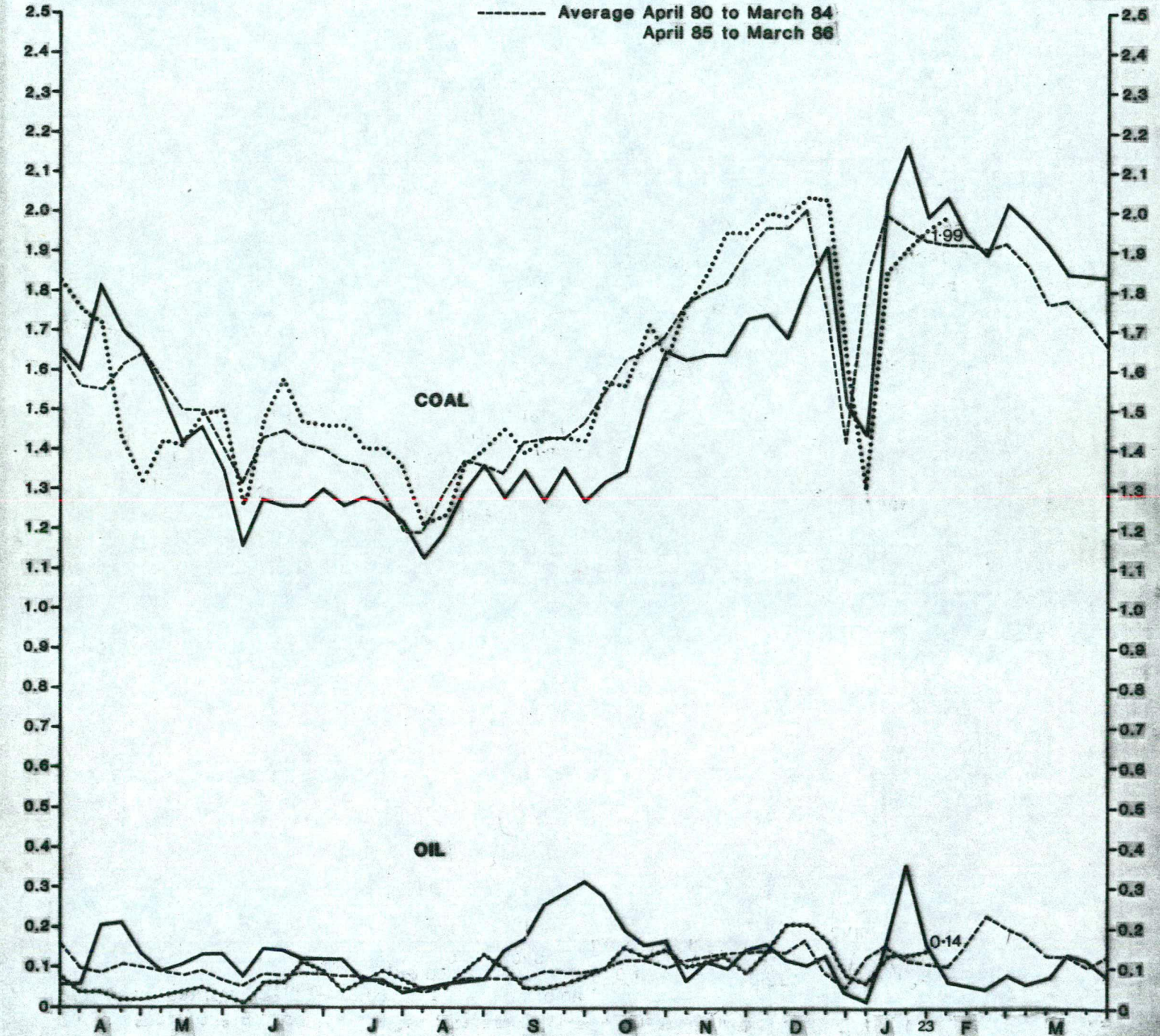
COAL ..... } April 87 to March 88  
OIL ..... }

COAL } ——— April 86 to March 87  
OIL }

----- Average April 80 to March 84  
April 85 to March 86

MILLION TONNES  
OF COAL  
OR COAL EQUIVALENT

MILLION TONNES  
OF COAL  
OR COAL EQUIVALENT



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WEEKLY COAL AND POWER STATION STATISTICS (1)  
 EcS Division, Dept. of Energy, Thames House South,  
 Millbank, London SW1P 4QJ phone:01-211-4368 18 FEBRUARY 1988

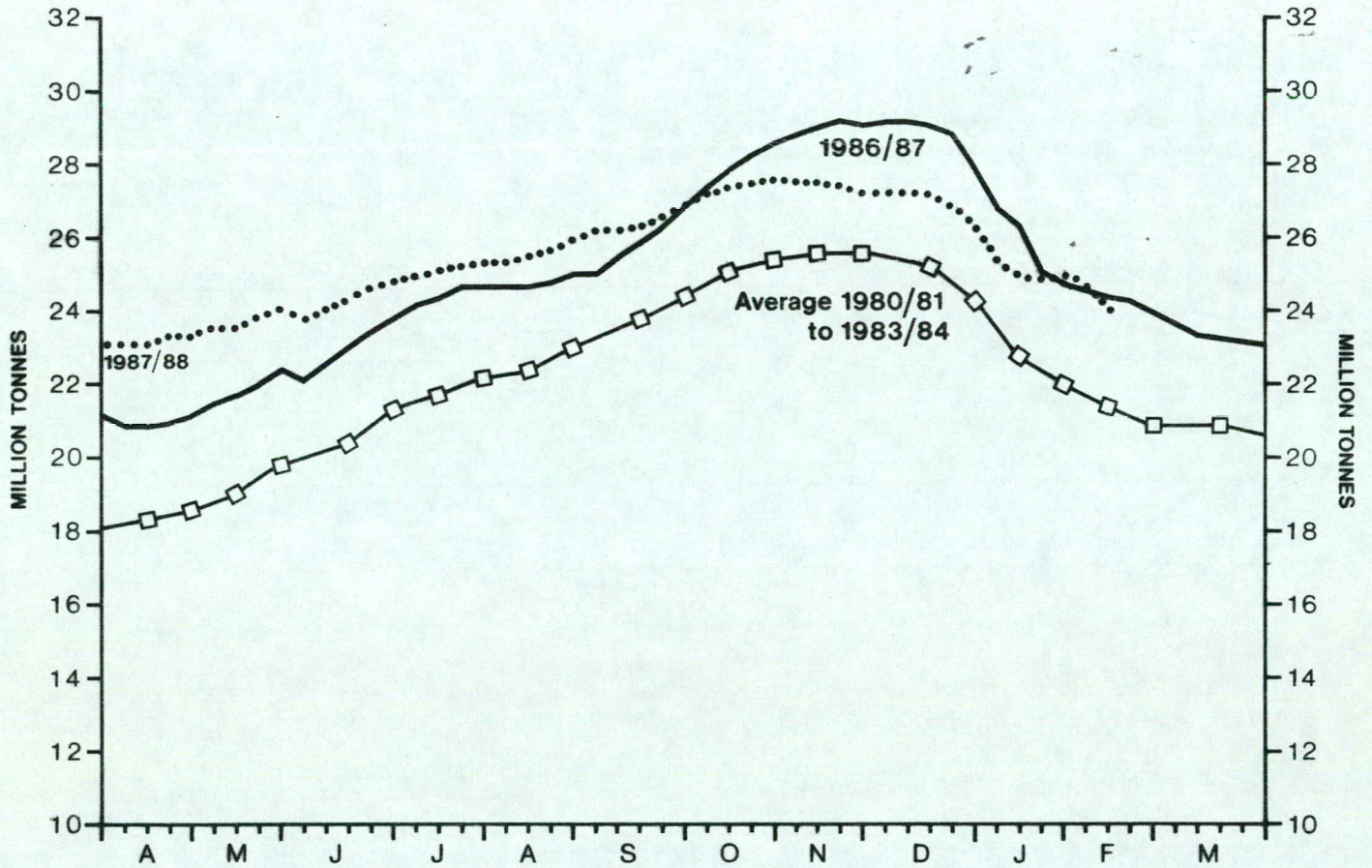
Week ending.....		7.2.87	16.1.88	23.1.88	30.1.88	6.2.88
C O A L	PRODUCTION (m.tonnes)					
	deep mines+	1.91	1.95	1.98	1.87	1.22
	opencast+	0.31	0.34	0.33	0.33	0.33
	TOTAL	2.22	2.28	2.31	2.20	1.55
C O A L	PRODUCTIVITY(2) (tonnes/manshift)					
	'overall'	3.58	3.92	3.95	3.76	3.31
	'production'	15.55	17.58	18.07	17.34	16.71
U N D I S T R I B U T E D	STOCKS (m.tonnes)					
	deep mines:					
	England	3.59	2.35	2.53	2.57	2.36
	S.Wales	2.45	2.03	2.03	2.06	2.03
	Scotland	0.75	0.51	0.49	0.46	0.44
	opencast	2.53	1.12	1.14	1.16	1.17
	TOTAL	9.32	6.02	6.17	6.24	6.00
C O A L	COAL STOCKS (m.tonnes)					
	TOTAL CEBG	22.65	23.47	23.26	23.12	22.58
	Scotland	1.73	1.43	1.45	1.44	1.44
	TOTAL Gt.Britain	24.38	24.89	24.71	24.55	24.02
C O A L	CONSUMPTION (m.tonnes)					
	TOTAL CEBG	1.80	1.78	1.81	1.84	1.87
	Scotland	0.15	0.14	0.13	0.15	0.14
	TOTAL Gt.Britain	1.95	1.91	1.95	1.99	2.01
P O W E R	COAL RECEIPTS (m.tonnes)					
	CEBG	1.65	1.60	1.61	1.69	1.33
	Scotland	0.13	0.15	0.15	0.14	0.13
	Gt.Britain	1.78	1.75	1.76	1.84	1.47
S T A T I O N	OIL STOCKS(3) (m.tonnes)					
	CEBG	0.71	0.72	0.70	0.71	0.68
	Scotland	0.18	0.10	0.10	0.10	0.10
	Gt.Britain	0.89	0.82	0.81	0.82	0.79
O I L	CONSUMPTION (3) (m.tonnes)					
	CEBG	0.03	0.05	0.05	0.05	0.07
	Scotland	-	0.03	0.02	0.03	0.03
	Gt.Britain	0.03	0.07	0.08	0.08	0.09
O I L	RECEIPTS(3) (m.tonnes)					
	CEBG	0.04	0.01	0.04	0.07	0.04
	Scotland	-	0.06	0.03	0.02	0.02
	Gt.Britain	0.04	0.07	0.06	0.09	0.06
GAS CONSUMPTION (m.therms)	CEBG	-	-	-	-	-
E L E C T R I C I T Y	SUPPLIED (GWh)					
	Nuclear	995	965	1,004	890	813
	Other Steam	4,640	4,770	4,856	4,982	4,767
	TOTAL	5,635	5,735	5,860	5,872	5,580
TOTAL, temperature corrected		5,739	5,801	5,960	5,966	5,645

(1) Great Britain unless otherwise stated. All latest figures are subject to revision. (2) British Coal mines only. (3) Oil-fired boilers only. (4) Steam stations only. +includes licensed production.

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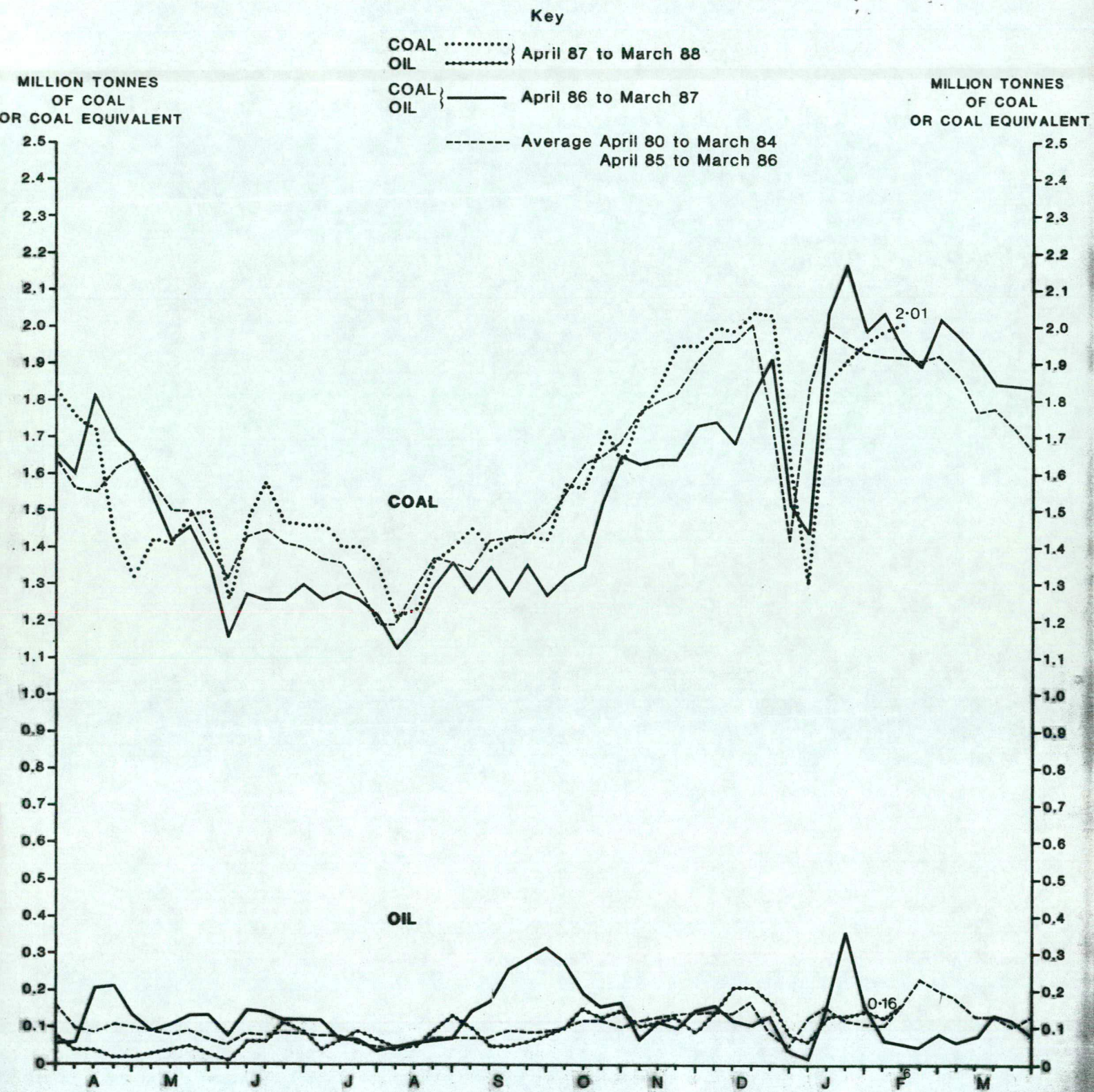


COAL STOCKS AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN



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### COAL CONSUMPTION AND OIL CONSUMPTION (OIL FIRED) AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN



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## WEEKLY COAL AND POWER STATION STATISTICS (1)

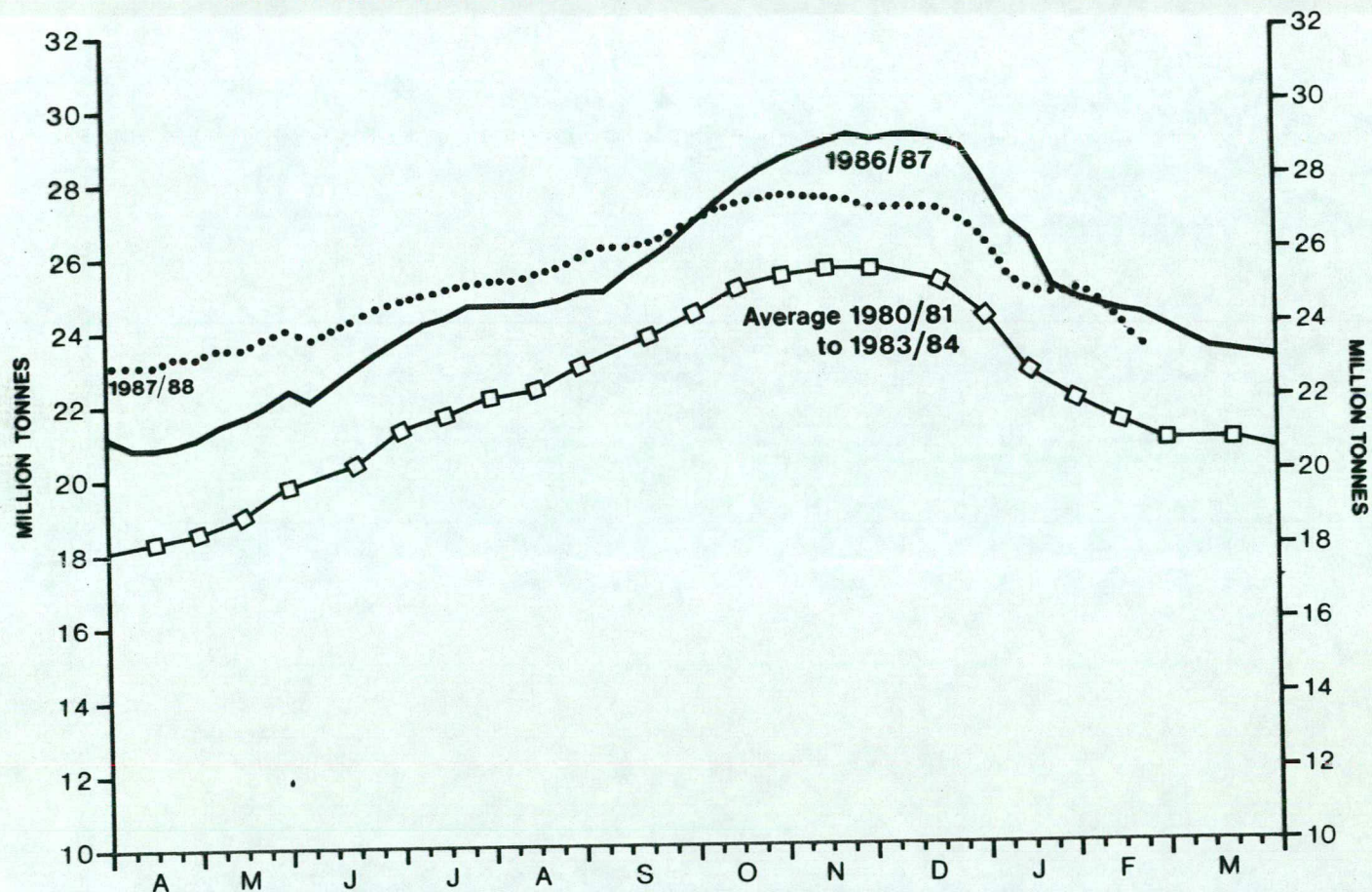
EcS Division, Dept. of Energy, Thames House South,  
Millbank, London SW1P 4QJ phone:01-211-4368

25 FEBRUARY 1988

Week ending.....		14.2.87	23.1.88	30.1.88	6.2.88	13.2.88	
C O A L	PRODUCTION (m.tonnes)	deep mines+	1.91	1.98	1.87	1.22	1.37
		opencast+	0.31	0.33	0.33	0.33	0.34
		TOTAL	2.21	2.31	2.20	1.55	1.71
C O A L	PRODUCTIVITY(2) (tonnes/manshift)	'overall'	3.55	3.95	3.76	3.31	3.38
		'production'	15.58	18.07	17.34	16.71	16.70
U N D I S T R I B U T E D S T O C K S	(m.tonnes)	deep mines:					
		England	3.59	2.53	2.57	2.36	2.31
		S.Wales	2.49	2.03	2.06	2.03	2.02
		Scotland	0.74	0.49	0.46	0.44	0.42
		opencast	2.47	1.14	1.16	1.17	1.18
	TOTAL	9.29	6.17	6.24	6.00	5.93	
C O A L	(m.tonnes)	TOTAL CEGB	22.53	23.26	23.12	22.58	21.97
		Scotland	1.74	1.45	1.44	1.44	1.45
		TOTAL Gt.Britain	24.27	24.71	24.55	24.02	23.43
C O A L	(m.tonnes)	TOTAL CEGB	1.76	1.81	1.84	1.87	1.91
		Scotland	0.14	0.13	0.15	0.14	0.11
		TOTAL Gt.Britain	1.90	1.95	1.99	2.01	2.02
P O W E R	(m.tonnes)	CEGB	1.64	1.61	1.69	1.33	1.30
		Scotland	0.15	0.15	0.14	0.13	0.13
		Gt.Britain	1.78	1.76	1.84	1.47	1.43
S T A T I O N	(m.tonnes)	CEGB	0.69	0.70	0.71	0.68	0.66
		Scotland	0.18	0.10	0.10	0.10	0.10
		Gt.Britain	0.87	0.81	0.82	0.79	0.76
O I L	(m.tonnes)	CEGB	0.03	0.05	0.05	0.07	0.06
		Scotland	-	0.02	0.03	0.03	0.03
		Gt.Britain	0.03	0.08	0.08	0.09	0.09
O I L	(m.tonnes)	CEGB	-	0.04	0.07	0.04	0.04
		Scotland	-	0.03	0.02	0.02	0.02
		Gt.Britain	-	0.06	0.09	0.06	0.06
GAS CONSUMPTION (m.therms)	CEGB	-	-	-	-	-	
E L E C T R I C I T Y	(GWh)	Nuclear	1,044	1,004	890	813	789
		Other Steam	4,534	4,856	4,982	4,767	5,094
		TOTAL	5,577	5,860	5,872	5,580	5,882
TOTAL, temperature corrected		5,654	5,960	5,966	5,645	5,828	

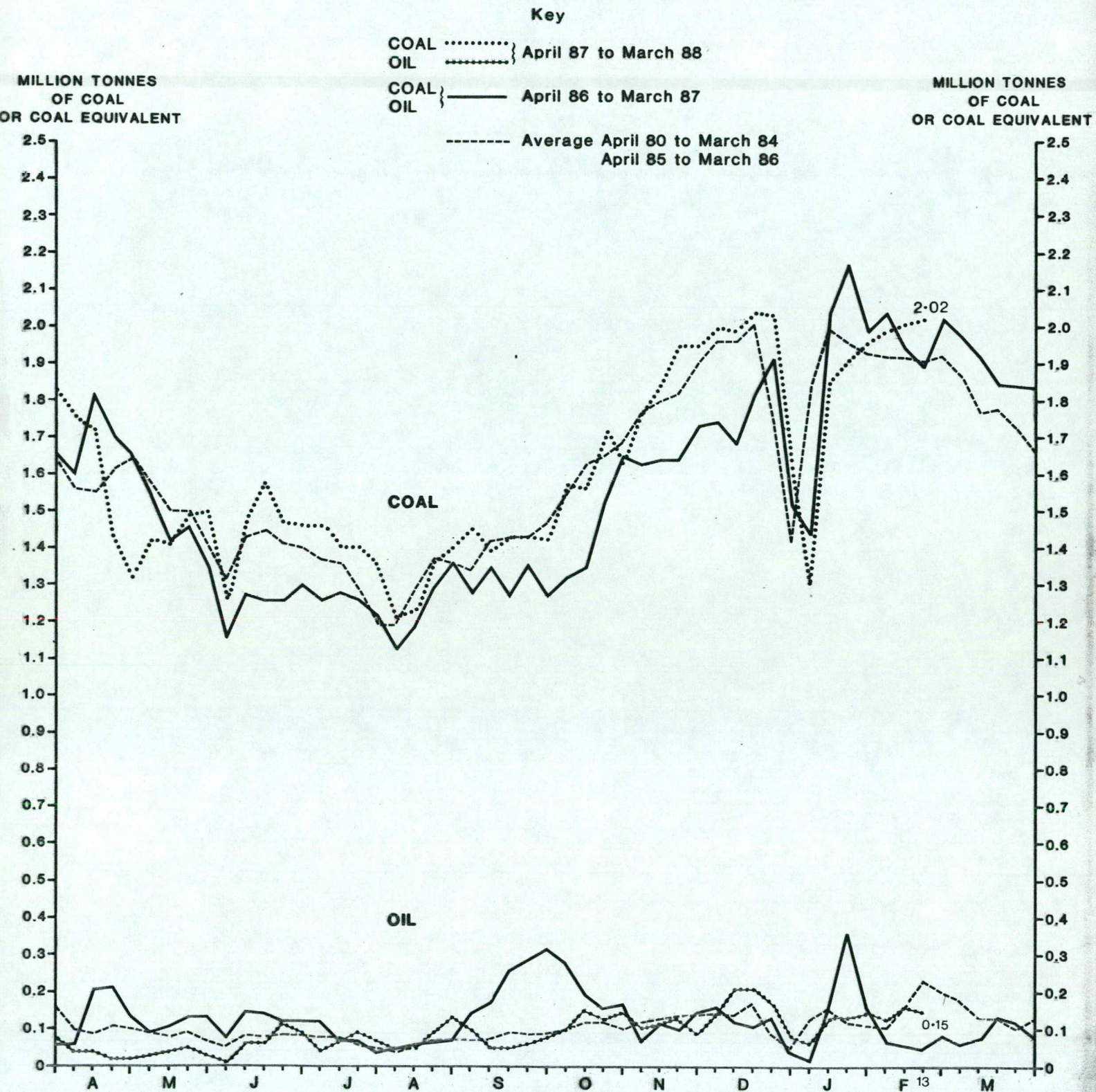
(1) Great Britain unless otherwise stated. All latest figures are subject to revision. (2) British Coal mines only. (3) Oil-fired boilers only. (4) Steam stations only. +includes licensed production.

COAL STOCKS AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN



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### COAL CONSUMPTION AND OIL CONSUMPTION (OIL FIRED) AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN



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## CONFIDENTIAL

## WEEKLY COAL AND POWER STATION STATISTICS (1)

ECS Division, Dept. of Energy, Thames House South,  
Millbank, London SW1P 4QJ phone: 01-211-4368

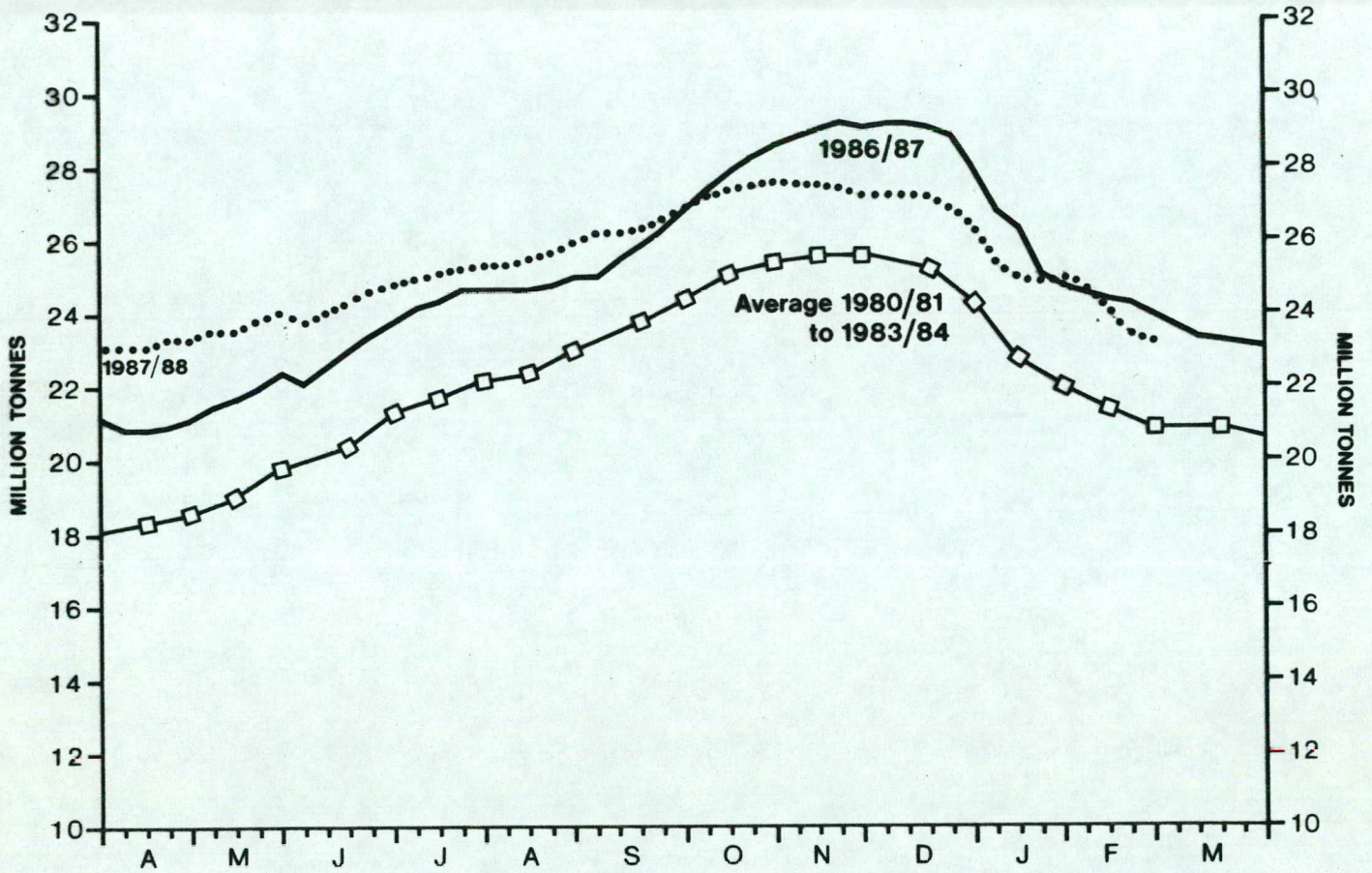
3 March 1988

Week ending.....		21.2.87	30.1.88	6.2.88	13.2.88	20.2.88
C O A L	PRODUCTION (m. tonnes)					
	deep mines+	1.92	1.87	1.22	1.37	1.54
	opencast+	0.40	0.33	0.33	0.34	0.38
	TOTAL	2.32	2.21	1.55	1.71	1.92
	PRODUCTIVITY(2) (tonnes/manshift)					
	'overall'	3.63	3.76	3.31	3.38	3.52
	'production'	15.51	17.34	16.71	16.70	16.59
U N D I S T R I B U T E D S T O C K S	UNDISTRIBUTED STOCKS (m. tonnes)					
	deep mines:					
	England	3.67	2.57	2.36	2.31	2.24
	S.Wales	2.47	2.06	2.03	2.02	2.02
	Scotland	0.72	0.46	0.44	0.42	0.41
	opencast	2.49	1.16	1.17	1.18	1.15
	TOTAL	9.35	6.24	6.01	5.93	5.83
C O A L	COAL STOCKS (m. tonnes)					
	TOTAL CEBG	22.25	23.12	22.58	21.98	21.74
	Scotland	1.74	1.44	1.44	1.45	1.47
	TOTAL Gt. Britain	23.99	24.55	24.02	23.43	23.22
C O A L	CONSUMPTION (m. tonnes)					
	TOTAL CEBG	1.87	1.84	1.87	1.91	1.80
	Scotland	0.15	0.15	0.14	0.11	0.09
	TOTAL Gt. Britain	2.02	1.99	2.01	2.02	1.90
P O W E R	COAL RECEIPTS (m. tonnes)					
	CEBG	1.58	1.69	1.33	1.30	1.57
	Scotland	0.15	0.14	0.13	0.13	0.12
	Gt. Britain	1.73	1.84	1.47	1.43	1.68
S T A T I O N	OIL STOCKS(3) (m. tonnes)					
	CEBG	0.68	0.71	0.68	0.66	0.64
	Scotland	0.18	0.10	0.10	0.10	0.10
	Gt. Britain	0.86	0.82	0.79	0.76	0.74
O I L	OIL CONSUMPTION (3) (m. tonnes)					
	CEBG	0.05	0.05	0.07	0.06	0.03
	Scotland	-	0.03	0.03	0.03	0.03
	Gt. Britain	0.05	0.08	0.09	0.09	0.05
O I L	OIL RECEIPTS(3) (m. tonnes)					
	CEBG	0.04	0.07	0.04	0.04	0.01
	Scotland	-	0.02	0.02	0.02	0.02
	Gt. Britain	0.04	0.09	0.06	0.06	0.04
GAS CONSUMPTION (m. therms)	CEBG	-	-	-	-	-
E L E C T R I C I T Y	ELECTRICITY(4) SUPPLIED (Gwh)					
	Nuclear	1,034	890	813	789	882
	Other Steam	4,938	4,982	4,767	5,094	4,652
	TOTAL	5,972	5,872	5,580	5,882	5,534
TOTAL, temperature corrected		5,711	5,966	5,645	5,828	5,865

(1) Great Britain unless otherwise stated. All latest figures are subject to revision. (2) British Coal mines only. (3) Oil-fired boilers only. (4) Steam stations only. +includes licensed production.

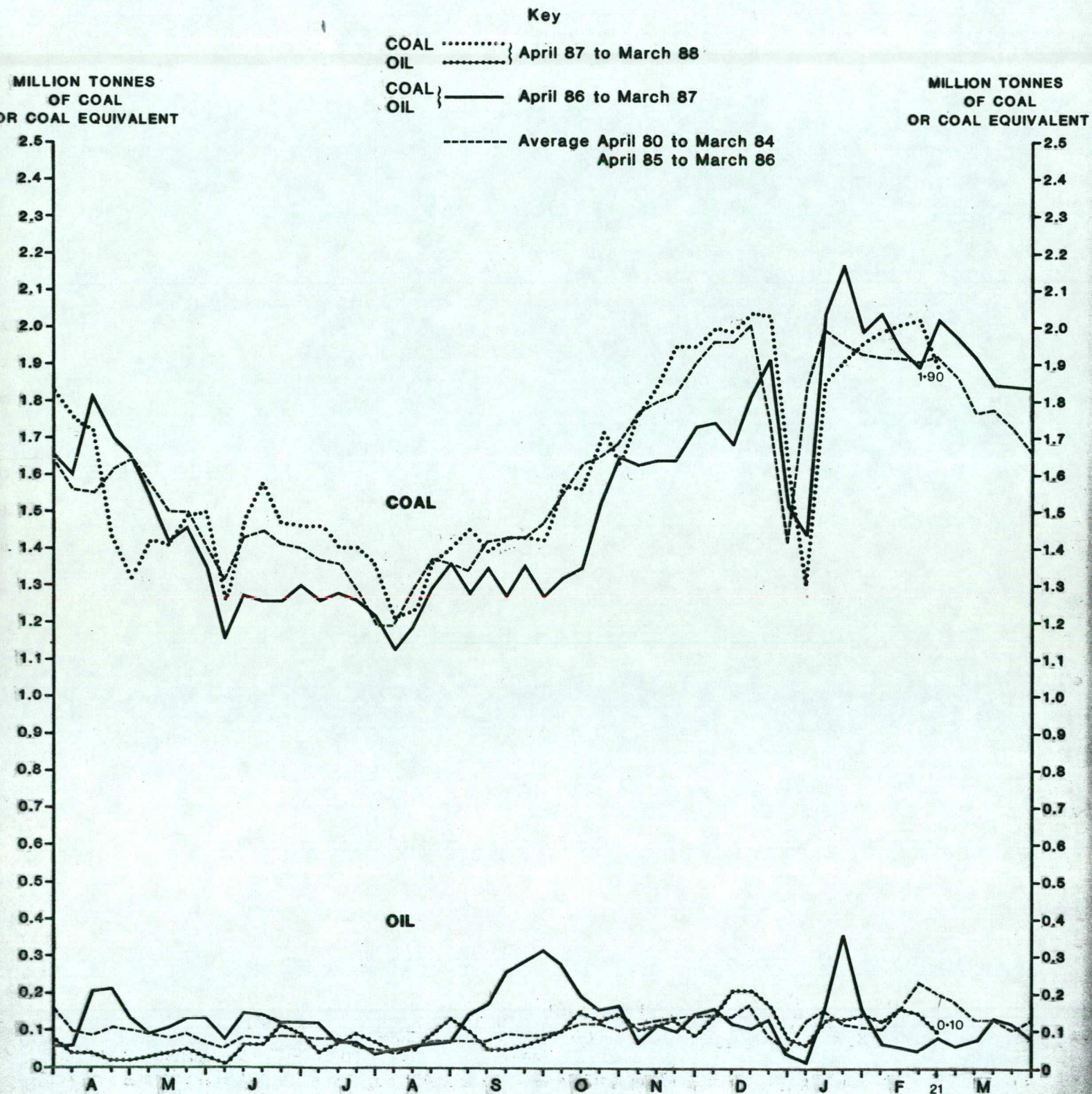
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COAL STOCKS AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN



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### COAL CONSUMPTION AND OIL CONSUMPTION (OIL FIRED) AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN



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WEEKLY COAL AND POWER STATION STATISTICS (1)

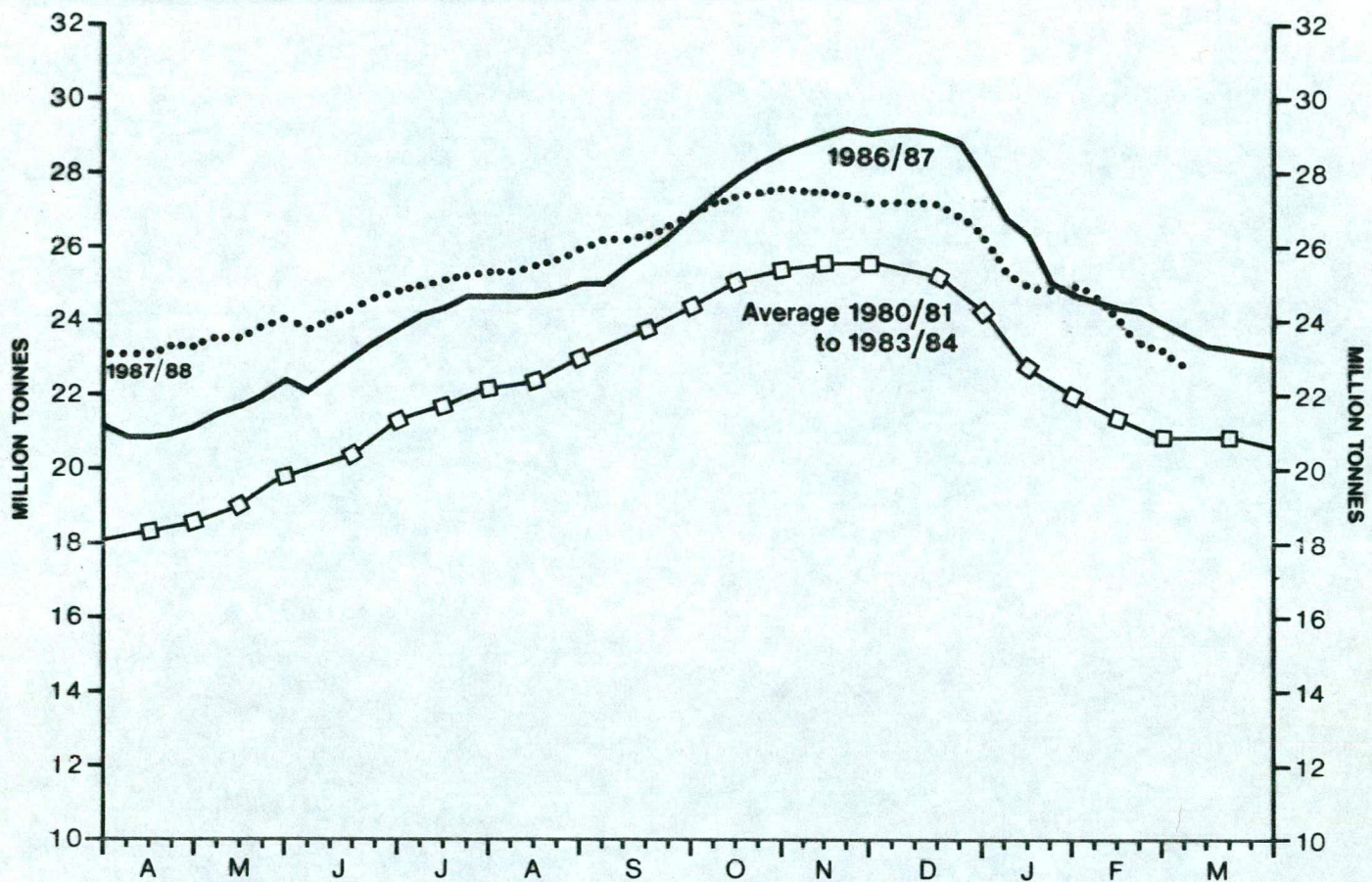
EcS Division, Dept. of Energy, Thames House South,  
Millbank, London SW1P 4QJ phone:01-211-4368 10 March 1988

Week ending.....		28.2.87	6.2.88	13.2.88	20.2.88	27.2.88
C O A L	PRODUCTION (m.tonnes)					
	deep mines+	1.95	1.22	1.37	1.54	1.46
	opencast+	0.32	0.33	0.34	0.38	0.37
	TOTAL	2.27	1.55	1.71	1.92	1.83
	PRODUCTIVITY(2) (tonnes/manshift)					
	'overall'	3.69	3.31	3.38	3.52	3.52
	'production'	16.36	16.71	16.70	16.59	16.70
U N D I S T R I B U T E D S T O C K S	UNDISTRIBUTED STOCKS (m.tonnes)					
	deep mines:					
	England	3.85	2.36	2.31	2.24	2.17
	S.Wales	2.48	2.03	2.02	2.02	1.99
	Scotland	0.74	0.44	0.42	0.41	0.40
	opencast	2.49	1.17	1.18	1.15	1.09
	TOTAL	9.57	6.01	5.93	5.83	5.65
COAL STOCKS (m.tonnes)						
	TOTAL CEGB	21.98	22.58	21.98	21.74	1.36
	Scotland	1.73	1.44	1.45	1.47	1.51
	TOTAL Gt.Britain	23.71	24.02	23.43	23.22	22.88
COAL CONSUMPTION (m.tonnes)						
	TOTAL CEGB	1.82	1.87	1.91	1.80	1.83
	Scotland	0.15	0.14	0.11	0.09	0.08
	TOTAL Gt.Britain	1.98	2.01	2.02	1.90	1.90
P O W E R	COAL RECEIPTS (m.tonnes)					
	CEGB	1.60	1.33	1.30	1.57	1.45
	Scotland	0.14	0.13	0.13	0.12	0.12
	Gt.Britain	1.74	1.47	1.43	1.68	1.57
S T A T I O N S	OIL STOCKS(3) (m.tonnes)					
	CEGB	0.67	0.68	0.66	0.64	0.64
	Scotland	0.18	0.10	0.10	0.10	0.07
	Gt.Britain	0.84	0.79	0.76	0.74	0.71
	OIL CONSUMPTION (3) (m.tonnes)					
	CEGB	0.04	0.07	0.06	0.03	0.03
	Scotland	-	0.03	0.03	0.03	0.03
	Gt.Britain	0.04	0.09	0.09	0.05	0.06
	OIL RECEIPTS(3) (m.tonnes)					
	CEGB	0.02	0.04	0.04	0.01	0.03
	Scotland	-	0.02	0.02	0.02	-
	Gt.Britain	0.02	0.06	0.06	0.04	0.03
	GAS CONSUMPTION (m.therms)					
	CEGB	-	-	-	-	-
	ELECTRICITY(4) SUPPLIED (GWh)					
	Nuclear	973	813	789	882	949
	Other Steam	4,728	4,767	5,094	4,652	4,772
	TOTAL	5,701	5,580	5,882	5,534	5,720
TOTAL, temperature corrected		5,661	5,645	5,828	5,865	5,589

(1) Great Britain unless otherwise stated. All latest figures are subject to revision. (2) British Coal mines only. (3) Oil-fired boilers only. (4) Steam stations only. +includes licensed production.

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COAL STOCKS AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN



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### COAL CONSUMPTION AND OIL CONSUMPTION (OIL FIRED) AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN

Key

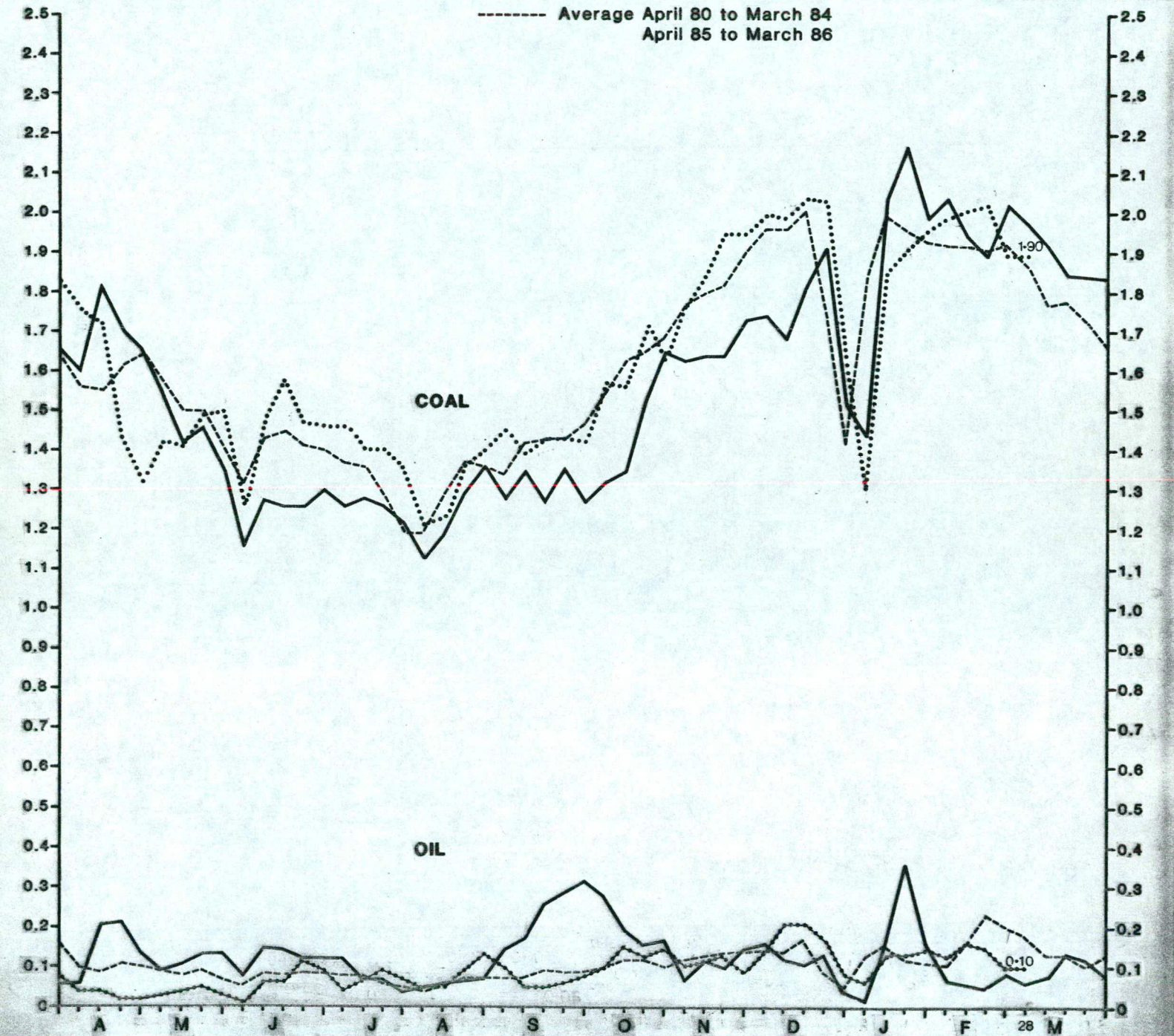
COAL ..... } April 87 to March 88  
OIL ..... }

COAL } ——— April 86 to March 87  
OIL }

----- Average April 80 to March 84  
April 85 to March 86

MILLION TONNES  
OF COAL  
OR COAL EQUIVALENT

MILLION TONNES  
OF COAL  
OR COAL EQUIVALENT



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PARLIAMENTARY UNDER  
SECRETARY OF STATE

The Hon William Waldegrave MP  
Minister of State for Housing and Planning  
Department of the Environment  
2 Marsham Street  
LONDON  
SW1P 3EB

CHIEF SECRETARY	
REC.	17 MAR 1988
ACTION	Mr M.L. Williams
COPIES TO	Cx Mr Anson
	Mr Monck,
	Mr Burgner Mr Moore
	Mr Call.

*papers ppe?*

DEPARTMENT OF ENERGY  
THAMES HOUSE SOUTH  
MILLBANK  
LONDON SW1P 4QJ

Direct Line 01-211 3390  
Switchboard 01-211 3000

*PWP*

*Tangher*

15 March 1988

*Dear William*

**OPENCAST GUIDELINES**

Thank you for your letter of 11 February. I am also grateful for James Douglas-Hamilton's letter of 24 February.

As you will know since I received your letter our officials have been in contact and agreed a final form of words for the guidelines which are acceptable to both Departments. I hope we can go ahead on the basis of these, and that you will be able to issue the guidelines soon.

There were two other areas covered in your letter. First I should say that we do not accept all the statistics you give. In particular our figures do not show that British Coal have received planning permission on 15.1mt a year in England and Wales since 1985/86. But I suggest we leave it to officials to pursue the work they have been undertaking on statistics with the aim of achieving a common understanding of what is happening.

Second I agree very much that it is important that British Coal and the local authorities build up a good relationship. I know that British Coal are doing what they can to achieve this and we will continue to encourage them to do so. I am grateful for the efforts that David Trippier has been making to secure a more positive and realistic attitude towards opencasting on the part of local authorities. British Coal's experience of the local authorities has been negative. They know of 12 cases where local authority officers recommended that sites should be approved but were overruled by elected members; local authority structure plans often contain presumptions against opencasting; and some local authorities adopt policies of opposing all opencast proposals. Of the 27 applications made to planning authorities since 1986/87 12 have been refused and only 6 granted (the balance remain to be decided). I hope that the new circular will give the authorities a clear steer and encourage both the authorities and British Coal to work more closely together.



You wrote to Cecil Parkinson on 27 October proposing a meeting on environmental issues. I hope we can hold that meeting soon. It will be an opportunity to discuss relations between the BCC and local authorities, and other issues.

I am copying this letter to John Gummer, James Douglas-Hamilton, Ian Grist and John Major.

4  
4  
\_\_\_\_\_

A handwritten signature in cursive script, appearing to read 'Michael Spicer', is written below a horizontal line. To the left of the signature, there are two handwritten numbers '4' stacked vertically.

**MICHAEL SPICER**

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WEEKLY COAL AND POWER STATION STATISTICS (1)

EcS Division, Dept. of Energy, Thames House South,  
Millbank, London SW1P 4QJ phone: 01-211-4368

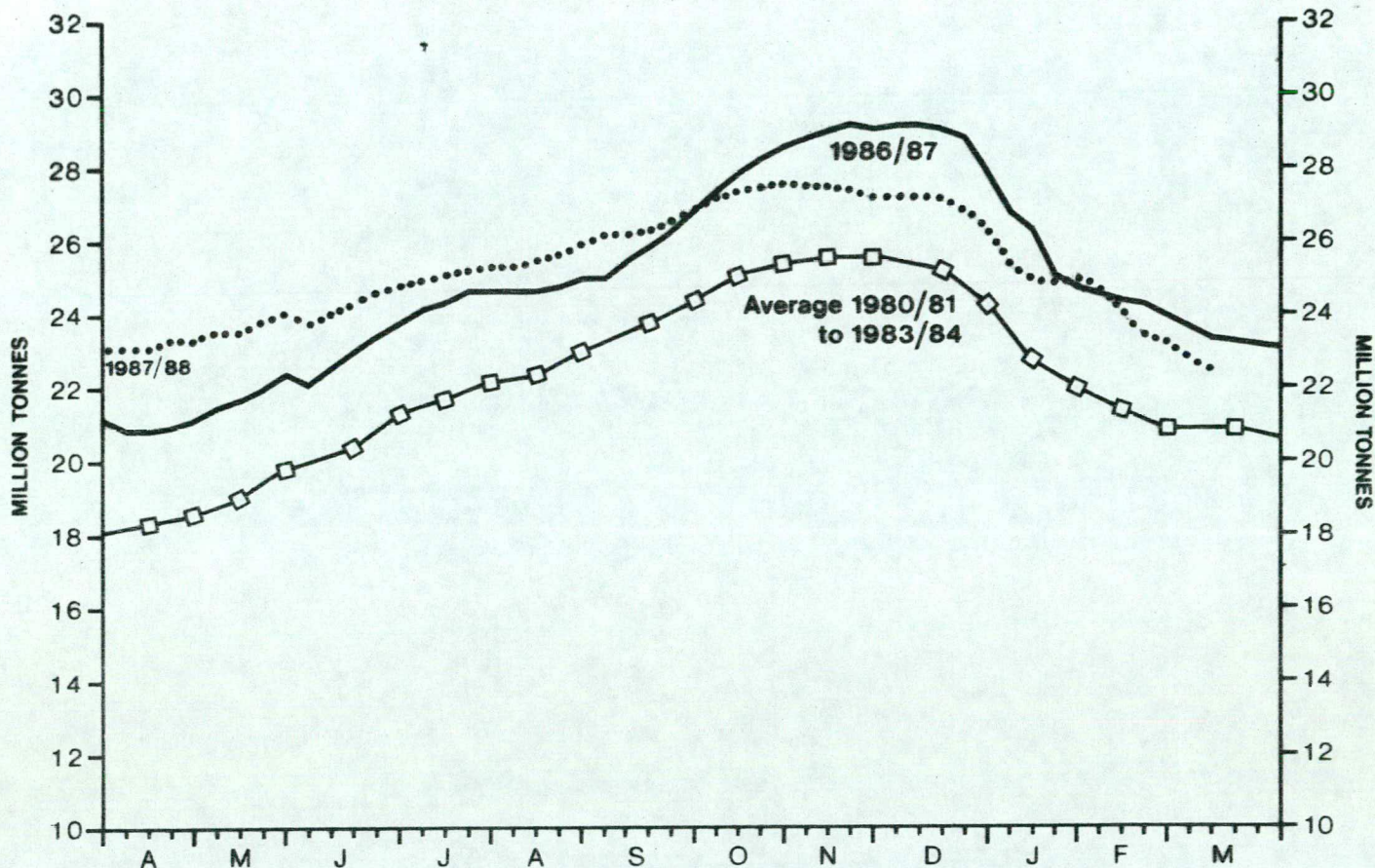
17 March 1988

Week ending.....		7.3.87	13.2.88	20.2.88	27.2.88	5.3.88
C O A L	PRODUCTION (m. tonnes)					
	deep mines+	1.91	1.37	1.54	1.46	1.59
	opencast+	0.31	0.34	0.38	0.37	0.40
	TOTAL	2.21	1.71	1.92	1.83	1.99
C O A L	PRODUCTIVITY(2) (tonnes/manshift)					
	'overall'	3.57	3.38	3.52	3.52	3.57
	'production'	15.67	16.70	16.59	16.70	16.45
U N D I S T R I B U T E D S T O C K S (m. tonnes)	UNDISTRIBUTED STOCKS					
	deep mines:					
	England	3.98	2.31	2.24	2.17	2.23
	S. Wales	2.50	2.02	2.02	1.99	1.97
	Scotland	0.75	0.42	0.41	0.40	0.38
	opencast	2.45	1.18	1.15	1.09	1.11
	TOTAL	9.68	5.93	5.83	5.65	5.69
C O A L	COAL STOCKS (m. tonnes)					
	TOTAL CEGB	21.70	21.98	21.74	21.36	20.98
	Scotland	1.73	1.45	1.47	1.51	1.56
	TOTAL Gt. Britain	23.43	23.43	23.22	22.88	22.54
C O A L	CONSUMPTION (m. tonnes)					
	TOTAL CEGB	1.80	1.91	1.80	1.83	1.95
	Scotland	0.13	0.11	0.09	0.08	0.09
	TOTAL Gt. Britain	1.92	2.02	1.90	1.90	2.04
P O W E R	COAL RECEIPTS (m. tonnes)					
	CEGB	1.53	1.30	1.57	1.45	1.57
	Scotland	0.12	0.13	0.12	0.12	0.13
	Gt. Britain	1.66	1.43	1.68	1.57	1.70
S T A T I O N	OIL STOCKS(3) (m. tonnes)					
	CEGB	0.64	0.66	0.64	0.64	0.61
	Scotland	0.17	0.10	0.10	0.07	0.09
	Gt. Britain	0.81	0.76	0.74	0.71	0.70
O I L	OIL CONSUMPTION (3) (m. tonnes)					
	CEGB	0.04	0.06	0.03	0.03	0.05
	Scotland	0.01	0.03	0.03	0.03	0.03
	Gt. Britain	0.04	0.09	0.05	0.06	0.07
O I L	OIL RECEIPTS(3) (m. tonnes)					
	CEGB	0.01	0.04	0.01	0.03	0.01
	Scotland	-	0.02	0.02	-	0.05
	Gt. Britain	0.01	0.06	0.04	0.03	0.06
GAS CONSUMPTION (m. therms)	CEGB	-	-	-	-	-
E L E C T R I C I T Y (GWh)	ELECTRICITY(4) SUPPLIED					
	Nuclear	1,070	789	882	949	939
	Other Steam	4,671	5,094	4,652	4,772	4,996
	TOTAL	5,741	5,882	5,534	5,720	5,935
TOTAL, temperature corrected		5,529	5,828	5,865	5,589	5,621

(1) Great Britain unless otherwise stated. All latest figures are subject to revision. (2) British Coal mines only. (3) Oil-fired boilers only. (4) Steam stations only. +includes licensed production.

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COAL STOCKS AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN



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### COAL CONSUMPTION AND OIL CONSUMPTION (OIL FIRED) AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN

Key

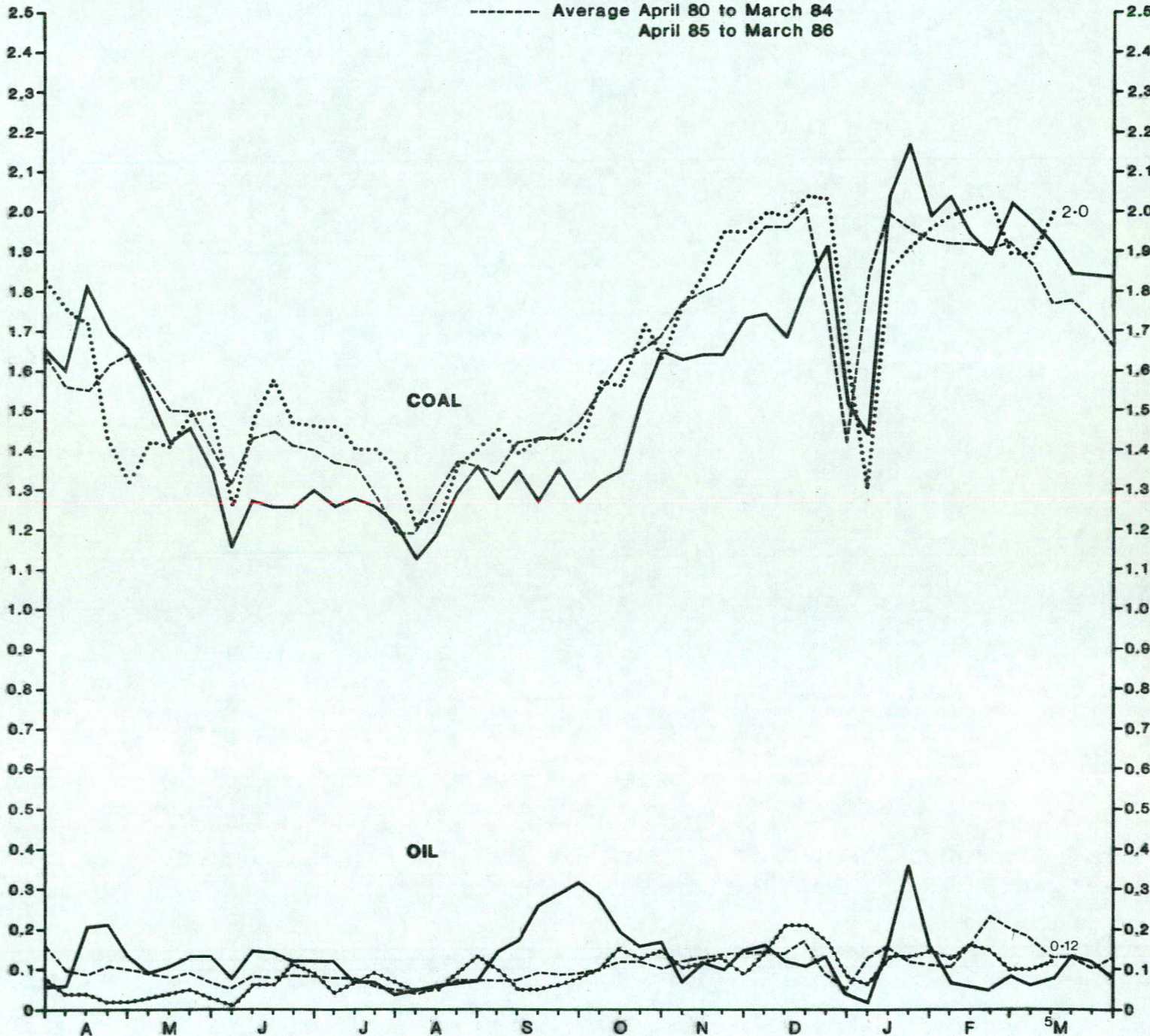
COAL ..... } April 87 to March 88  
OIL ..... }

COAL } ——— April 86 to March 87  
OIL }

----- Average April 80 to March 84  
                  April 85 to March 86

MILLION TONNES  
OF COAL  
OR COAL EQUIVALENT

MILLION TONNES  
OF COAL  
OR COAL EQUIVALENT



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✓  
PJP

WEEKLY COAL AND POWER STATION STATISTICS (1)

EcS Division, Dept. of Energy, Thames House South,  
Millbank, London SW1P 4QJ phone: 01-211-4368

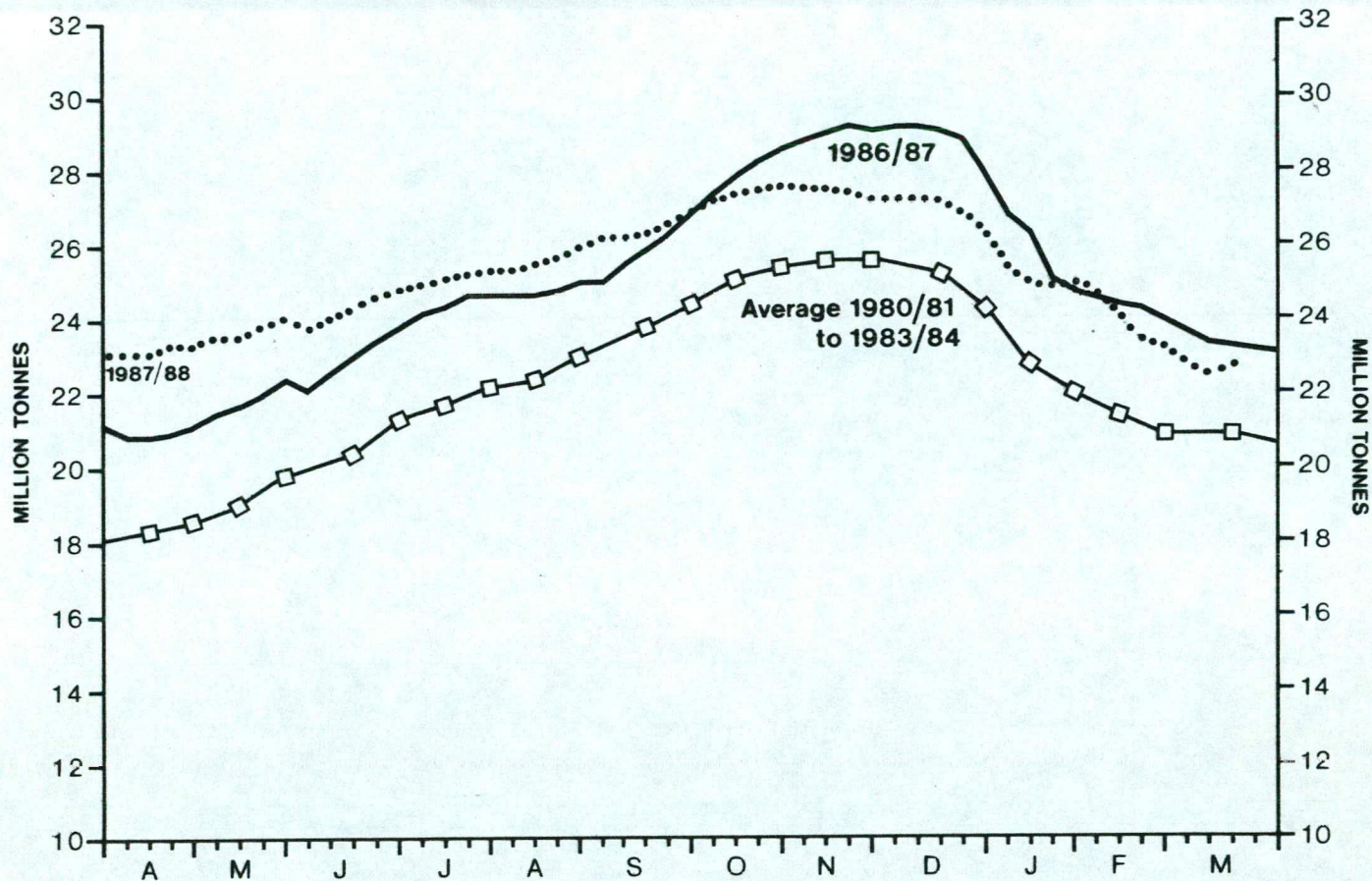
24 March 1988

Week ending.....		14.3.87	20.2.88	27.2.88	5.3.88	12.3.88
C O A L	PRODUCTION (m. tonnes)					
	deep mines+	1.85	1.54	1.46	1.59	1.70
	opencast+	0.34	0.38	0.38	0.40	0.39
	TOTAL	2.19	1.92	1.84	1.99	2.09
C O A L	PRODUCTIVITY(2) (tonnes/manshift)					
	'overall' 'production'	3.57	3.52	3.52	3.57	3.90
		15.62	16.59	16.70	16.45	17.98
L	UNDISTRIBUTED STOCKS (m. tonnes)					
	deep mines:					
	England	4.03	2.24	2.17	2.23	2.32
	S.Wales	2.53	2.02	1.99	1.97	1.87
	Scotland	0.75	0.41	0.40	0.38	0.35
	opencast	2.44	1.15	1.09	1.11	1.10
	TOTAL	9.74	5.83	5.65	5.69	5.65
-----						
C O A L	COAL STOCKS (m. tonnes)					
	TOTAL CEBG	21.54	21.74	21.36	20.98	20.96
	Scotland	1.72	1.47	1.51	1.56	1.70
	TOTAL Gt. Britain	23.26	23.22	22.88	22.54	22.66
C O A L	COAL CONSUMPTION (m. tonnes)					
	TOTAL CEBG	1.71	1.80	1.83	1.95	1.67
	Scotland	0.13	0.09	0.08	0.09	0.07
	TOTAL Gt. Britain	1.84	1.90	1.90	2.04	1.74
P O W E R	COAL RECEIPTS (m. tonnes)					
	CEBG	1.54	1.57	1.45	1.57	1.65
	Scotland	0.12	0.12	0.12	0.13	0.15
	Gt. Britain	1.67	1.68	1.57	1.70	1.80
S T A T I O N	OIL STOCKS(3) (m. tonnes)					
	CEBG	0.60	0.64	0.64	0.61	0.59
	Scotland	0.15	0.10	0.07	0.09	0.10
	Gt. Britain	0.74	0.74	0.71	0.70	0.69
S T A T I O N	OIL CONSUMPTION (3) (m. tonnes)					
	CEBG	0.06	0.03	0.03	0.05	0.04
	Scotland	0.02	0.03	0.03	0.03	0.03
	Gt. Britain	0.08	0.05	0.06	0.07	0.07
S T A T I O N	OIL RECEIPTS(3) (m. tonnes)					
	CEBG	0.01	0.01	0.03	0.01	0.02
	Scotland	-	0.02	-	0.05	0.03
	Gt. Britain	0.01	0.04	0.03	0.06	0.05
GAS CONSUMPTION (m. therms)	CEBG	-	-	-	-	-
E L E C T R I C I T Y	ELECTRICITY(4) SUPPLIED (GWh) TOTAL					
	Nuclear	1.160	882	949	939	991
	Other Steam	4.616	4.652	4.772	4.996	4.538
	TOTAL	5.776	5,534	5,720	5,935	5.529
-----						
TOTAL, temperature corrected		5,271	5,865	5,589	5,621	5,618

(1) Great Britain unless otherwise stated. All latest figures are subject to revision. (2) British Coal mines only. (3) Oil-fired boilers only. (4) Steam stations only. +includes licensed production.

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COAL STOCKS AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN



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### COAL CONSUMPTION AND OIL CONSUMPTION (OIL FIRED) AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN

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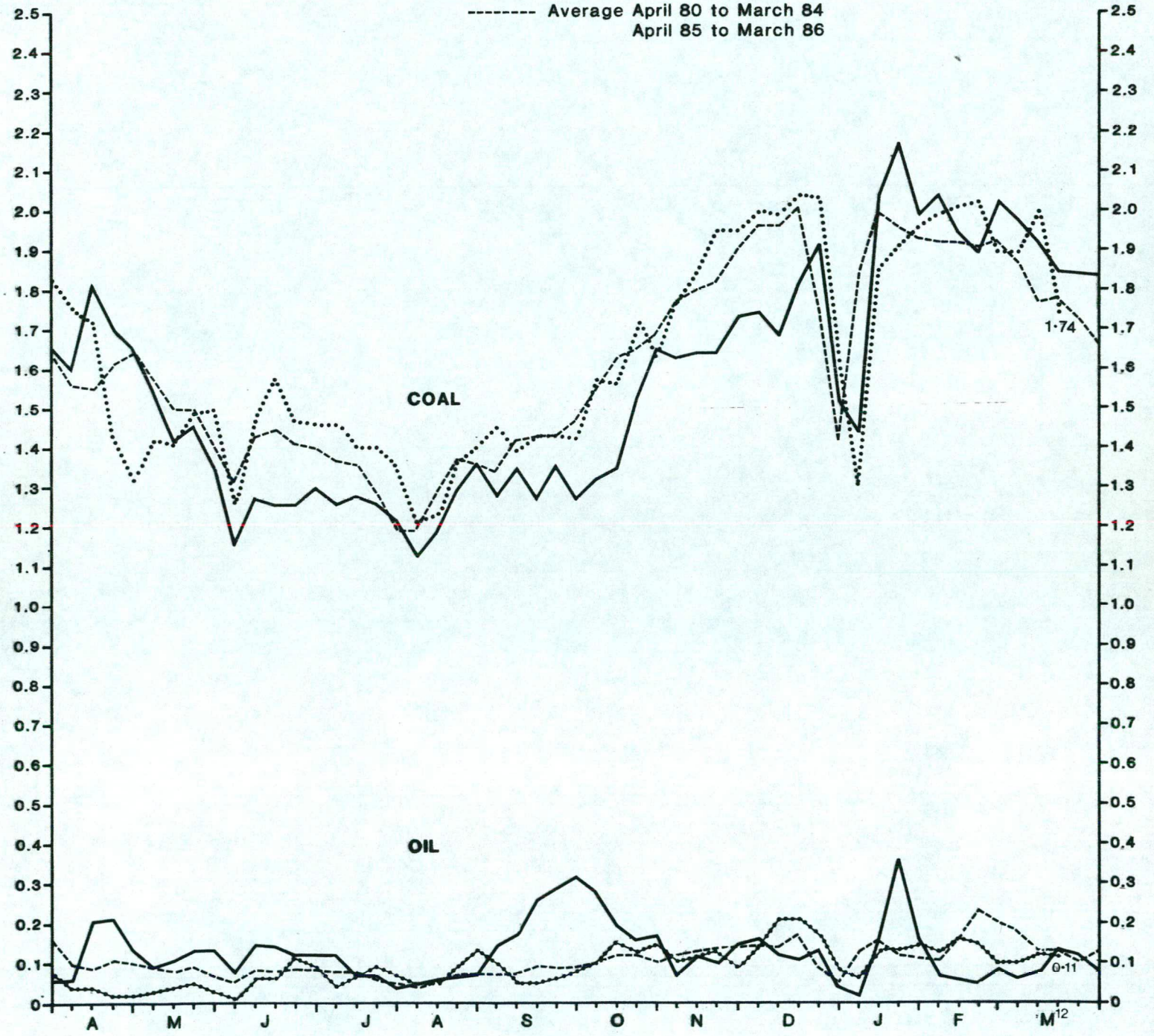
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OIL ..... }

COAL } ——— April 86 to March 87  
OIL }

----- Average April 80 to March 84  
April 85 to March 86

MILLION TONNES  
OF COAL  
OR COAL EQUIVALENT

MILLION TONNES  
OF COAL  
OR COAL EQUIVALENT



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DJP

FROM: N I HOLGATE

DATE: 29 March 1988

*note at end*

1. Mr M WILLIAMS
2. SIR P MIDDLETON *Secy comment a para 9.*
3. CHIEF SECRETARY

cc Chancellor  
 Mr Anson  
 Mr Monck  
 Mr Moore  
 Mr Turnbull  
 Mrs Lomax  
 Mr Beastall  
 Miss Noble  
 Mr L Watts  
 Mr Hurst

Miss Wheldon (T.Sol)

**BRITISH COAL: CREDITWORTHINESS**

Mr Parkinson is due to write to you today or tomorrow on the options for financing British Coal. I attach the draft of an agreed note by DEN and Treasury officials which sets out the background and options. Mr Parkinson is expected to propose in particular that

- (i) access to the National Loans Fund (NLF) is retained until July;
- (ii) it should then be replaced by loans from a Vote; a Summer Supplementary Estimate of £1.8 billion will be required;
- (iii) these decisions should be announced at the end of April.

2. This submission, which has been prepared in consultation with interested divisions, recommends that you agree to these proposals, although you may wish to consider whether there should be an announcement this week (in which case you would need to broach the subject with Mr Parkinson today).

**Background**

3. In his minute of 20 November 1987, Sir Peter Middleton drew your attention to the difficulties of lending to BC from the NLF. He wrote to Mr Gregson, Permanent Secretary at the Department of Energy, on 8 December, withdrawing access to long term loans and continuing with short term lending on the basis

that a strategic review of BC would report before the end of 1987-88, providing a further opportunity to consider options for finance.

4. Since then, BC's trading position has worsened: the Corporation's negative reserves at 31 March 1988 are likely to show a grave deterioration from about £36 million to £300 million; further price reductions and pit closures are likely; and the strategic review is proceeding slowly and will not be available to guide decisions for some months.

5. Sir Peter Middleton and Mr Gregson, the two Accounting officers concerned, met on 16 March to consider the complete withdrawal of NLF lending to BC. Their conclusions are reflected in the agreed note by officials which sets out the options available for replacing the NLF, the timing of the change and the need for an announcement.

#### Alternatives to NLF

6. Paragraph 11 of the agreed note sets out four options: the first two (a large addition to deficit grant and a capital reconstruction) weaken financial discipline on BC and require primary legislation. The third, market borrowing backed by government guarantee is wholly inconsistent with the withdrawal of access to the NLF, and would cost more. The last option, loans from a Vote under Section 2 of the Coal Industry Act 1980, is much the most attractive. A key question, addressed by the note in paragraph 13, is why it would be proper to advance loans from votes when it is no longer proper to do so from the NLF. There must be a reasonable prospect of the loans being repaid, as for the NLF; but unlike the NLF, the statute allows the rate of interest on the loans to be softened. It is not proposed to soften the rates immediately (as that would also relax financial discipline on BC) but to reconsider them when the strategy review is complete. However, the room for manoeuvre affected by this flexibility on interest rates is sufficiently large to give *some* expectation that any pressures on British Coal could be relieved sufficiently to meet its debt obligations. Clearly however the decision, and its justification, should be kept under review.

#### Timing

7. Once the decision is taken that BC does not meet the criteria for NLF lending, such lending should be discontinued. But the earliest possible cessation would require a special Supplementary Estimate and Consolidated Fund Bill immediately after Easter giving authority for the voted loans. This

course would give the appearance of a financial crisis for BCC as well as taking up a half-day debate and possibly an all-night adjournment debate. In principle BCC's requirement could be met from the Contingencies Fund until a Summer Supplementary Estimate could be presented at the normal time and incorporated in the July Appropriation Act. But given other likely calls upon the Fund, its resources should not be pre-empted in this way.

8. The course suggested is to continue short term lending from the NLF until July when a Summer Supplementary Estimate would be passed. But the Accounting Officers would need an assurance that Parliament will be asked for the money necessary to service and repay the debt if they are to postpone withdrawal of access to the NLF until then; and this course is acceptable only on that basis. It would also strengthen Sir Peter Middleton's position if DEN is required to report any material change in BC's position.

An announcement

9. In one sense, the NLF is being used in lieu of the Contingencies Fund, whose use is invariably announced immediately to the House. It is therefore arguable that his decision should be announced (eg by written PQ) as soon as possible, and before Easter to avoid any subsequent criticism that Ministers were misleading Parliament as to their intentions. Indeed, this is unquestionably the <sup>appropriate</sup> ~~proper~~ <sup>or property grounds.</sup> procedure. Mr Parkinson, however, is expected to recommend that the new arrangements be announced soon after Easter to coincide with BC's announcement of their 1987-88 preliminary results. This <sup>still</sup> gives some months' notice of the switch. In view of the fact that the Treasury's position would be strengthened by an earlier announcement you may want to consider pressing Mr Parkinson on this. However because of the delay in getting this to the Treasury, a question should preferably be tabled today, which in turn would require your speaking to Mr Parkinson. Alternatively in the light of his arguments for delaying a few weeks, and the fact that the announcement would still be made comfortably in advance of the presentation of the Supplementary Estimate, you may be prepared to accept this proposal.

Conclusion

*I would be prepared to go along with this on the grounds of orderly conduct of business, though I expect the PAC would seek to overturn such a decision*

10. I recommend that you agree to the replacement of NLF funds by loans from a Vote; that the change should be made through a Summer Supplementary Estimate; and that there should be an early announcement.

*construct property grounds*

*Jan 29/83*

11. We understand that Mr Parkinson's letter will discuss other BC issues. We will brief on these and draft a full reply as soon as possible.

N I Holgate

N I HOLGATE

We are submitting this now, in advance of Mr Parkinson's letter, partly an advance warning to you, and partly to give you an opportunity to press for an earlier announcement before Easter (para 9). The advice to Mr Parkinson argues strongly for an announcement soon after Easter when the switch of funding arrangements can be set in the context of the wider financial support for BCC; thus the announcement would also cover the Supplementary likely to be needed for restructuring costs, the 1987-88 outturn, the prospects for 1988-89, and the customary assurance to creditors. I would expect Mr Parkinson to take this advice, not least too because he will be conscious of recent criticisms from the Energy Select Committee about the Government's piecemeal approach to the financial support of BCC. Against this background, and the tight timetable, you may choose not to push Mr Parkinson for an announcement this week, although I would want to recommend that you insist it should not be delayed much beyond the House's return.

Mr Parkinson's letter will also set out BCC's prospects for next year, and the possible need for a higher EFL. We will advise separately on that when we receive it, and offer you a draft reply covering these and the NLF issues.

N I  
243

CONFIDENTIALFINANCING BRITISH COAL: A Note by Treasury and DEB Officials

1. This note examines the options for financing British Coal beyond April 1988, in the light of the deterioration in the Corporation's financial results and prospects and hence its creditworthiness.

British Coal's Current Status as a Borrower

2. British Coal is insolvent: it has had negative reserves of around £35m for several years. The reserves have hitherto been prevented from deterioration by matching each year's accounting loss by deficit grant. Each year the Government has given an assurance that, subject to Parliament approving the necessary provisions, it will put British Coal in funds to discharge its obligations. This assurance has, amongst other things, enabled the auditors to consider British Coal's accounts on a "going concern" basis.

3. The Corporation's accounts have carried audit qualifications for several years. The auditors' principal remaining concern has been the possible overvaluation of the Corporation's assets compared with their true earning power.

4. British Coal has outstanding debts of around £3.5 bn, of which £2.9 bn is from the National Loans Fund (NLF). This level has remained broadly constant for several years. The large external finance requirements in individual years have been met by payment of deficit grant and social grant. Maturing debt has been refinanced by the NLF as and when it fell due.

NLF's Status as a Lender

5. The legislation on advances from the NLF requires that the Treasury cannot on-lend at a loss; and cannot lend at all unless there is a reasonable expectation that the loans will be serviced and repaid. Where there is doubt about a borrower's creditworthiness, continuing NLF lending can be justified only if a careful and well-informed assessment suggests that debt commitments will continue to be met.

6. During the 1984/85 strike, the risk that loans might not be serviced led to British Coal's access to new NLF loans being restricted to terms of less than one year (ie. "temporary"). This broadly matched the horizon of the government assurance referred to at paragraph 2. This restriction was briefly relaxed in early 1987, when the Corporation were permitted borrowing for terms of up to 5 years on the strength of an assessment by the Department of Energy of British Coal's medium term prospects. However prospects deteriorated during the year. Last autumn British Coal noted the impact on their financial projections of price concessions to the ESI in the run-up to privatisation. Among the options for coping



with this, they suggested a write-off of debt of up to £0.75 bn. In December Ministers asked British Coal for a full review of their business strategy. Against this background the view was taken that it would no longer be appropriate for the NLF to advance medium term funds to British Coal, although temporary lending could continue up to the end of 1987/88 pending the Strategy Review.

#### Current Position

7. The Strategy Review has not yet been completed. However it is already clear that British Coal's prices will probably have to continue to fall in real terms for some years before they are fully competitive with international prices. Most of British Coal's export and coking coal business is unremunerative at present and likely to remain so, and there are doubts about their ability to compete in certain parts of the power station business. There are major uncertainties about the terms on which privatised generators will be prepared to buy from British Coal.

8. In addition, although British Coal has responded vigorously to the difficult market conditions by accelerating closure of high-cost capacity, the cost of this restructuring, together with the effect of industrial disputes, has sharply increased the likely loss in 1987/88. British Coal's latest projection is for a loss of over £450m, which will substantially exceed the maximum £200m deficit grant available: the excess loss of over £250m represents a large increase in the Corporation's negative reserves. The Corporation's accounts seem likely to remain qualified. British Coal still plan to achieve their objective of breakeven in 1988/89. However, their plans rest on the doubtful premise that the Joint Understanding with CEGB will continue throughout the year. Beyond 1988/89 there is the reasonable expectation of further productivity growth and falling costs, and in due course growing profitability although the timing of this and the rate of financial recovery is difficult at present to predict.

9. British Coal have recently reaffirmed that their priority is to produce in four/five year's time a substantial and continuing measure of self-financing without taking into account the possibility of a capital reconstruction. Although this assurance and British Coal's central estimates provide a basis for continued lending for the time being, the possibility of price concessions to CEGB - and the further restructuring of the industry that would entail - opens up a risk that British Coal may not be able to service its debt on schedule and at full NLF rates; or would only be able to do so at the expense of its ability to repay the loans in full. Against this background, officials believe that it would be wrong to continue indefinite lending even on an overnight basis from the NLF.

10. The total new borrowing required in 1988/89 is around £1.8 bn, made up as follows:

	<u>£ bn.</u>
External Financing Limit	0.67
<u>Less</u> Non-Deficit Grant Available	<u>(0.39)</u>
Net new borrowing required	0.28
<u>Add</u> Refinancing of existing debt	
- Overnight Loans at March 1988	1.05
- Medium/Long Term Loans maturing during 1988/89	<u>0.51</u>
Gross new borrowing required	<u>1.84</u>

Substantial new borrowing is also foreseen for 1989/90. There appears to be little scope for reducing the External Financing Limit: in particular, acceleration of colliery closures has the effect of increasing cash requirements in the first year.

#### The Options

11. Officials have considered four options:

(a) Continuation of Deficit Grant. The £200m deficit grant available under the 1987 Coal Industry Act has been fully drawn down. Fresh primary legislation would be required to increase this figure. However, even an increase of £500m (ie. <sup>say</sup> sufficient to extinguish the 1987/88 losses and provide a margin against possible losses in 1988/89) would fall far short of the £1.84 bn financing required next year.

~~Continuation of deficit grant alone would not provide a sufficient basis for further NLF lending.~~

X (b) Capital Reconstruction. Further consideration would need to be given to the form of the reconstruction and to its effects on the Corporation's future finances if it <sup>is to</sup> ~~is to~~ <sup>be</sup> provide a sound basis for further NLF lending. But it might, for example, take the form of a one-off grant of perhaps £0.3 bn to eliminate the negative reserves and substitution of dividend-paying capital for much of the existing debt. Ministers agreed in 1986 that they would in due course consider substituting dividend-paying capital for a substantial part of the Corporation's loans and Sir Robert Haslam was given this assurance at the time of his appointment. But it was made clear that this would depend upon satisfactory progress towards the Corporation's objectives of breakeven in 1988/89 and increasing profitability and progress towards self-financing thereafter. This option would require immediate legislation. It would weaken the discipline upon the Corporation to achieve its financial target, and it prejudices the outcome of the Strategy Review. Officials regard this option as premature.

X (c) Market Borrowing backed by Government Guarantee. NLF overnight loans, and term loans as they fell due, would be refinanced by commercial loans covered by a guarantee from the Consolidated Fund. No new legislation would be required but Parliament would need to be told. This option is flexible. But the disadvantage is that it would cost British Coal more, and hence increase public expenditure: if all the £1.8 bn was provided from the market rather than the NLF, the additional annual cost might be up to £8m. It might also appear inconsistent for the Government to withdraw access to the NLF but accept a substantially increased contingent liability on the Consolidated Fund.

(d) Loans on Vote: Section 2 of the Coal Industry Act, 1980, enables loans to be made to British Coal from the Vote. These powers were taken to allow the interest payments on loans in respect of major capital projects to be deferred until the project was complete, but the Section is cast in broader terms. In particular the Secretary of State has power to determine the rate of interest (although Parliament was assured during the passage of the Bill that the Government intended to charge a rate equivalent to the NLF rate).

12. On balance, Loans on Vote seem the most attractive option. There are certain drawbacks. In particular, lending is subject to relatively inflexible Vote procedures. It would therefore be sensible to supplement the Voted Loan with a small (say £100m) facility with commercial banks backed by Government guarantee so as to meet unforeseen surges in borrowing requirements. This facility would be available to British Coal only when they had fully drawn down the Loans on Vote available to them.

X  
X 13. A key question to be addressed is why it should be proper to advance Loans on Vote when it is no longer considered proper to issue further NLF loans. It would be unlawful to issue Loans on Vote under the 1980 Act where there was no reasonable prospect of the money being repaid or the specified interest payments being met, just as it would be to make loans under the NLF legislation. However, where the NLF legislation requires NLF advances to be serviced regularly and at full interest rates, there is the facility under the 1980 Act to tailor interest and repayment schedules to cope with short-term problems and ultimately to soften the rates of interest. The room for manoeuvre offered by this facility, in relation to the size of problems thought likely to arise, is such that there is a good expectation that any pressures on British Coal could be relieved sufficiently to allow it to meet its debt obligations. In view of the major changes now taking place in the UK coal market this judgement nevertheless needs to be kept under close review. It should be noted in this context that lending on Votes provides more frequent opportunities for Parliamentary scrutiny than lending from the NLF.

14. It is not recommended that Loans on Vote should from the start carry soft interest terms. This would move the goalposts of

British Coal's breakeven target and weaken the financial discipline under which they are operating. It is accordingly proposed that Loans on Vote should bear the same interest rates as NLF loans and be confined to temporary loans as is NLF lending at present. However, it would be appropriate to review the terms of lending later in 1988/89, once the Strategy Review and IFR have been concluded and the future arrangements governing British Coal's sales to CEEB have become clearer. Decisions can then be taken whether to extend the duration of the loans or, if the risk of loan write-off has grown unacceptably, to soften their interest terms. In view of the assurances given in 1980 that lending would be on NLF-equivalent terms it would, however, be proper to tell Parliament at the outset that the possibility of soft loans will be kept under review.

15. The substitution of Loans on Vote in place of NLF loans is not expected to involve any significant extra administrative costs. The loans will continue to be administered by DEN's Accounts Branch and the procedures are likely to remain basically unchanged. If Ministers agree to proceed with loans on Vote DEN will review the existing procedures during the June Quarter 1988 to ensure that they fully meet the controls required for Vote accounting.

#### Timing of the Change

16. No provision was made for Loans on Vote in the Department's Main Estimates for 1988/89. In principle it would be possible to introduce a special Supplementary Estimate and its associated Consolidated Fund Bill immediately the House returned after the Easter Recess. That would allow the switch to be made by the end of April, the earliest practicable date; and it is the option most proof against possible PAC criticism that NLF lending continued after the decision had been made that it should cease.

17. A special Supplementary Estimate, however, has a number of important disadvantages. As well as the additional Parliamentary time involved (at least half a day debate followed by the traditional all-night adjournment debate), it would - mistakenly - be seen as an emergency response to an immediate financial crisis.

18. The NLF could also be disengaged by announcing to Parliament ~~that~~ the Government's intention to take supplementary provision at the earliest regular time (ie. by a Summer Supplementary, incorporated in the Appropriation Act at the end of July), and meeting British Coal's demands until then from the Contingencies Fund. To do so, however, would involve pre-empting well over half the resources of the Contingencies Fund, and is ruled out on these grounds alone. The third course would be to allow the NLF to continue to lend on an overnight basis until the end of July. This course would ease the transition from NLF to voted loans and avoids the problems outlined above. However, it is only acceptable if backed by an assurance that the Government intends to introduce the necessary Supplementary Estimate to allow British Coal to reimburse

the NLF. (~~NB. The assurance has to be absolute, although this does not need to be spelt out.~~)

19. If this third course is acceptable to Ministers, an early announcement should be made to avoid Parliamentary criticism that Ministers were misleading Parliament as to their intentions. On propriety grounds, an announcement before Easter would be preferable; it would avoid such criticism and also minimise possible criticism of continued lending from the NLF once the deterioration in British Coal's position was known. On the other hand, if, in view of the attention currently focussed on the Corporation's finances and commercial prospects, Ministers thought it would be desirable to delay an announcement until after Easter, it clearly should not be prolonged beyond the time when the Energy Select Committee will be scrutinising the main Estimates for British Coal. One possibility would be to make the announcement, by arranged PQ, in conjunction with any release by British Coal of their preliminary results for 1987/88, which would be the first public indication of the sharp deterioration in their 1987/88 deficit. If British Coal do announce their preliminary results it is unlikely to be before the end of April.

#### CONCLUSIONS

20. Ministers are invited to agree that

(i) Loans on Vote under the 1980 Coal Industry Act should be substituted for new NLF lending at the earliest convenient opportunity;

(ii) A Summer Supplementary Estimate of £1.8 bn should be sought to this effect;

(iii) Loans on Vote should initially carry the same interest terms as NLF debt, but this should be ~~reviewed towards the end of~~ <sup>kept under</sup> 1988/89 in the light of British Coal's financial prospects as they then appear.

(iv) Loans on Vote should be supplemented by a British Coal facility with the commercial banks of up to £100m guaranteed by the Government, this facility being available to British Coal only when Loans on Vote are fully drawn down.

(v) These changes should be announced at an early date.

020/2701  
CONFIDENTIAL



FROM: JILL RUTTER  
DATE: 29 March 1988

*JR*

MR HOLGATE

cc:  
PS/Chancellor  
Sir Peter Middleton  
Mr Anson  
Mr Monck  
Mr Moore  
Mr Turnbull  
Mrs Lomax  
Mr Beastall  
Miss Noble  
Mr L Watts  
Mr M Williams  
Mr Hurst

Miss Wheldon (T.Sols)

**BRITISH COAL: CREDITWORTHINESS**

The Chief Secretary has seen your minute of 29 March and the notes from Mr M L Williams and Sir Peter Middleton.

2 The Chief Secretary has considered the points put in your minute and has decided that he does not wish to press Mr Parkinson for a pre-Easter announcement.

3 I understand from Mr Parkinson's office that he will be seeing the submission on this subject tonight.

*Jill Rutter*

JILL RUTTER

Private Secretary

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WEEKLY COAL AND POWER STATION STATISTICS (1)

EcS Division, Dept. of Energy, Thames House South,  
Millbank, London SW1P 4QJ phone: 01-211-4368

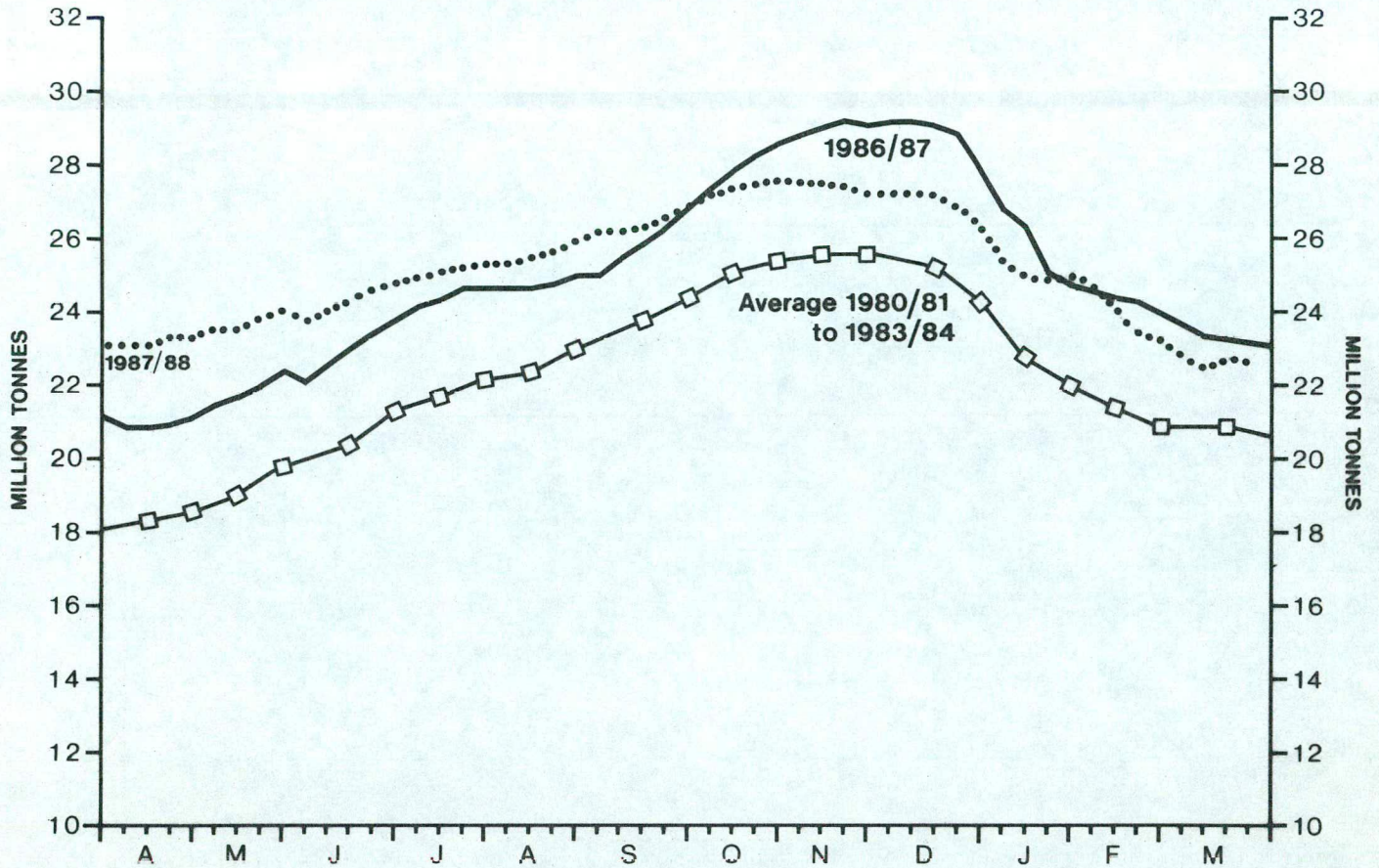
31 March 1988

Week ending.....		21.3.87	27.2.88	5.3.88	12.3.88	19.3.88
C O A L	PRODUCTION (m.tonnes)					
	deep mines†	1.92	1.46	1.59	1.70	1.76
	opencast†	0.35	0.38	0.40	0.39	0.36
	TOTAL	2.27	1.84	1.99	2.09	2.13
	PRODUCTIVITY(2) (tonnes/manshift)					
	'overall'	3.72	3.52	3.57	3.90	3.80
	'production'	16.23	16.70	16.45	17.98	17.82
U N D I S T R I B U T E D S T O C K S	UNDISTRIBUTED STOCKS (m.tonnes)					
	deep mines:					
	England	4.15	2.17	2.23	2.32	2.31
	S.Wales	2.57	1.99	1.97	1.87	1.85
	Scotland	0.74	0.40	0.38	0.35	0.32
	opencast	2.43	1.09	1.11	1.10	1.10
	TOTAL	9.89	5.65	5.69	5.65	5.57
COAL STOCKS (m.tonnes)						
	TOTAL CEGB	21.38	21.36	20.98	20.96	20.86
	Scotland	1.77	1.51	1.56	1.62	1.70
	TOTAL Gt.Britain	23.16	22.88	22.54	22.58	22.56
COAL CONSUMPTION (m.tonnes)						
	TOTAL CEGB	1.73	1.83	1.95	1.67	1.79
	Scotland	0.10	0.08	0.09	0.08	0.07
	TOTAL Gt.Britain	1.83	1.90	2.04	1.75	1.86
P O W E R	COAL RECEIPTS (m.tonnes)					
	CEGB	1.57	1.45	1.57	1.65	1.69
	Scotland	0.15	0.12	0.13	0.14	0.15
	Gt.Britain	1.73	1.57	1.70	1.79	1.84
S T A T I O N S	OIL STOCKS(3) (m.tonnes)					
	CEGB	0.57	0.64	0.61	0.59	0.55
	Scotland	0.12	0.07	0.09	0.10	0.10
	Gt.Britain	0.69	0.71	0.70	0.69	0.65
	OIL CONSUMPTION (3) (m.tonnes)					
	CEGB	0.04	0.03	0.05	0.04	0.06
	Scotland	0.03	0.03	0.03	0.03	0.03
	Gt.Britain	0.07	0.06	0.07	0.07	0.08
	OIL RECEIPTS(3) (m.tonnes)					
	CEGB	0.01	0.03	0.01	0.02	0.02
	Scotland	-	-	0.05	0.03	0.03
	Gt.Britain	0.01	0.03	0.06	0.05	0.05
	GAS CONSUMPTION (m.therms)					
	CEGB	-	-	-	-	-
	ELECTRICITY(4) SUPPLIED (GWh)					
	Nuclear	1,065	949	939	996	923
	Other Steam	4,555	4,772	4,996	4,563	4,629
	TOTAL	5,620	5,720	5,935	5,529	5,552
TOTAL, temperature corrected		5,374	5,589	5,621	5,618	5,513

(1) Great Britain unless otherwise stated. All latest figures are subject to revision. (2) British Coal mines only. (3) Oil-fired boilers only. (4) Steam stations only. †includes licensed production.

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### COAL STOCKS AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN



CONFIDENTIAL



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### COAL CONSUMPTION AND OIL CONSUMPTION (OIL FIRED) AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN

Key

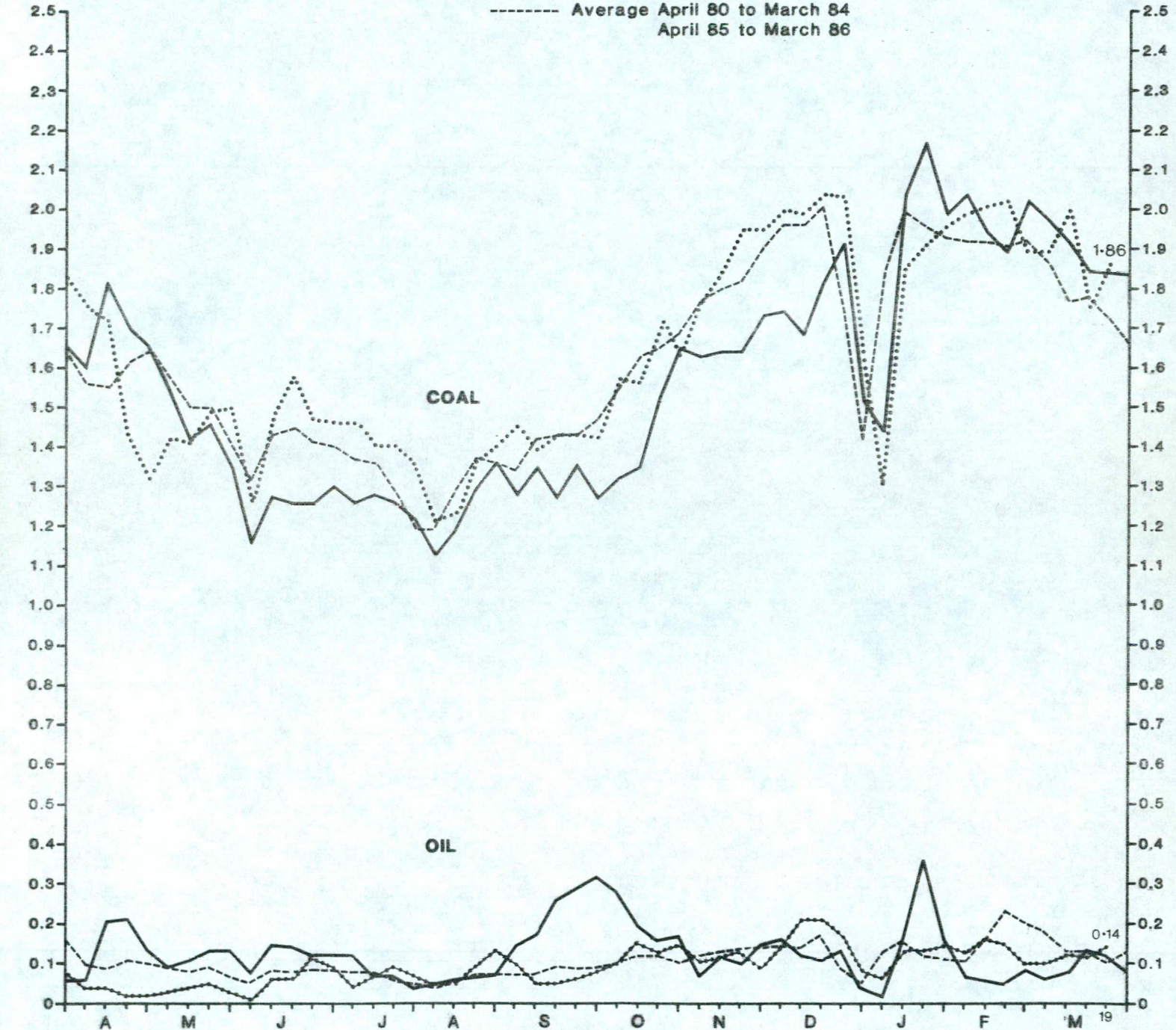
COAL ..... } April 87 to March 88  
OIL ..... }

COAL } ——— April 86 to March 87  
OIL }

----- Average April 80 to March 84  
April 85 to March 86

MILLION TONNES  
OF COAL  
OR COAL EQUIVALENT

MILLION TONNES  
OF COAL  
OR COAL EQUIVALENT



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WEEKLY COAL AND POWER STATION STATISTICS (1)

EcS Division, Dept. of Energy, Thames House South,  
Millbank, London SW1P 4QJ phone:01-211-4368

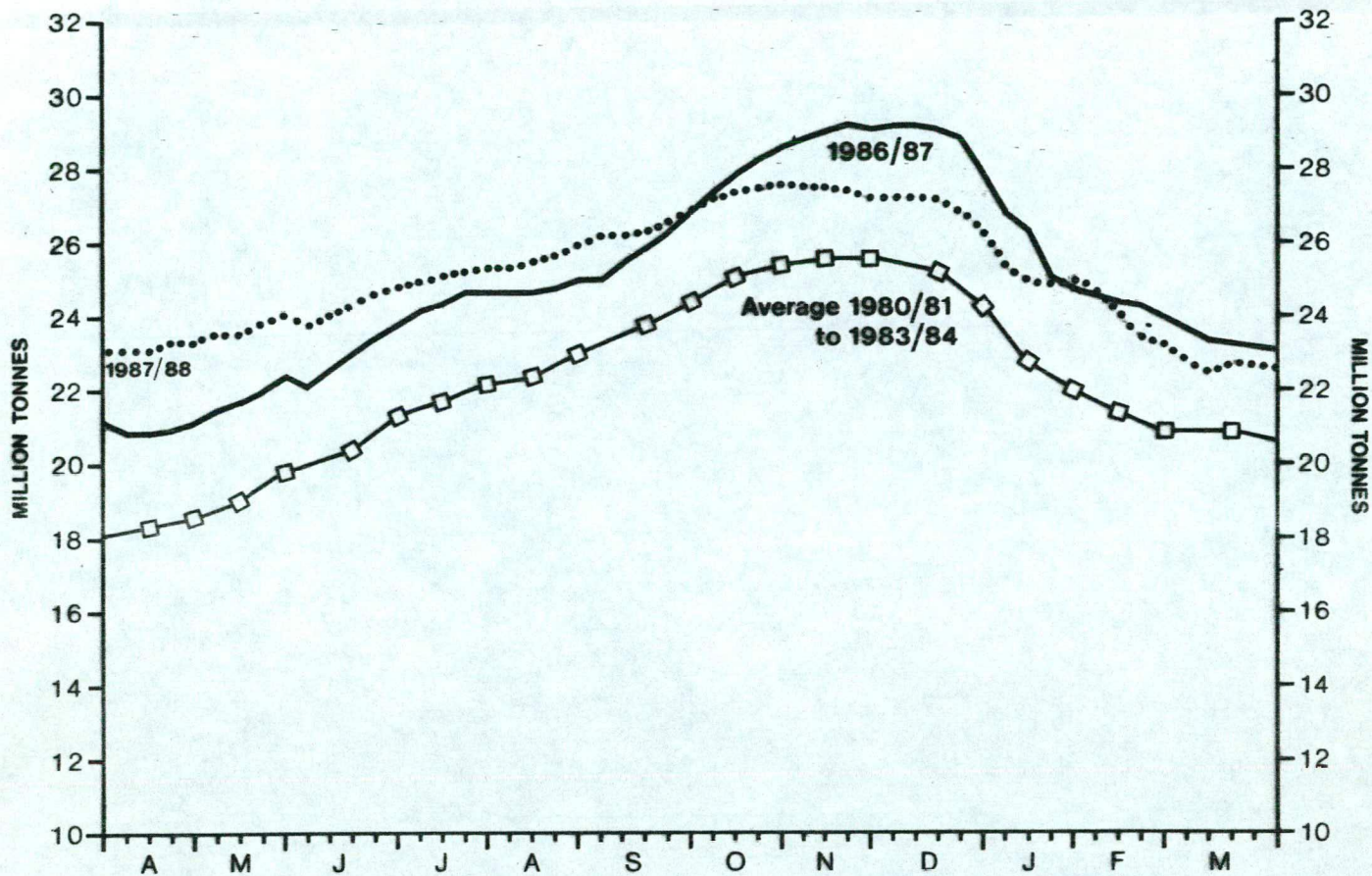
7 April 1988

Week ending.....		28.3.87	5.3.88	12.3.88	19.3.88	26.3.88
C O A L	PRODUCTION (m.tonnes)					
	deep mines+ opencast+ TOTAL	2.01 0.37 2.37	1.59 0.40 1.99	1.70 0.39 2.09	1.76 0.36 2.13	1.62 0.34 1.96
P O W E R	PRODUCTIVITY(2) (tonnes/manshift)					
	'overall' 'production'	3.76 16.35	3.57 16.45	3.90 17.98	3.80 17.82	3.86 17.86
S T A T I O N S	UNDISTRIBUTED STOCKS (m.tonnes)					
	deep mines:					
	England	4.22	2.23	2.32	2.31	2.25
	S.Wales	2.43	1.97	1.87	1.85	1.85
	Scotland	0.62	0.38	0.35	0.32	0.28
	opencast	2.36	1.11	1.10	1.10	1.08
	TOTAL	9.64	5.69	5.65	5.57	5.46
C O A L	COAL STOCKS (m.tonnes)					
	TOTAL CEEB Scotland TOTAL Gt.Britain	21.25 1.80 23.05	20.98 1.56 22.54	20.96 1.62 22.58	20.86 1.70 22.56	20.92 1.80 22.73
C O A L	CONSUMPTION (m.tonnes)					
	TOTAL CEEB Scotland TOTAL Gt.Britain	1.70 0.13 1.83	1.95 0.09 2.04	1.67 0.08 1.75	1.79 0.07 1.86	1.68 0.05 1.73
P O W E R	COAL RECEIPTS (m.tonnes)					
	CEEB Scotland Gt.Britain	1.57 0.16 1.73	1.57 0.13 1.70	1.65 0.14 1.79	1.69 0.15 1.84	1.74 0.15 1.89
S T A T I O N S	OIL STOCKS(3) (m.tonnes)					
	CEEB Scotland Gt.Britain	0.56 0.10 0.66	0.61 0.09 0.70	0.59 0.10 0.69	0.55 0.10 0.65	0.54 0.08 0.61
S T A T I O N S	OIL CONSUMPTION (3) (m.tonnes)					
	CEEB Scotland Gt.Britain	0.03 0.02 0.05	0.05 0.03 0.07	0.04 0.03 0.07	0.06 0.03 0.08	0.03 0.02 0.05
S T A T I O N S	OIL RECEIPTS(3) (m.tonnes)					
	CEEB Scotland Gt.Britain	0.02 - 0.02	0.01 0.05 0.06	0.02 0.03 0.05	0.02 0.03 0.05	0.01 - 0.01
GAS CONSUMPTION (m.therms)	CEEB	-	-	-	-	-
E L E C T R I C I T Y	SUPPLIED (GWh)					
	Nuclear Other Steam TOTAL	1,036 4,454 5,490	939 4,996 5,935	996 4,563 5,529	923 4,629 5,552	952 4,313 5,265
TOTAL, temperature corrected		5,465	5,621	5,618	5,513	4,926

(1) Great Britain unless otherwise stated. All latest figures are subject to revision. (2) British Coal mines only. (3) Oil-fired boilers only. (4) Steam stations only. +includes licensed production.

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COAL STOCKS AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN



CONFIDENTIAL

### COAL CONSUMPTION AND OIL CONSUMPTION (OIL FIRED) AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN

Key

COAL ..... } April 87 to March 88

OIL ..... } April 87 to March 88

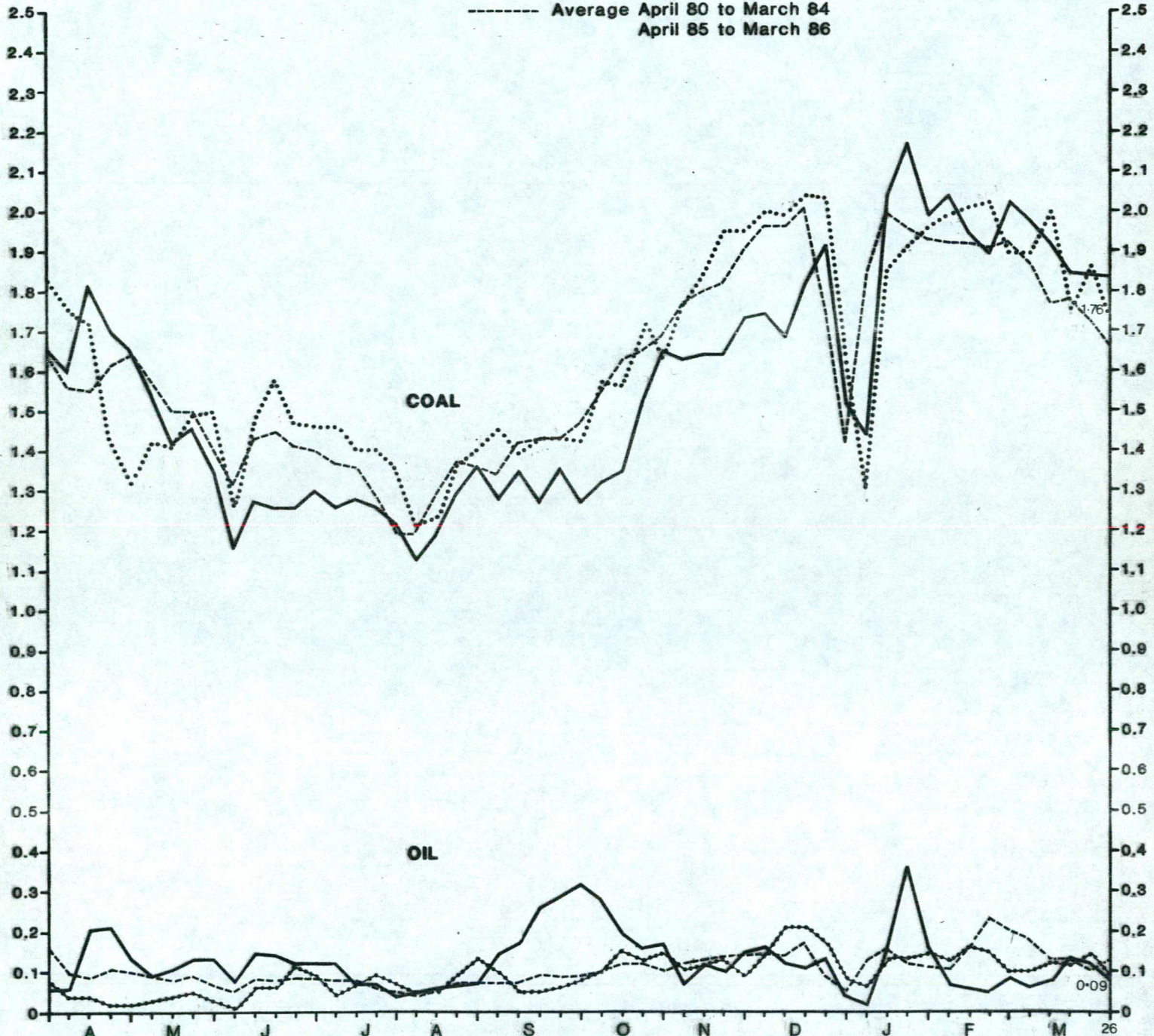
COAL } April 86 to March 87

OIL } April 86 to March 87

----- Average April 80 to March 84  
April 85 to March 86

MILLION TONNES  
OF COAL  
OR COAL EQUIVALENT

MILLION TONNES  
OF COAL  
OR COAL EQUIVALENT



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FROM: J M G TAYLOR  
DATE: 8 April 1988

PS/CHIEF SECRETARY

cc Sir P Middleton  
Mr Anson  
Mr Monck  
Mr Beastall  
Mr D J L Moore  
Mr M L Williams

**BRITISH COAL: ACCESS TO NATIONAL LOANS FUND**

The Secretary of State for Energy mentioned this matter to the Chancellor this morning, during the course of a telephone conversation.

2. Mr Parkinson said that it had been suggested that British Coal should no longer be allowed to borrow from the NLF. Instead, it should seek consolidated fund appropriations via the House. Mr Parkinson saw great presentational difficulties with this.

3. The Chancellor said that he had understood that a satisfactory compromise had been worked out. However, the Chief Secretary was in the lead and Mr Parkinson should pursue the matter with him if there were any points remaining to be resolved. Mr Parkinson said he would do this.

A handwritten signature in dark ink, appearing to be 'J M G TAYLOR'.

J M G TAYLOR

mp ✓ 15A

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WEEKLY COAL AND POWER STATION STATISTICS (1)

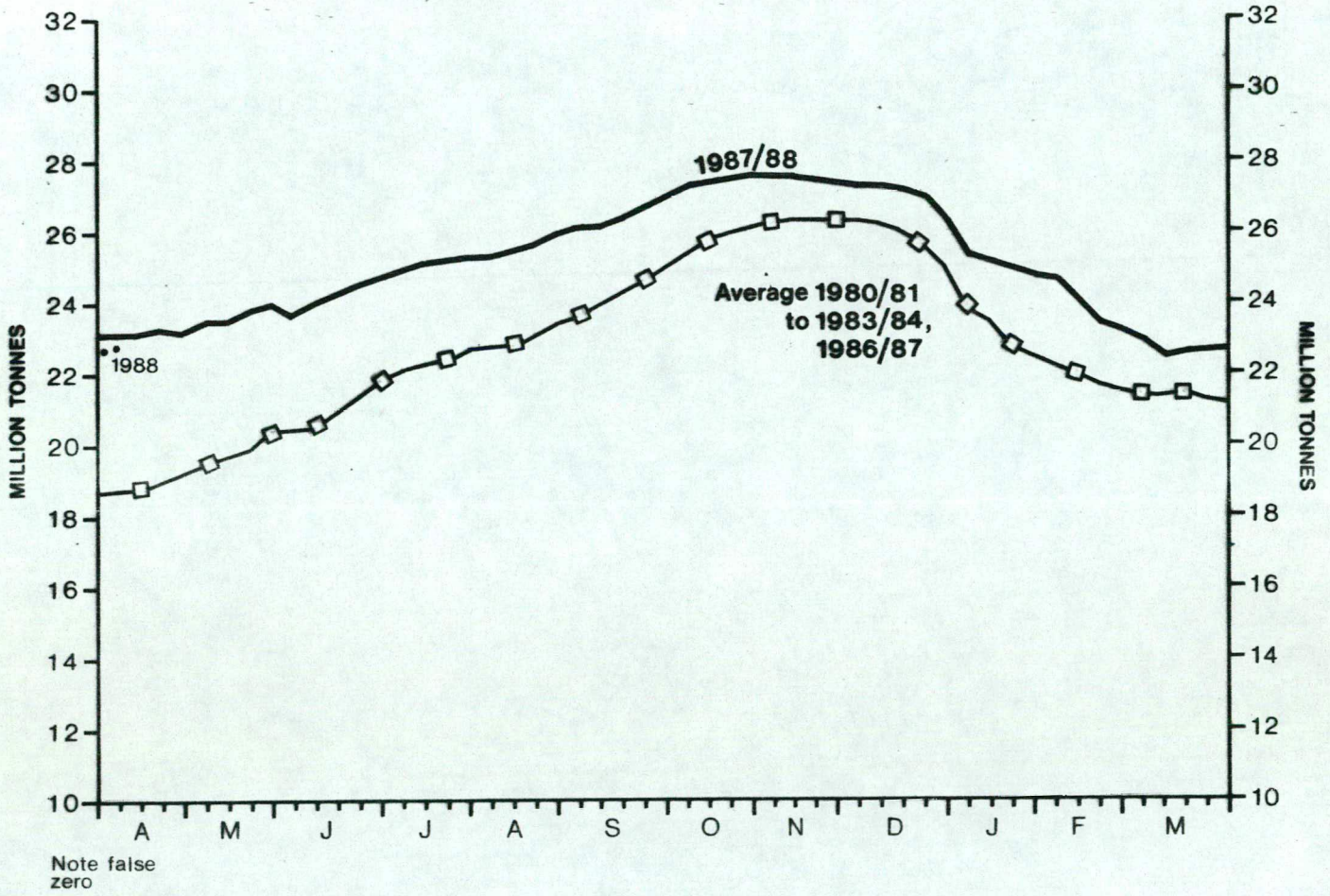
ECS Division, Dept. of Energy, Thames House South,  
Millbank, London SW1P 4QJ phone:01-211-4368

14 April 1988

Week ending.....		4.4.87	12.3.88	19.3.88	26.3.88	2.4.88
C O A L	PRODUCTION (m. tonnes)					
	deep mines+	1.86	1.70	1.76	1.82	1.64
	opencast+	0.33	0.40	0.36	0.36	0.30
	TOTAL	2.18	2.10	2.13	2.18	1.94
C O A L	PRODUCTIVITY(2) (tonnes/manshift)					
	'overall'	3.65	3.90	3.80	3.86	3.86
	'production'	15.90	17.98	17.82	17.86	17.76
C O A L	UNDISTRIBUTED STOCKS (m. tonnes)					
	deep mines:					
	England	4.27	2.32	2.31	2.25	2.25
	S.Wales	2.59	1.87	1.85	1.89	1.85
	Scotland	0.63	0.35	0.32	0.28	0.23
	opencast	2.35	1.10	1.10	1.09	1.07
	TOTAL	9.85	5.65	5.57	5.51	5.40
C O A L	COAL STOCKS (m. tonnes)					
	TOTAL CEEB	21.27	20.96	20.86	20.92	20.91
	Scotland	1.83	1.62	1.70	1.80	1.91
	TOTAL Gt. Britain	23.10	22.58	22.56	22.73	22.82
C O A L	COAL CONSUMPTION (m. tonnes)					
	TOTAL CEEB	1.62	1.67	1.79	1.68	1.56
	Scotland	0.12	0.08	0.07	0.05	0.04
	TOTAL Gt. Britain	1.75	1.75	1.86	1.73	1.60
P O W E R	COAL RECEIPTS (m. tonnes)					
	CEEGB	1.59	1.65	1.69	1.74	1.55
	Scotland	0.15	0.14	0.15	0.15	0.14
	Gt. Britain	1.74	1.79	1.84	1.89	1.70
S T A T I O N	OIL STOCKS(3) (m. tonnes)					
	CEEGB	0.54	0.59	0.55	0.54	0.51
	Scotland	0.10	0.10	0.10	0.08	0.05
	Gt. Britain	0.64	0.69	0.65	0.61	0.56
S T A T I O N	OIL CONSUMPTION (3) (m. tonnes)					
	CEEGB	0.03	0.04	0.06	0.03	0.03
	Scotland	-	0.03	0.03	0.02	0.03
	Gt. Britain	0.03	0.07	0.08	0.05	0.05
S T A T I O N	OIL RECEIPTS(3) (m. tonnes)					
	CEEGB	0.01	0.02	0.02	0.01	-
	Scotland	-	0.03	0.03	-	-
	Gt. Britain	0.01	0.05	0.05	0.01	-
GAS CONSUMPTION (m. therms)	CEEGB	-	-	-	-	-
E L E C T R I C I T Y	ELECTRICITY(4) SUPPLIED (GWh)					
	Nuclear	1,078	996	923	952	948
	Other Steam	4,180	4,563	4,629	4,313	3,960
	TOTAL	5,258	5,529	5,552	5,265	4,908
TOTAL, temperature corrected		5,138	5,618	5,513	4,926	4,908

(1) Great Britain unless otherwise stated. All latest figures are subject to revision. (2) British Coal mines only. (3) Oil-fired boilers only. (4) Steam stations only. +includes licensed production.

COAL STOCKS AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN



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### COAL CONSUMPTION AND OIL CONSUMPTION (OIL FIRED) AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN

Key

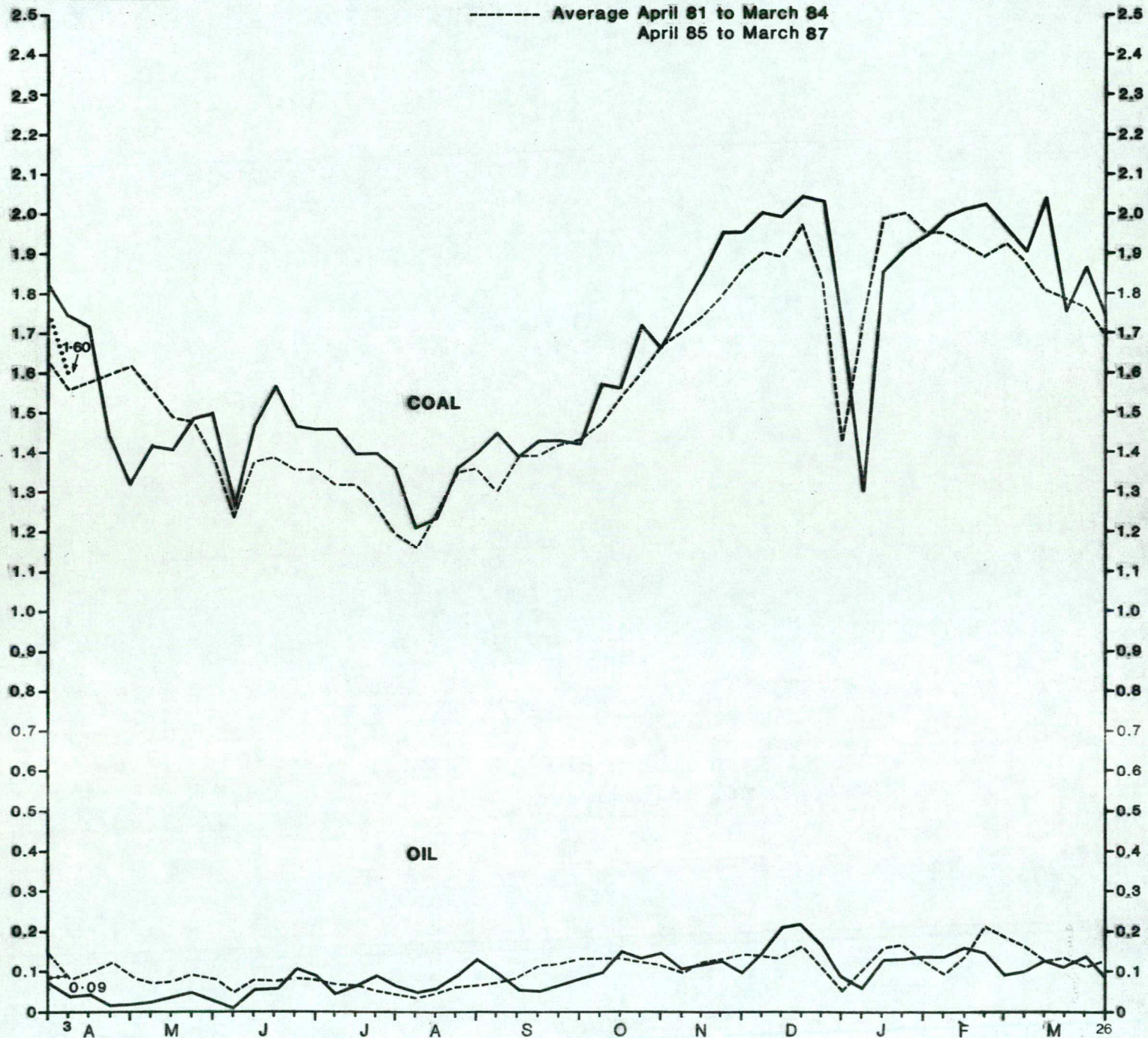
COAL ..... } April 88 to March 89  
OIL ..... }

COAL } ——— April 87 to March 88  
OIL }

----- Average April 81 to March 84  
April 85 to March 87

MILLION TONNES  
OF COAL  
OR COAL EQUIVALENT

MILLION TONNES  
OF COAL  
OR COAL EQUIVALENT



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*Chy This is a follow-up to Mr P's conversation with you, which I minuted (below)*

*the shows discussion with Mr Monck, and consultation with other relevant disciplines*

FROM: N I HOLGATE

DATE: 14 April 1988

1. MR M WILLIAMS ✓

2. SIR P MIDDLETON  
copy attached for Chancellor

3. CHIEF SECRETARY ✓

*14.4*

Mr Anson ✓  
Mr Monck  
Mr Moore  
Mr Beastall  
Miss Noble  
Mr L Watts  
Mr Hurst  
Mr Devereux

Miss Wheldon - (TSol)

*This is not an issue which can be allowed to drag on. I have taken the line that the requirements of strict propriety that we should stop funding from the NLF now - should be modified to give time for alternative arrangements to be put in place. But this is all subject to an early announcement.*

BRITISH COAL CREDITWORTHINESS

*Sm 15/4*

Mr Parkinson is meeting you at 3 pm on Tuesday 19 April to discuss the financing of British Coal. This submission reviews the likely options and lists the issues which you may wish to discuss.

### Background

*Not attached, in the interests of brevity.*

2. My submission of 29 March included a note by officials on BC's insolvency; the need to withdraw funding from the National Loans Fund (NLF) and the options available.

3. Three viable options were identified:

- (a) Continuation of deficit grant
- (b) Capital reconstruction.
- (c) Loans on a Vote.

DEn envisaged that Mr Parkinson would propose (c) and announce his intention to seek a Summer Supplementary Estimate. I recommended that you agree to this.

4. In the event, Mr Parkinson was not attracted by this option because:

- (i) it would be very difficult to explain the change

to Parliament; any explanation would smack of the stop-gap financing measures for BC criticised by the Energy Select Committee. (I attach relevant extracts).

(ii) the significant difference between voted loans and the NLF is that the former can be made at 'soft' rates of interest. Mr Parkinson believes that this is too fine and technical a distinction to be a convincing way of coping with BC's insolvency. To be of real help the rates would have to be low.

We suggest that you probe these doubts with Mr Parkinson: from PE's point of view the attraction of voted loans is that it is the least concessionary response to the industry.

5. We are not sure what alternatives Mr Parkinson has in mind. It seems likely that he may be ready to make sufficient changes to BC's financial position to resolve doubts about its creditworthiness for the next two years or so, which would allow NLF lending to continue. The key to the whole puzzle lies in the strategy review which will cover BC's industrial and financial prospects. From our discussions with his officials, we think he may be tempted to argue for an extension of the deficit grant regime. This could be presented as giving British Coal a sufficient breathing space while it re-ordered its production and market.

### The Treasury's Position

6. The Treasury has two major interests in BC's creditworthiness which are difficult to reconcile: these are the propriety of loans from the NLF (where there must be a reasonable expectation that they will be serviced and repaid); and the consequences of changes in BC's finance upon its plans and long term prospects.

7. Propriety alone would point towards a capital reconstruction: this would be an apt reply to the Select

Committee; it could also be presented as a step towards preparing BC for eventual privatisation; and it would enable BC's auditors to remove the qualification to the certificate on the accounts and do away with the statement of comfort that the Government stands behind BC. Failing that, deficit grants would be preferable, provided the sum available is likely to be sufficient. Voted loans is the trickiest option, but still a possibility, if there is a reasonable expectation with the 'soft' interest rate option, that they can be repaid.

8. A reconstruction or deficit grants would require legislation and Parliamentary time is at a premium. If a slot could not be found it may however be possible to tack a clause or two dealing with either of these two options on to another Bill already in the programme. Under the reconstruction option, the two clauses might be for powers for the issue of PDC and any reconstruction found necessary following the strategy review, leaving the exact details of that reconstruction - including any NLF write-off - to be affected by Statutory Instrument, subject if necessary to Affirmative Resolution. The one clause alternative would be to take powers for another large slug of deficit grant.

9. The probable impact of either of these two options upon BC's planning and prospects suggests precisely the opposite order of preference: Voted loans are a much less obvious relaxation of financial discipline and the most temporary solution, which keeps the pressure on BC. Grant or, even more so, the suggestion of restructuring, unless accompanied by a very stringent series of assurances, runs the the risk of signalling to BC that the Government is willing to underwrite further losses; it could retard the progress of the strategy review, already overdue; and it could make BC more reluctant to implement the review's conclusions.

### Assessment

10. Mr Parkinson has rejected voted loans for the reasons given above, but in one respect he misreads the Select

Committee's concerns: they were looking through the means of finance to the need for a clear strategy. Before considering alternatives, you will wish to press him further on the reasons for rejecting this option.

11. To announce deficit grants now would require greater public explicitness about future strategy than would a period of voted loans. You could point out that the strategy review might conclude that it was too soon to envisage a capital reconstruction and that deficit financing was appropriate for some years, perhaps until the market had settled down post-privatisation. But it would be embarrassing to replace a "temporary" deficit grant regime by a "permanent" one; it would be better to replace loans on vote which were acknowledged as temporary from the outset.

12. It may be that these arguments will carry little weight with Mr Parkinson, and it will be difficult to press him if he is not prepared to defend loans on votes. A temporary deficit grant regime will not be unacceptable providing certain assurances are given; and it is on these that you may have to focus the discussion. (Mr Parkinson is unlikely to favour, or even raise, the possibility of an early capital reconstruction.)

### Deficit grant

13. Deficit grant of up to £200 million was made available in the Coal Industry Act 1987 (extract attached) but this will be exhausted in 1987-88. An increase in deficit grant would require a one-clause Bill.

14. If a deficit grant power is taken, it would be sensible to wipe out the negative reserves accumulated to the end of 1987-88. This will require over £350 million. As this effectively displaces borrowing within BC's EFR, it does not increase public expenditure. Indeed it reduces the EFR in 1988-89 by perhaps £30 million a year through interest saved.

15. There are arguments for a larger sum still

(perhaps £600 million), to provide for payments in relation to deficits in 1988-89 and 1989-90.

(i) Although a number of closures were brought forward into 1987-88 (adding substantially to the deficit), there could be further closures and redundancies in 1988-89. Moreover, although BCC still plan to meet their breakeven target, there is virtually no margin for error.

(ii) Although last year's closures have improved BC's long term prospects, we have no firm or reliable figures, until the strategy review is complete.

(iii) Mr Parkinson has told both Sir Robert Haslam and Lord Marshall that they should negotiate a more competitive coal purchase arrangement (the joint understanding) later this year, as a prelude to ESI privatisation. This renegotiation could affect BCC's projections for 1988-89, but will certainly affect those for 1989-90 and beyond.

These three points together mean that there would be no basis for continuing lending from the NLF unless the deficit grant powers extended beyond 1987-88. Although there is a prospect of breakeven it is not sufficiently secure to meet NLF requirements. Further recourse to deficit grant would however give sufficient basis for continuing to lend on the present overnight basis. To avoid the same problem recurring in a year's time, the powers should cover 1989-90 as well as 1988-89.

16. Mr Parkinson may see two difficulties in setting a higher figure than that needed to wipe out past losses:

(i) it implies that BCC might not achieve their breakeven target and that further closures are to come. However he could also point to a possible future writing down of BC's assets, in order to remove the auditor's qualification on BCC accounts. This has been a possibility for some time; it would result in a further loss on paper but would not imply closures.

(ii) it might be more difficult to present to the Select

Committee. We agree, unless it is linked with a statement about future strategy (hence the presentational argument for loans on votes). But in practice Mr Parkinson can draw on the implied support that the Committee gave to deficit financing in paragraph 4 of their report.

17. As in the 1987 Act, one possible refinement would be to make the full payment subject to an order by statutory instrument.

### Effect on British Coal

18. In contrast to loans on a Vote the main danger of deficit grant is the signal sent to BC. In exploring the deficit grant option, you will want to spell out the conditions which Mr Parkinson would have to meet:

(i) He would have to make a clear announcement in the next few weeks, (or, as a fallback a clear agreement with BC) that the Corporation will move rapidly towards a free market for coal; and that grants will mainly reflect restructuring, not a subsidy for the sale of uncompetitive coal.

(ii) Sir Robert Haslam must be convinced that Ministers attach the greatest importance to the speedy progress of the strategy review. Perhaps a timetable for its completion can be agreed.

(iii) BC may need further guidance on the priority to be accorded to restructuring; if need be, this should entail a re-interpretation of BC's financial target of breakeven for 1988-89, so that the target does not impede necessary closures. In effect restructuring costs need to be treated separately within the EFL.

(iv) The implications for BC's investment programme must be flagged up. We were already going to advise you, when Mr Parkinson came to write about a likely

overshoot of this year's EFL, that you should press him on the scope for offsetting savings from cuts in investment. But recent developments also call into question the validity of the investment programme in future years. (The baseline for 1989-90 is £649 million). Unless it is supported by a robust long term view and further closures of uneconomic capacity, it will have to suffer substantial cuts.

19. Provided Mr Parkinson makes a clear announcement of his intention to seek deficit grant, the one-clause Bill could be inserted in other DEn legislation. You will, incidentally, want to resist any suggestion that this measure be tacked on to the 1988 Finance Bill: that would not be an appropriate vehicle.

#### Timing

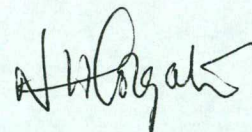
20. Mr Parkinson should announce his intention as soon as possible to introduce a Bill so that Parliament is given advance warning of the Government's decision, thereby helping to reduce any criticism of continued lending from the NLF in the interim. We had hoped that an announcement could coincide with BC's preliminary announcement of their 1987-88 results, but this is likely to slip back into May. Mr Parkinson should give a definite date by when he would tell Parliament. This is consistent with this enthusiasm for a longer term solution than voted loans.

#### Conclusion

21. If Mr Parkinson is determined that voted loans are difficult politically, and inconsistent with the Select Committee's views he must advance an alternative solution which satisfies continued lending from the NLF and presents the least threat possible to further restructuring of the industry. For the NLF, a capital reconstruction would be ideal, but from the PE point of view, this might damage the progress of the strategy review.

22. Deficit grant is an acceptable solution from the point of view of the NLF if it includes cover for future years as well as accumulated losses; and if the necessary Bill can be announced and introduced quickly. Deficit grant is acceptable from the PE point of view if there is no threat to the progress of the strategy review.

23. This brief has concentrated upon Mr Parkinson's most likely solution to BC's financial problems. The aide-memoire attached summarises the main issues that need to be covered in your meeting.



N I HOLGATE



4. The industry's deficit grant is to be raised to the maximum available under the Coal Industry Act 1987 by the Coal Industry (Limit on Deficit Grants) Order 1988, a draft of which is at present before the House. The Coal Industry Act 1987 set this maximum at £200 million for the two financial years ending in March 1989. At the time of our earlier Report<sup>7</sup>, we expressed some scepticism about the adequacy of this sum, and recommended that the Government should reconsider the scale and duration of the deficit grant payable to the industry. The Government's response informed the Committee that they did "not share the Committee's view that the scale of deficit grant under the Coal Industry Act 1987 is too small".<sup>8</sup> Because of the problems we have outlined in the previous paragraph, the fact that BC's deficit will be more than £200 million<sup>9</sup> does not necessarily mean that the provisions of the Coal Industry Act 1987 are inadequate. However, we would welcome a further indication in the debate on the Estimate from the Government of their current thinking as to whether any new legislative provision for deficit grants will be necessary before the end of the next financial year.

#### CONCLUSIONS

10. The presentation of this Supplementary Estimate is an opportunity once again for the House to receive an account from Ministers of policy towards the coal industry. BC has made welcome improvements in productivity, and the Committee hopes that these will continue. However, the industry's deficit and the number of closures necessary have both been considerably higher than was anticipated at the beginning of the financial year. The Supplementary Estimate is in itself evidence of this. We do not believe that the coal industry should be sustained whatever the cost to public funds, and we do believe that BC and its workforce should grasp the opportunities for further economies which are available to them. However, we again draw attention to the statements made by the Government in our earlier enquiry that "their first policy objective... is that there should be adequate and secure supplies of energy available to the people of this country" and their recognition of the strategic need for a British coal industry,<sup>1</sup> and we re-iterate our earlier conclusion that the industry's future "cannot be left wholly in the invisible hand of market forces".<sup>2</sup> *We hope that the government will use the opportunity of the debate on this Estimate to explain the strategy underlying their policy towards the British coal industry. Stop-gap funding from crisis to crisis is not a strategy.*

11. In particular, the Government must clarify its policy towards BC in the new competitive climate which will exist as the electricity industry is privatised. This climate may lead to many more closures in the period up to 1992 unless productivity from existing pits improves with sufficient rapidity to allow BC to sell to privatised electricity generators at more competitive prices. However, if existing capacity is to be maintained without closures, BC is unlikely to meet its financial targets without further substantial subsidy. Either the industry is given more discretion to sell at lower prices to maintain its market share with the result that it will not meet its financial targets, or, if financial targets are to remain sacrosanct, further closures of the industry's high cost tail will be inevitable. The Committee, Parliament and BC itself are surely entitled to request that the Government disclose its strategy for the industry. After all, the Government has laid down a clear strategy for the non-fossil component of electricity supply.

12. We also make a more general point on the value of Estimates. The use of substantial Supplementary Estimates to increase provision made in the Main Estimates shows how flawed the Main Estimates are as a means of predicting supply expenditure for the year ahead. We very much hope that the provision made for the coal industry in the Main Estimates to be presented in March will be the provision which is anticipated for the whole financial year, taking into account such matters as the uncertainty of world energy markets. If there are any supplementary estimates for coal in 1988-89, we will endeavour to ensure that they are debated in the House.



# Coal Industry Act 1987

## 1987 CHAPTER 3

### *Grants to the Corporation*

2.—(1) The Secretary of State may, with the approval of the Treasury, Deficit grants to  
British Coal  
Corporation.

make grants to the Corporation out of money provided by Parliament with a view to reducing or eliminating any group deficit for the financial years of the Corporation ending in March 1988 and 1989.

(2) In this section “group deficit” means, in relation to a financial year of the Corporation, any deficit shown in any consolidated profit and loss account of the Corporation and any of their subsidiaries prepared by the Corporation in accordance with a direction given by the Secretary of State in respect of that year under section 8(1) of the Coal Industry Act 1971.

1971 c.16.

(3) Grants under subsection (1) above—

- (a) may be made subject to such conditions as the Secretary of State may with the approval of the Treasury determine; and
- (b) may be made in advance of the preparation in respect of any financial year of the Corporation mentioned in that subsection of any such consolidated profit and loss account as is mentioned in subsection (2) above, if it appears to the Secretary of State that there will be a group deficit for that year.

(4) The aggregate of the grants made under subsection (1) above shall not exceed £100 million but the Secretary of State may with the approval of the Treasury by order increase or further increase that amount subject to a maximum of £200 million.

(5) The power to make an order under subsection (4) above shall be exercisable by statutory instrument and no such order shall be made unless a draft of the order has been laid before, and approved by a resolution of, the House of Commons.

**BC CREDITWORTHINESS: TUESDAY 19 APRIL**

1. BC's current position; the loss for 1987-88 and prospects.
2. **Review of options:**
  - political difficulties with loans on a Vote: challenge Mr Parkinson to amplify; make the point that Select Committee wants strategy as well as finance.
  - too early for capital reconstruction; insufficient information.
  - deficit grant: extend provisions in 1987 Act through one-clause Bill. Premature if BC commitment to further restructuring is not secured; giving up valuable Government bargaining counter
3. **Issues raised by deficit grant**
  - (i) amount and years to be covered;
  - (ii) effect on BC
    - strategy review making slow progress - BC too attached to high sales, implicitly relying on continuing subsidy. Need to convince BC of importance placed on progress
    - guidance on 1988-89 financial target
    - BC's investment programme in the IFR
  - (iii) **handling**
    - a separate Bill, or including it in other DEn legislation
    - announcement as soon as possible: what would Mr Parkinson say about strategy?