PREM 19/208

Coking Coal: NCB surplus and British Steel Corporation imports.

ENERGY.

July 1979.

| Referred to | Date | Referred to | Date | Referred to | Date | Referred to | Date |
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| ~~17.12.79~~ | | | | | | | |
| ~~18.12.79~~ | | | | | | | |
| ~~16.1.80~~ | | | | | | | |
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| ~~7.2.80~~ | | | | | | | |
| ~~30.7.80~~ | | | | | | | |
| ~~1.8.80~~ | | | | | | | |
| ~~6.8.80~~ | | | | | | | |
| ~~7.8.80~~ | | | | | | | |
| 8.9.80 | | | | | | | |

PREM 19/208

Dd 533270 5M 2/78 8362633 JET

Related file Nat. Ind June '79 - Financial Position of Coal Industry.

**TO BE RETAINED AS TOP ENCLOSURE**

# Cabinet / Cabinet Committee Documents

| Reference | Date |
|---|---|
| E(EA)(79) 33 | 23/07/79 |
| E(EA)(79) 9th Meeting, Item 3 | 25/07/79 |
| E(80) 28th Meeting, Item 3 | 28/07/80 |
| E(80) 29th Meeting, Item 5 | 04/08/80 |
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The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed O'Wayland Date 29 March 2010

**PREM Records Team**

See Mr Duguid

CONFIDENTIAL

Energy

Prime Minister

BSC and NCB have reached agreement on steel / coal purchases.

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

Tel: 211 6402

N Sanders Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1A

8 September 1980

Dear Nick,

You will have noticed the publicity given in this morning's press, following a statement by Mr Joe Gormley, to the differences between the British Steel Corporation and the National Coal Board about their purchases of coal and steel from each other.

My Secretary of State has asked me to let you know that we understand from the NCB that in fact they and the BSC are now very near an agreement. This would provide for BSC to take 4.2m tonnes of coal a year from NCB and for NCB to continue their steel purchases from BSC. The agreement would be based on the principle of alignment down to the world price, and would be designed to last until 1983. The final drafting and formal acceptance of the agreement has still to take place but the NCB expect that, all being well, they and the BSC will in a few days make a joint statement announcing it.

This outcome to the negotiations between the two boards would of course be extremely welcome. Until they make an announcement it should remain confidential.

I am sending copies of this letter to the Private Secretaries of the other members of E Committee and to the Paymaster General.

Yours ever,

J D WEST
Private Secretary

CONFIDENTIAL

JU

Energy

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PS/Secretary of State for Industry

7 August 1980

Clive Whitmore Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Clive

When we spoke the other day you emphasised the Prime Minister's wish that the negotiations between BSC and the NCB about coking coal purchases should be kept secret until Ministers had had the opportunity to consider their outcome. In this context the Prime Minister should be aware of the attached article which appeared in the "The Engineer" today.

2 The only sensitive passage is the second paragraph; the rest of the article is fairly common knowledge and background. Mr MacGregor's office at BSC have told us that the magazine did telephone someone in the Corporation earlier in the week but that the telephone call has been totally misrepresented in paragraph 2. Accordingly, the Corporation are positively and emphatically denying that they said anything of the sort; it does not represent their current policy since, as you know, the Corporation are still in negotiation with the NCB. Nothing will be done about new contracts unless and until these negotiations fail. BSC are replying in these terms to enquiries they have been receiving from most of the dailies. Moreover, Solly Gross will be seeing Mr MacGregor when he returns from the United States on Monday morning, before the latter's meeting with Sir Derek Ezra, to emphasise the Government's wish that BSC should not do anything which will precipitate a row with the unions before Ministers return from their holidays.

3 I am copying this letter to Julian West.

Yours ever,

Ian Ellison

I K C ELLISON
Private Secretary

# Ultimatum to NCB from BSC: cut coking coal prices or else

By Andrew Chuter

THE British Steel Corporation is threatening to import its entire coking coal requirements for 1981 if the National Coal Board fails to agree to demands for a massive reduction in prices. NCB negotiators have been told by their counterparts at BSC to cut prices to world levels or lose the business entirely.

Sources within the Corporation told *The Engineer* this week that as part of its get-tough policy over raw material prices procurement executives had been given the go-ahead to at least double the current level of imported coking coals. 'We can and we will import over nine million tonne in 1981', he said.

With negotiations continuing this week in an 'Armageddon' atmosphere, the NCB is faced with the prospect of either reducing its pithead prices for coking coals from around £46 to £34 per tonne or risk major redundancies as pits in South Wales, Durham, Yorkshire and Kent close down.

Many pits are already under threat as a result of BSC's closure programme allied to increasing imports of medium and low volatile coals. The consequences have already been seen in the sales figures as the Corporation's take of coal from the NCB has dwindled from 8·5 million tonne in the 1978-9 financial year to 6·9 million last year. This year the figure will fall still further to around 5·3 million tonne.

At present the ramifications have not yet been felt in the coalfields, although this is partly due to the NCB being able to switch low grade coking coals into the steam coal market—about four million tonne last year. Nevertheless, pressures are building up which will result in a massive shake-out of coking coal pits, particularly in South Wales.

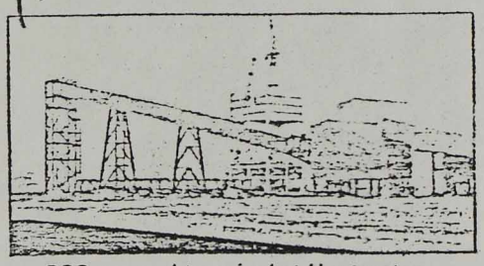
Late last year when BSC and NCB were last locked in battle over coking coal requirements, South Wales area director Philip Weakes predicted that 14 000 mining jobs would be lost at 21 pits if Llanwern or Port Talbot steelmaking plant was closed down. What BSC is contemplating is the removal of NCB coke supply into all its steel making plant. Combined with the £47 million losses reported by the area for last year this adds up to a cast iron case for major reductions in coke mining capacity.

As NCB negotiators balance the possible loss of £50 million in revenue against a wholesale redundancy programme, they will be asking themselves this week: Is BSC bluffing?

One of the strongest cards they believe they hold is the physical limitations the Corporation has to import any more than four to five million tonne a year. BSC told *The Engineer* that the NCB should double the figure they have been using for their calculations.

The new BSC chairman, Ian MacGregor, talking to Labour MPs at the Commons last week, refused to give any assurances that the Corporation would limit its imports. On the contrary he spoke enthusiastically about the availability of coking coal from Australia and the US.

At present BSC is meeting the terms of an agreement worked out last February which limited imports to four million tonne this year and guaranteed the NCB an outlet for a minimum of five million tonne of its coking coal.



*BSC ore/coal terminal at Hunterston, Scotland, looks like keeping busy*

That arrangement required NCB to dip into its own resources to the tune of £22 million to subsidise coking coal prices to a level closer to imported prices. Now, with its other markets all feeling the effects of the recession the Board, which has 57 coking coal pits nationwide, is going to have to find at least double that amount.

The present £22 million subsidy reduced the normal £10-12 per tonne difference between local and imported coals by about half. The 1981 agreement is likely to show that the Board is finally breaking away from its traditional and irrational stance of pricing its quality coking coals at such a high premium with virtually no regard to the market place.

With BSC reporting losses of £545 million compared with the NCB's marginal profit the feeling among steel industry executives is that 1980 is the last time they should subsidise other state industries.

A BSC source said that rank 301 coal imported into South Wales cost £34 per tonne delivered while the list price for NCB product in the same area is £54.

# Windscale leak blamed on 'lack of judgment'

A LIQUID level gauge whose indicator travelled more than once round the scale; leaky diverter valves; faulty stainless steel cladding: and a sump emptying pipe capped by mistake were the important engineering factors which led to a serious leak of radioactive liquid into the soil over 18 years at British Nuclear Fuels' Windscale plant.

These shortcomings in plant design and operation emerge from last week's report by the Nuclear Installations Inspectorate on the incident, which first came to light in March 1979.

BNFL's management is not to be prosecuted under the Health and Safety Acts because there was no hazard to the workforce or the public. But the NII report states that BNFL's operational system has not been adequate to maintain the necessary control over radioactive liquors being handled in the area where the incident occurred.

The main weakness, said the NII, appeared to arise as a result of management responses lacking in the level of judgment and safety consciousness expected. The engineered part of the system, while not meeting present-day standards, otherwise would have been adequate to prevent the incident.

More than 10 m³ of radioactive liquor corresponding to 100 000 curies is estimated to have leaked through faulty stainless steel cladding in the lower part of building B701 which has no access for operators.

The building was used for storing highly-radioactive liquors awaiting despatch to Harwell for vitrification experiments, but had not been used since 1958.

The first reason for an accumulation of liquors on the floor of building B701 was a leaky eight-way diverter valve in an adjoining building through which liquor was 'splashing over' from one section to another, ending up in B701.

This accumulation was spotted by monitoring a pneumercator level gauge but attempts to empty B701's sump vessel were fruitless after April 1971 because the sump emptying line had been mistakenly cut and capped during modifications to other sections of the plant at the time. BNFL also did not appear concerned whether the liquors were radioactive.

Further accumulation of liquor over 18 years was not noticed because the sump level indicator apparently was traversing the gauge on its second circuit, while showing an acceptable level to the plant operators.

In its report, the Nuclear Inspectorate expresses concern that BNFL did not think it necessary to check on the radioactivity of the liquor spilt in building B701.

The NII stated that the maintenance of safe operational systems, even if well conceived, demands a high level of safety consciousness by management, together with sound professional judgment. In the NII's view this was lacking in the case of the Windscale leak, and was the main cause of the incident.

Paul Butler

Energy

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Secretary of State for Industry

6 August 1980

Julian West Esq
Private Secretary to the
Secretary of State for Energy
Thames House South
Millbank
London SW1

Dear Julian,

Sir Derek Ezra telephoned my Secretary of State at lunch time today to tell him that he would be seeing the Chairman of BSC on Monday to discuss coking coal purchases. He said that relations between the two organisations were at a critical stage, with the BSC saying that they would buy no coking coal from the NCB unless the later's prices were completely aligned with world market prices. Such an arrangement would cause the NCB enormous problems and BSC appeared to be making no concession to the fact that the NCB was on the spot and had been supplying BSC for decades. He pointed out that the NCB bought more steel in value from BSC than they supplied BSC coking coal in value; the relative magnitudes were £250 million and £150 million respectively.

2 My Secretary of State said that these were matters which the two parties could sort out at their meeting the following Monday; he played no part in them. Sir Derek replied that he did in the sense that he had seen a copy of the letter BSC had sent to the NCB and that he shared Sir Derek's interest in encouraging import substitution. He pointed out that the NCB had never bought any steel abroad as a matter of policy. The only rational solution he saw to the problem was for BSC to give the NCB a similar assurance on steel prices. If BSC adopted a totally one-sided arrangement then it would be up to the NCB to take what measures they could to retaliate. The impression given to him by his negotiatiors was that BSC were unconcerned about the possible loss of BSC purchases. He knew Mr MacGregor from the days when he was involved in the coal mining business in AMAX and had found him a tough customer.

3 Sir Derek went on to say that he did not think that this dispute could be kept out of the newspapers for long. It was policy in the NCB to keep the unions thoroughly informed about matters of this kind. They faced a dilemma since they would be expected to consult

/their ...



their unions before anything leaked into the newspapers whilst they could expect a strong reaction from the unions when they consulted them. He said that he intended to speak to your Secretary of State later in the day. My Secretary of State said that he hoped the matter would not appear in the press at this stage, particularly since nothing final had been agreed between the two bodies. He hoped that the two chairmen would be able to reach a solution which reflected both their interests.

I am copying this letter to Clive Whitmore.

Yours ever,

Peter Stredder

PETER STREDDER
Private Secretary

A 02793

Energy

PRIME MINISTER

BRITISH STEEL CORPORATION: SUPPLY OF COKING COAL

BACKGROUND

The letter of 25 July from the Private Secretary to the Secretary of State for Industry to Mr Lankester reported that the British Steel Corporation proposed to import all their coking coal from 1981 onwards, at world market prices rather than to pay a premium to the National Coal Board of between £25 million and £40 million for 5 million tonnes of coking coal from them.

2. At their discussion on 28 July (E(80) 28th Meeting, Item 3) E invited the Secretary of State for Industry to arrange for the BSC not to reveal publicly this possibility until Ministers had discussed the matter further. The letter of 30 July from the Secretary of State for Industry's office to Mr Lankester covers a letter from Mr MacGregor to Sir Derek Ezra giving warning of his intentions but stressing the need for confidentiality over negotiations.

3. The Secretary of State for Energy was invited to circulate an assessment of the implications for the NCB of either losing their contract to sell coking coal to BSC or selling it to them at internationally competitive prices.

4. The Secretary of State for Energy has decided to report orally rather than to circulate a paper. This is because the two chairmen are now negotiating and, until the outcome is known, he has nothing useful to say.

HANDLING

5. You will wish to invite the Secretaries of State for Energy and for Industry each to bring the Committee up to date with their understanding of the position, and of the next steps to be taken.

6. Their general line is likely to be that the two chairmen should now negotiate commercially and within the constraints of their separate External Financing Limits. This is fine as far as it goes. But -

i. if NCB keep the contract but have to accept world market prices their EFL is bound to be under strain;

- No - they could improve efficiency. mt

ii. if they lose the contract that will also damage their EFL, and will open up much wider questions on the implications for closures and for relations with the NUM.

7. The Committee is already planning to discuss in mid-September a further paper on the investment and financing of the NCB up to 1983-84. This would provide a suitable opportunity to discuss the outcome of the present negotiations and their implications for each industry. There is however a risk that the negotiations could break down before then and that it could become known that the BSC intend to break off the contract. You will wish to ask the Secretaries of State for Energy and for Industry to comment on the probability of this, and how they see the timing.

CONCLUSIONS

8. Subject to the discussion you will wish to record conclusions -

1. Agreeing that the chairmen of the NCB and the BSC should be left to negotiate further and within the constraints of their respective External Financing Limits.

2. Inviting the Secretaries of State for Energy and for Industry to keep in touch with progress on the negotiations and to report as soon as possible on the implications for their respective industries, but deferring further substantive discussion if possible until mid-September.

RTA

ROBERT ARMSTRONG

1 August 1980

JU

Energy

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Secretary of State for Industry

30 July 1980

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Quick-dist in the 1th sec tm?

TL

31/7

Dear Tim

BRITISH STEEL CORPORATION: SUPPLY OF COKING COAL IN 1981

1 I enclose the text of a letter which Mr Ian MacGregor of BSC has sent to Sir Derek Ezra of the National Coal Board, indicating his intention that, if the NCB do not reduce the price of their coking coal, the BSC will purchase all its 1981 requirements for coking coal overseas.

2 Mr MacGregor has attempted to meet E Committee's request that the dispute between himself and the National Coal Board should remain confidential by himself writing to Sir Derek Ezra and not delegating the matter to his officials as had first been his intention. He has also drawn Sir Derek's attention to the need for confidentiality in the text of the letter.

3 I am copying this letter to John Wiggins (Treasury), Richard Dykes (Employment), Godfrey Robson (Scottish Office), John Craig (Welsh Office) Julian West (Energy) and to David Wright.

Yours ever

Ian Ellison

I K C ELLISON
Private Secretary

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**British Steel Corporation**
**Head Office**
P.O. Box No. 403, 33 Grosvenor Place, London SW1X 7JG
Telephone 01-235 1212 Telex 916061

30 July 1980

Sir Derek Ezra MBE
National Coal Board
Hobart House
Grosvenor Place
London
SW1

Dear Sir Derek,

Discussions have been in progress between our two organisations for some months and you made what is described as your final offer on June 13.

We have very carefully evaluated the effect of those proposals on our coking coal costs in 1981 relative to the alternative of imported supplies. In particular, we have taken into account the further fall in forecast steel sales and the consequent reduction in our total coal requirement; the continuing strength of the pound and the availability of forward cover for foreign currency at favourable rates; and the trends in world coal prices and shipping costs.

It is clear that acceptance of your prices, even for the smaller tonnages now envisaged, would cost the Corporation some £27M, or £6.50 per tonne more than the costs incurred by our competitors. Moreover the escalation element in your offer would probably add at least £2.50 per tonne, or more than £10M; on the other hand, the import prices used by us are 1981 prices which can be contracted now on a fixed basis.

Our current financial plight clearly makes it impossible for us to accept any additional cost burden. You will recall that, during the negotiation on our agreement on prices for 1980 supplies, we informed you (in a letter of 15 January 1980) that our objective for 1981 was to pay "only 'world' prices for the total tonnage of coal supplied to us". This is still our intention.

I understand that your people have said that the proposal is not negotiable. I would just like your personal confirmation as we would normally set in motion steps to secure our supplies from other sources. I very much hope that we can keep this matter confidential between us for the time being.

...../ cont

30 July 1980

Sir Derek Ezra MBE

Given the sensitivity of the matter, I am sending a copy of this letter to Sir Keith Joseph so that he is aware of the position.

Sincerely

Ian MacGregor.

Ian MacGregor

cc Sir Keith Joseph

c. Mr Abbs.

CONFIDENTIAL

1. MR WRIGHT
2. MR LANKESTER

BRITISH STEEL CORPORATION: SUPPLY OF COKING COAL

The letter of 25 July from Mr Ellison, Private Secretary to the Secretary of State for Industry, to Mr Lankester reports that Mr MacGregor of BSC intends to tell the National Coal Board tomorrow that BSC will purchase their entire requirements of coking coal for 1981 from overseas. BSC will need to announce this decision publicly.

2. I suggest that this should be briefly discussed at E this afternoon, after the two items on the Agenda have been taken. There is a dilemma. BSC are effectively subsidising the NCB by between £25 million and £40 million a year for the 5 million tons of coking coal which they are buying from NCB. It therefore makes sense for BSC to enter into a contract for imports. This will cause major difficulties for the NCB's finances, acute problems in South Wales, and probably a major political row.

3. The Prime Minister may, therefore, wish to question whether BSC need to say anything publicly in the coming week or to enter into a contract for imports. Ministers could then have time to consider the problem fully and to discuss it at the meeting of E arranged for 10:30am on Monday 4 August when it is already planned to discuss the CEGB's coal stocks and the External Financing Limits this year of the Electricity Supply Industry and the NCB.

4. This procedure would not rule out BSC pressing the NCB privately and hard during the week for some better compromise.

5. I understand that the Secretaries of State for Energy and for Wales will probably want to raise the issue, although I do not yet know what their lines will be.

DJM.

D J L MOORE.
28 July 1980

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Secretary of State for Industry

PM seen

25 July 1980

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister

This is tricky, and may need to be raised in E on Monday. In any case, I think MacGregor's letter should not go until after the cabinet debate.

Dear Tim

BRITISH STEEL CORPORATION: SUPPLY OF COKING COAL

1 Mr Ian MacGregor of BSC spoke to me this morning in my Secretary of State's absence from London. He thought it prudent to give the Secretary of State warning that he was about to enter into a confrontation with the National Coal Board over BSC's supplies of coking coal.

2 The background is that BSC had agreed with NCB to limit their imports of coking coal in 1980 to about 4 million tonnes, buying their residual requirements of a little more than 4 million tonnes from NCB. For 1981, BSC will again need 8 - 9 million tonnes. The National Coal Board have offered BSC a package deal for about 5 million tonnes of this requirement, the balance being imported by BSC for quality and other reasons. The price finally quoted by the NCB for the 5 million tonnes would involve a "subsidy" from BSC to the NCB of between £25 and £40 million, compared with the world market price. Also, the NCB were offering no guarantee that the quoted price would be maintained throughout 1981 and BSC considered it likely that NCB would raise the price further during the course of the year.

3 Mr MacGregor said that he could obtain all the coal he needed in 1981 from overseas suppliers on fixed price contracts which would last for at least the year. In view of the Corporation's financial position he could not afford to give the NCB a "subsidy". BSC therefore intended to reply to the NCB on Tuesday, 29 July to say that they would purchase their entire requirements of coking coal for 1981 from overseas. They would also need to announce this decision publicly.

4 Mr MacGregor went out of his way to ensure that I had details of his movements over the period up to Tuesday. This, and his preliminary remarks about warning the Secretary of State, gave me the impression that he was deliberately clearing his line with

/my ...

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COMMERCIAL IN CONFIDENCE

my Secretary of State and thereby providing him with an opportunity to intervene before BSC took action if he so wished. He did not, however, invite any comment by my Secretary of State.

5 My Secretary of State considers that it would be quite inappropriate for Ministers to intervene to attempt to influence BSC's negotiations with the NCB. These are a matter for commercial negotiation between the parties concerned. He also attaches importance to any steps which Mr MacGregor can take to reduce BSC's overrun on its external financing limit. He is anxious about the extent to which the "haemorrhage" of money to BSC is inhibiting the Government's overall plans for reducing public expenditure and for reducing interest rates. He realises that BSC's actions to get as close as possible to its EFL are likely to have an adverse impact on the EFLs of the NCB and other nationalised industries.

6 When he spoke to me Mr MacGregor was unaware of the debate on the motion of no confidence on Tuesday, 29 July. BSC needs to reply to the NCB before the end of the month and officials here have ascertained that BSC's letter need not be issued until after the Prime Minister has spoken in the debate. My Secretary of State thinks that, before the Government ask BSC formally to delay their letter, account should be taken of any damage which might be done to the Government if knowledge of such a request became public knowledge.

7 I must stress that it is important that NCB do not hear of BSC's intentions before BSC reply to them.

8 I am copying this letter to John Wiggins (Treasury), Richard Dykes (Employment), Godfrey Robson (Scottish Office), John Craig (Welsh Office), Julian West (Energy) and to David Wright.

Yours ever,
Ian Ellison

I K C ELLISON
Private Secretary

CONFIDENTIAL

file VB
Energy
bc D. Wright CO.
cc Master Set

10 DOWNING STREET

*From the Private Secretary*

7 February 1980

When the Chancellor called on the Prime Minister this morning, they briefly discussed the question of coking coal subsidies. The Chancellor reported that the Secretary of State for Energy had been in touch with Sir Derek Ezra and had told him that the Government had no objection to the NCB providing a greater subsidy from within their existing cash limits. The Department of Energy believed that the NCB had room for providing a further subsidy, and thus lowering the coking coal price. The Chancellor suggested that it would be right to continue pressing Sir Derek on this point.

The Prime Minister agreed.

I am sending a copy of this letter to Bill Burroughs (Department of Energy).

T. P. LANKESTER

John Wiggins, Esq.,
H.M. Treasury.

CONFIDENTIAL

Energy

Mr Sandiman

MBM

TL

M/L

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

A C Pirie Esq
Private Secretary to the Chief Secretary
HM Treasury
Parliament Street
London SW1P 3HE

1 February 1980

Dear Alistair,

GRANTS TO THE NCB 1979-80: SPRING SUPPLEMENTARIES

The Chief Secretary wrote on 18 January agreeing to my Secretary of State's proposals to pay a coking coal grant of £8.5m to the NCB this year within the agreed public expenditure provisions and to taking provision in the Supplementary Estimates for the £150m for deficit grants. He asked officials here to consult yours on the terms of an arranged PQ and Answer to announce the consequential increase in the Department's Class IV, Vote 8 to accommodate the deficiency grant. The Prime Minister said she was content with these arrangements on 28 January.

The change in the cash limit needs to be announced by 5 February to meet the tight printing schedule of the Spring Supplementary Estimates.

Officials here have consulted those in Treasury and the Department of Industry. Accordingly my Secretary of State intends to have the change announced on Tuesday 5 February through an inspired PQ answered in the terms of the draft below:-

"Q To ask the Secretary of State for Energy whether, pursuant to his Answer in OR 975, No 88 Part II, Cols 743 of 13 December 1979, he has any adjustment to make to the cash limit on his Class IV, Vote 8 for 1979-80.

A I announced on 13 December 1979 that the Government are making available to the NCB in the current financial year up to £255m in grants at 1979-80 outturn prices; this will not involve any change to the Board's external financing limit of £709m for 1979-80 set in June 1979. Of the £255m some £159,324,000 will be subject to the cash limit on my Department's Industrial Support Vote (Class IV, Vote 8) which is currently set at £53,055,000, but after taking into account this grant assistance and the current forecast of outturn for the Vote, the total provision will be increased by £146,200,000 to £199,255,000. This will not involve any increase in the planned total of public expenditure".

We have consciously avoided making a specific reference to the deficit grant in the answer in an endeavour not to draw undue attention to this issue. However, we must recognise that we may be asked to what the £150m relates. We shall, therefore, be briefing our press office in liaison with Treasury and Department of Industry.

I am copying this letter to Tim Lankester (No. 10), the Private Secretaries to the members of E Committee and to David Wright (Cabinet Office).

Yours sincerely,

Bill

W J Burroughs
Private Secretary

Energy

File ds

cc HO D/EMP
FCO MAFF
HMT DOT
D/IND D/N
LPO CHIEF SEC
CO

10 DOWNING STREET

*From the Private Secretary* 28 January 1980

Grants to the NCB 1979-80

The Prime Minister has seen your Secretary of State's letter of 16 January on the above subject and the Chief Secretary's reply of 18 January. She is content with the proposals for taking provision for the NCB grants in the Supplementary Estimates.

I am sending a copy of this letter to the Private Secretaries to members of E Committee and to David Wright (Cabinet Office).

T. P. LANKESTER

Bill Burroughs, Esq.,
Department of Energy.

PRIME MINISTER

Mr. Howell announced in November that we would be paying the NCB a deficit grant of £150 million this year. It received very little publicity. He is now proposing to make the necessary provision for this in the Supplementary Estimates to be published on 15 February.

You were concerned about this figure being published while the steel strike is still on. There is the possibility of publishing it two weeks later in the Late Spring Supplementaries. But Mr. Howell has argued that this would draw more attention to it since there are likely to be only one or two other Late Spring Supplementaries, and in any case it is already known that we are paying the grant. The Chief Secretary has agreed with this line.

I am not so sure. The argument really turns on when we think the strike will finish. If it is still on on 15 February, the publication of the deficit grant (albeit for the second time) could cause trouble. If the strike is still on at end-February when the Late Spring Supplementaries come out, it would be more damaging because of the greater publicity it would get. On balance, I would be inclined to go for the later date.

The Spring Supplementaries have to go to the printers next week, so a decision is needed now.

M.T.

25 January, 1980.

Let us go with the earlier publication.
I fear we can't go on holding everything up.

Energy

NBPM yet

BF

8/2/80

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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon David Howell MP
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1

18 January 1980

Dear David,

GRANTS TO THE NCB 1979-80: SPRING SUPPLEMENTARY ESTIMATES

Thank you for your letter of 16 January about the amount of deficiency grant and coking coal grant in 1979-80.

I agree with your proposal that coking coal grant, estimated at £8.5 million, should be paid for this financial year. Both this and the deficit grants referred to in your letter are within the agreed public expenditure provision for the NCB.

I also agree with your suggestions for taking provision in the Supplementary Estimates, including the Virement. As you say, Parliament has already been told the maximum amount of grant assistance to the NCB for 1979-80 and it would look odd if the necessary supply provision was not taken at the first opportunity to give effect to this.

I have noted your view that the course of action suggested would not add to our difficulties in dealing with the steel strike. As you say, the amount of grant for the NCB for 1979-80 has already been published, though I do not think it received much publicity. The Estimates procedure you propose would also avoid a specific Supplementary Estimate for coking coal though we would need one of £150 million for deficit grants. The alternative would be not to publish this Supplementary with the main batch of Supplementaries on about 15 February, but to delay it for some two weeks or so and publish it as a late Spring Supplementary. But this procedure would be likely to draw more attention to the £150 million since there are likely to be very few late Spring Supplementaries. I think our officials and those from the Department of Industry should

If steel strike still on, this may need to be delayed

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prepare briefing to deal with possible questions about disparity of treatment between the NCB and BSC when the Supplementary is published.

I should be grateful if your officials could also consult mine on the terms of an arranged PQ and Answer to announce the cash limit increase on Class IV, Vote 8 to accommodate the deficiency grant (as offset by savings). This needs to be made by the end of January and should make it clear the NCB's external financing limit remains at £709 million; this should help presentation.

I am sending copies of this letter to the Prime Minister, other members of E Committee and to Sir Robert Armstrong.

Yours

John Biffen

JOHN BIFFEN

cc Mr Duguid

Energy.

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

01 211 6402

Rt Hon John Biffen MP
Chief Secretary to the Treasury
Parliament Street
LONDON SW1P 3AG

16 January 1980

Dear John

GRANTS TO NCB 1979-80

In your letter of 14 December, you agreed that the NCB might be offered a Coking Coal Subsidy in the present financial year up to the amount allowed within the ECSC rules, and within the fixed total for financial support of all kinds. I subsequently told the NCB and mining unions that we were in principle prepared to pay such a subsidy. The NCB have now made detailed proposals and I am writing to seek your agreement to what I propose.

The Board have sought a subsidy of £34.2m, the maximum allowable under the scales which we have at present agreed with the Commission. They have also asked us to agree with the ECSC new scales based on the costs of individual collieries rather than of, as at present, NCB Areas; the result would be to increase this year's grant by a further £8m. They have also sought a further subsidy over and above those provided under ECSC rules to allow them to strike special deals with the BSC in order to limit imports and maintain their present take of coking coal.

I do not accept the NCB's full claim. It would make no sense to pay retrospectively a subsidy intended to assist sales. I should therefore propose to pay the subsidy only in respect of coking coal produced in the last quarter of the financial year (the NCB were told of our willingness in principle to pay a subsidy in mid-December). I should also propose to pay on the basis of the scales at present agreed only, although I should be willing to consider a colliery basis for the future. The final suggestion of aid over and above what we would pay under ECSC rules would take us outside anything we have contemplated in the Financial Strategy and cannot, in my view, be considered.

The effect of this would be, I estimate, a Coking Coal Subsidy of £8.5m in 1979/80. I could find £8m of this within the coal assistance sub-head (the need for support to RMPS has proved less than expected),

and the remainder out of other savings within the same Vote, provided that you can agree to the necessary virement. There would therefore be no need for any provision for Coking Coal Subsidy to appear in this year's Supplementary Estimates. Taking account of the fact that not all the deficit grant would be paid in the course of this financial year, I would suggest making provision in the Spring Supplementary Estimate for Deficit Grant to the NCB of £150m. I should be grateful if you could confirm your acceptance of these proposals.

I have further considered whether this course of action might add to our difficulties in dealing with the steel strike by pointing up the contrast between the treatment of NCB and that of BSC. I do not think that it need do so. Our intention to pay a Deficit Grant to the NCB this year has already been made public (in a Written Parliamentary Answer on 13 December) and the Spring Supplementary Estimates will, as I understand it, appear around 15 February. What matters is not the amount of grant to be paid in this year but our proposals for 1980/81 and subsequent years. These must in any case emerge either during the Second Reading Debate of the Coal Industry Bill, or in the Estimates for 1980-81, which will include provision for next year's NCB Deficit Grant, and which, I gather, should appear towards the end of February.

I am sending copies of this to the Prime Minister, other members of E Committee, and to Sir Robert Armstrong.

Yours ever

David

D A R HOWELL

Energy

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

01 211 6402

Tim Lankester Esq
Private Secretary
10 Downing St
LONDON SW1

18 December 1979

Dear Tim,

COKING COAL

Thank you for your letter of 17 December, which we spoke about today.

I mentioned that E(EA) had in fact agreed in July that the Government should in principle provide a tapering subsidy to the NCB for a limited period to enable it to reduce its coking coal output. The sub-Committee asked the Secretary of State to consult NCB and BSC as soon as possible along these lines (E(EA)(79)9th). Accordingly, my Secretary of State told the NCB in August of the Government's willingness in principle to provide such a subsidy, and the Secretary of State for Industry made a similar notification to the BSC.

What the Secretary of State told the NCB and mining unions in fact falls short of this, since he made it absolutely clear that any grant for coking coal support must not affect the total size of grants for the NCB, as agreed in the consideration of coal strategy. It would therefore involve no increase in the total support for coal, or in public expenditure, and so is unlikely to lead to requests for similar treatment from other nationalised industries.

You might like to see the attached note of what the Secretary of State said. You will see that he did not say that he would try to stop further imports by the BSC. This is of course a matter for the BSC's commercial decision just as the question of whether to offer the BSC a discount to match import prices remains a matter for the NCB to decide. He invited the NCB to discuss the problem further with the BSC, and said that he would explore the possibility of the BSC's not taking a decision until these further discussions had been concluded. It has since been established that the BSC do not in any case expect to take their decision until the end of January, so there should be no problem on this score.

(2)

I am sending copies of this letter to the Private Secretaries, to the Members of E(EA) Committee and to Martin Vile (Cabinet Office).

Yours sincerely,

Bill

W J Burroughs
Private Secretary

COKING COAL

Note of meeting between Secretary of State for Energy, the Chairman of the National Coal Board and the leaders of the Mining Unions on 18 December 1979

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The Chairman of the National Coal Board and Leaders of the Mining Unions saw the Secretary of State for Energy on Tuesday, 18 December to discuss the effects on the coal industry of the British Steel Corporation's plans to increase imports of coking coal and to cut back on steel production.

The Board and the mining unions emphasised their deep concern that the changing picture of the future of the steel industry gave rise to increasing uncertainty about the market for coking coal remaining to the British coal industry. Their earlier discussions with the Corporation had centred on a total coking coal requirement of some 10.5m tonnes of which the National Coal Board were seeking to retain at least 5.0m tonnes and hopefully 7.2m tonnes. The latest plans of the Corporation had introduced a new factor into the situation with their total requirements for coking coal now likely to be no more than about 9m tonnes; the maximum available to the NCB would be about 5.5m tonnes with the possibility that demand for NCB coking coal might be reduced to 3.5m tonnes. This reduction in demand, even to the 5.5m tonnes posed special difficulties for South Wales.

To preserve sales of about 5.5m tonnes to the BSC would require the price of NCB coking coal to be fixed to the end of 1980 plus some further discounts on some tonnages; these would together total around £33m. The Board said whilst they were prepared to meet about half this cost they did not see their way to going further without Government assistance on the rest.

The Board and the mining unions put the following points to the Government:

- the BSC should be asked not to enter into additional import commitments pending conclusion of further discussions with the Corporation on future supply arrangements.

- the Government should be prepared to provide financial assistance to the Board to enable them to meet the price conditions of the BSC.

- there would be serious repercussions for the NCB's coke manufacturing operation because the BSC had now advised the Board that in the light of their latest plans to reduce steelmaking, they would be able to supply all their needs from their own ovens.

The Secretary of State for Energy said that he fully understood the worries of the coal industry about this particular issue; though, more generally, he was confident about the coal industry's prospects through expansion and the production of competitive coal. In response to the points raised by the Board and the mining unions he said:

- The Government were prepared, within the very substantial total of grants and external finance already agreed for th NCB, to authorise payment of grants specifically to help the Board meet the cost of some arrangement with the BSC. The Government would not however be able to make any additional monies available in total to the Board.

- the Board should engage in further discussions with the BSC to clarify the Corporation's future requirements and to seek to come to some arrangement on quantities and price.

- he would undertake to explore the possibility of BSC not taking a decision to increase their imports until the Board's further discussions with them had been concluded.

The Chairman of the NCB said that he was doubtful whether the limite nature of the financial arrangement which the Secretary of State had mentioned would permit the Board to improve on the terms they had offered to the BSC. But he undertook to consider what they could do. The industry would still, anyway, be faced with an apparent reduction in demand for NCB coal from 8½m tonnes to 5½m tonnes and the disappearance of BSC's demand for coke from NCB's subsidiary.

Department of Energy

18 December 1979

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D/Ind.
D/Emp
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SO
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(D/Energy)
Chief Sec, HMT
+ C.O.

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Energy

File

10 DOWNING STREET

*From the Private Secretary*

17 December 1979

COKING COAL

The Prime Minister has read your Secretary of State's letter of 13 December to the Chief Secretary, and the Chief Secretary's reply of 14 December.

As I told you on the telephone, the Prime Minister has very grave doubts about Mr. Howell's proposal to intervene by offering a coking coal production subsidy - even though this would be met from within the existing NCB cash limit. It seems clear that the NCB are free to offer BSC coking coal at a cheaper price if they consider it to be in their commercial interest; the Prime Minister feels that, if they wish to use part of their cash limit for this purpose, they must take responsibility for it themselves. More generally, she feels that if Ministers intervened in this case, there will be no end to further requests for intervention from the NCB and other nationalised industries.

I am sending copies of this letter to the Private Secretaries to the members of E(EA) Committee and to Martin Vile (Cabinet Office).

T. P. LANKESTER

Bill Burroughs, Esq.,
Department of Energy.

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cc: Mr. Vile

MR. LANKESTER

Prime Minister
Mr Howell's proposal is pure cosmetics since he isn't offering any extra money. Shall I write as suggested? TL 14/12

Coking Coal

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In his minute to the Chief Secretary of 13 December (which we have only just seen) the Secretary of State for Energy proposes that, at his meeting with Sir Derek Ezra and leaders of the mining unions on 18 December, he should agree that up to £34m. could be used to provide a coking coal production subsidy. The intention is that any such subsidy would be offset by a reduction in deficit grant.

We have two reservations about this proposal

(i) Since no new money is on offer, we do not see how earmarking £34m. as a subsidy will achieve anything more than could be achieved by the Board's deciding for itself that sales should be made at the world price.

(ii) It would appear to involve the Government in a pricing decision, against the normal run of nationalised industry policy.

We do not suggest that the Prime Minister should stand in the way if Mr. Howell's judgement is that the proposal will help to defuse an explosive situation. But it may just be worth asking Mr. Howell to consider whether this will not be seen as a transparent device. I attach a draft accordingly.

We cannot intervene. The NCB are free to do it if in their judgment it is advisable. If we tell them what to do on this - there will be no end to the requests we get

The Treasury have now written with a similar point. But still worth writing, I think.

TL

G.S. DOWNEY (CPRS)

14 December 1979

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Draft letter to Dr. Burroughs

Coking Coal

The Prime Minister has seen your letter to the Chief Secretary of 13 December. She does not want to stand in the way if your Secretary of State feels that his proposal will defuse an explosive situation, but she does just ask him to consider whether Government intervention will achieve any more than would be achieved by the industries coming to a commercial arrangement.

CONFIDENTIAL

B


Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon David Howell MP
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1

14 December 1979

Dear Secretary of State

COKING COAL

Thank you for your letter of 13 December in which you seek approval to the payment to the NCB of some £34 million (in outturn prices) in both this financial year and next, as a coking coal production subsidy.

First, although I do not wish to press this point, I am not entirely convinced that it is right for the Government to intervene in the NCB's pricing decisions as the effect of your proposal would have us do. It is already open to the NCB to decide on their own commercial judgement to use the deficit grants to subsidise their sales to BSC. As a general principle I think it is much better for an industry to decide these matters for itself rather than to rely on Government through production subsidies.

As you say, the two sums of £34 million would have to be found from within the sums already agreed for the industry with payments of coking coal production subsidy offset by reductions in deficit grant. There would therefore be no addition to public expenditure or changes in the NCB's external financing limits for either this year or next.

This is clearly essential in any scheme, but I wonder whether in these circumstances the arrangements would be welcomed either by the NCB or the Union. They could well regard it as a trick since the Board would be no better off. If so, an already difficult situation might have been made worse. One way of defending ourselves against such criticism might be to point out that as a result of the scheme the BSC had agreed to import less coal than it would otherwise have done. I am not sure whether we can yet say this. There are also the complications created by the BSC's recent announcement of further

closures which, as you say in your letter, have not been taken account of in the figures you quote. These additional reductions of steel making capacity will reduce still further BSC's purchases from the NCB. But these reductions will not be due to import competition but to lower steel production. There clearly can be no question therefore of compensating the NCB for markets lost for this reason.

Two further points:

i) Presumably steam coal prices will increase rather more than the NCB previously expected. This will be because in their forecasts underlying their external financing limits the NCB will have assumed that they obtained the full amount of deficit grants (ie before any reduction for coking coal subsidies) and sales revenue from BSC reflecting full coking coal prices. They will, of course, still be receiving the same amount of grant in total, but they will not receive the same revenue from BSC because of the discount offered on the subsidised coking coal. I presume that the Board will make up the difference by charging the electricity boards higher prices for their coal with the costs feeding through to the electricity consumer.

ii) The deficit grants already agreed for 1979-80 are on a cash limited vote, but the coking coal grants for this year, but not next, would be on a non-cash limited vote. This will require some consequential changes to the cash limits, and I suggest our officials sort this out. The changes will, of course, not add to public expenditure.

So to sum up, though I have reservations about the principle underlying the coking coal subsidy scheme, I am prepared to agree with it if you think that it will help you deal with the NCB and the NUM, though I have some doubts whether they will be much impressed unless they can be told that as a result the BSC will reduce their purchases of imported coal below what they otherwise would have been.

I am sending a copy of this letter to the Prime Minister, the Secretary of State for Industry and to other members of E(EA) Committee and to Sir Robert Armstrong.

Yours sincerely

R. Wilts

pp JOHN BIFFEN

[Approved by the Chief Secretary
and signed in his absence]

date ; in 1979, how many man-days were lost up to 3 May ; and how many from 4 May.

**Mr. Mayhew :** I will reply to the hon. Member as soon as possible.

### Manpower Services Commission

**Mrs. Renée Short** asked the Secretary of State for Employment what reductions in employment and training services by the Manpower Services Commission are proposed ; and how much these will save.

**Mr. Jim Lester :** My hon. Friend the Minister of State, Civil Service Department announced on 6 December that the Manpower Services Commission would save approximately 3,400 staff from reductions in employment and training services leading to a reduction in staff costs of £20·2 million. I am informed by the Manpower Services Commission that it will be meeting shortly to consider how this reduction should be apportioned among its various operational programmes.

### Working Women

**Mrs. Renée Short** asked the Secretary of State for Employment if he has received a copy of the report of the working party established by the Manpower Services Commission concerning the problems facing working women ; and if he will make a statement.

**Mr. Jim Lester :** I will reply to the hon. Member as soon as possible.

### Coal Industry

**Mr. Michael Brown** asked the Secretary of State for Energy what is the present level of subsidy, grants and other payments from public funds to the National Coal Board.

**Mr. John Moore :** The external financing limit of the NCB for 1979-80 will remain at £709 million as announced on 12 June 1979. Within that figure the Government are making available to the NCB in the current financial year up to £255 million in grants at 1979-80 outturn prices, subject to parliamentary approval of Supplementary Estimates.



## NORTHERN IRELAND

### Rates

**Mr. Kilfedder** asked the Secretary of State for Northern Ireland which services which are currently the responsibility of central Government could be financed from estimated rates income without recourse to other public funds.

**Mr. Rossi :** Water and sewerage.

### Water Service

**Mr. Kilfedder** asked the Secretary of State for Northern Ireland what is the annual cost of the water service ; and what amount of regional rate would be required to support the service if the cost was met out of rates alone.

**Mr. Goodhart :** The direct cost of running the water service, including sewerage, in 1978-79 was approximately £57 million.

As the present regional rate is not based on actual expenditure, there is no separately definable water and sewerage rate. If, however, the figures were translated into a poundage rate, based on the present level of valuation in Northern Ireland, it would be approximately 32p in the £.

### Terrorism

**Mr. Wm. Ross** asked the Secretary of State for Northern Ireland how he intends to make use of the agreement on terrorism recently signed in Dublin.

**Mr. Humphrey Atkins :** I welcome the recent signing, on 4 December, of the agreement concerning the application of the European convention on the suppression of terrorism by the EEC member States as amongst themselves. The agreement will not come into force until three months after it has been ratified by all the Nine member States and I cannot predict when this will be. In any event, Her Majesty's Government will continue to make use where appropriate of the extra-territorial legislation which already governs relations between Northern Ireland and the Republic of Ireland in this respect.

### Coal (Test Drilling)

**Mr. Wm. Ross** asked the Secretary of State for Northern Ireland what were the

results of the test drilling for coal carried out in County Antrim and in County Tyrone.

**Mr. Giles Shaw:** In County Antrim a borehole was drilled early this year to a depth of 7,500 ft., but no coal was discovered. High temperatures were, however, recorded and geothermal measurements are to be taken to ascertain if this source of heat has any practical application to energy needs. In County Tyrone a borehole drilled at the end of 1978 at Killary Glebe near Coalisland revealed four thin seams of coal at a depth of 3,500 ft., but these are not regarded as commercially exploitable.

Reports on the results of the drillings may be obtained from the geological survey of Northern Ireland.

### Housing Executive

**Mr. Peter Robinson** asked the Secretary of State for Northern Ireland if, in view of the present composition of the Northern Ireland Housing Executive, and past appointments to the Executive of Mr. J. W. Cushnahan, a representative of the Alliance Party, and Mr. E. K. McGrady, a representative of the Social Democratic and Labour Party to balance party representation, he will now appoint a Democratic Unionist to the board to re-establish the balance of representation.

**Mr. Goodhart** [*pursuant to his reply,* 10 December 1979]: At present there are nine members serving on the Housing Executive Board, which is the statutory maximum. Three members are appointed annually by the Northern Ireland Housing Council, and the others have all been appointed to serve until 31 December 1981, with the exception of the Vice-Chairman who is appointed until 30 June 1984. My right hon. Friend believes that the membership of the Board of the Executive should reflect a cross-section of viewpoints in Northern Ireland. Members of the Housing Executive Board will continue to be appointed for the personal contribution that they can make.

### Disabled Persons

**Mr. Ashley** asked the Secretary of State for Social Services if he will bring forward proposals to protect disabled people from the effects of the 40 per cent. rise in gas prices.



**Mrs. Chalker:** Increases in all fuel prices are reflected in the general index of retail prices, movements in which are taken into account in determining the annual uprating of benefits including those for disabled people. So far as supplementary benefit heating additions are concerned—the criteria for the award of which take special account of the health of beneficiaries—the right hon. Member will see from appendix G of the annual report of the Supplementary Benefits Commission for 1978, Cmnd. 7725, that they are automatically increased to take account of increases in fuel prices. The right hon. Member must direct any questions about gas price rises to my right hon. Friend the Secretary of State for Energy.

### Poliomyelitis

**Dr. Roger Thomas** asked the Secretary of State for Social Services if he will institute a nationwide programme to draw attention to the small proportion of the population who are adequately protected against poliomyelitis, and the danger of the disease becoming more serious and prevalent.

**Sir George Young:** I am aware of estimates to the contrary, but I am advised that the present low incidence of poliomyelitis in this country, coupled with the relatively high uptake of infant immunisation, suggests that the level of immunity among the general population is quite high and that a nationwide programme would not, therefore, be appropriate.

### Latchkey Children

**Mr. Renée Short** asked the Secretary of State for Social Services what funds and support his Department gives to local groups running schemes to provide for latchkey children; what research his Department is carrying out into the problems faced by latchkey children; and what steps he is taking to ensure the provision of both statutory and voluntary after-school and holiday care for latchkey children.

**Sir George Young:** We fully recognise the importance of playschemes and out-of-school and holiday care for latchkey children and welcome moves to improve these services. The funding of these schemes is primarily for local decision, although some central support is provided

Prime Minister

The proposed subsidy for coking coal will be found from within the existing cash limit. I suppose therefore that we have to go along with it - though it looks like blackmail.

R.

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

The Rt Hon John Biffen MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
London SW1

13 December 1979

Dear John

COKING COAL

You will recall that E(EA) Committee agreed in principle on 25 July (E(EA)(79)9th meeting) that a tapering subsidy might be provided to enable the Board to sell some coking coal to BSC at world prices, whilst taking action to reduce coking coal output to lower level of demand.

Until BSC's recent announcement of further reductions in steel-making capacity, their plans assumed a need for 10.5m tonnes of coking coal in 1980-1. Their present import commitments were 3.3m tonnes, leaving 7.2m tonnes for the NCB; but they were considering importing another 2.2m tonnes, which would have left only 5m tonnes for the NCB.

The two industries had not, before BSC's recent announcement, been able to reach any long-term agreement on quantities and price. The Corporation's new plans for reduction in capacity pose an even more serious threat for the NCB's sale of coking coal. The precise effect is not yet clear but, even without further resort to imports, BSC's requirement for NCB coal might fall to 5 to 6m tonnes a year (compared with the 8.5m tonnes sold in 1978/79, itself a substantial reduction on previous years).

The threat to indigenous coking coal production is the major issue now concerning the coal industry; and, at their request, I have agreed to meet Sir Derek Ezra and the leaders of the mining unions on Tuesday 18 December.

Even though, in the light of our decisions on the financial strategy for the coal industry, any payment of coking coal production subsidy would have to be offset by a reduction in deficit grant, it will nevertheless help to defuse a potentially explosive situation if I am able to say at the meeting that the Government is prepared to provide such a subsidy to the Board this year.

The amount of coking coal production subsidy payable is governed by ECSC rules and the estimated amount which the Board could claim this year is £34m. Without some such gesture (which will not in fact mean any net addition to public expenditure) I fear that BSC may face further blocking of imports.

The extent to which the NCB have to resort to closures to bring remaining coking coal production into line with BSC's demand will depend on the scope, which is likely to be limited, for diverting more coking coal to power stations, and on what financial inducements they are able to offer BSC to reduce imports (or at least avoid further imports) into South Wales. The main incentive to the Board to make progress with closures will be the financial strategy of limited, and reducing, total assistance from Government.

I shall be grateful for your agreement that I may inform the NCB and the mining unions that, within the substantial total assistance the Government has agreed to provide to the industry this year, up to £34m may be allocated to coking coal production subsidy, and that a sum of the same order will be made available next year, again within the total amount of assistance agreed.

I am copying this to the Prime Minister, the Secretary of State for Industry and to other members of E(EA) Committee.

Yours ever

David

D A R HOWELL