

Prime Minister

CONFIDENTIAL

The CPRS note attached is a useful summary of the issues. *

R
12/10

P.0118

MR LANKESTER

cc: Sir Kenneth Berrill
Mr Downey
Mr Vile (with enclosure)

STRATEGY FOR COAL

in the folder
R.

The joint paper by the Secretary of State for Energy and the Chief Secretary, Treasury on coal strategy, due to be discussed in E next Wednesday, will be available tonight (Energy Private Office are sending you a copy direct).

2. The paper now contains the information necessary for Ministers to reach conclusions on these issues though, because of a fundamental disagreement between Mr Howell and Mr Biffen it is in substance two papers with a covering note pointing to the differences. It is thus not a particularly easy paper to read and the CPRS have it in mind to circulate a "collective brief" for Ministers on E which should ease the handling problem. I attach a copy of the present draft of the CPRS paper which the Prime Minister might care to read alongside the paper itself should she have time this weekend.

P Le CHEMINANT

Cabinet Office
12 October 1979

* I think E Le Cheminant would do better to base the discussion on the CPRS note than on the Ministerial paper. The covering note on the Ministerial paper which should spell out the differences between Mr Biffen and Mr Howell is not much help.

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E(79)

COPY NO

12 October 1979

CABINET

STRATEGY FOR THE COAL INDUSTRY

—
Note by the Central Policy Review Staff
—

1. In considering E(79) , Ministers may find it helpful to have a note bringing together

(a) the main assumptions underlying the strategy recommended by the Secretary of State for Energy.

(b) the points of disagreement between the Secretary of State and the Chief Secretary.

(c) some of the main issues which will need to be considered.

2. Assumptions

These are set out in Appendix 2 to E(79) .

Perhaps the most significant are:

- 2% p.a. increase in productivity
- 3% p.a. increase in real earnings.
- 2% p.a. real increase in prices.

3. Points of Disagreement

(1) Recommended limits on external finance

	£mn			
	1980-81	1981-82	1982-83	1983-84
Secretary of State	628 .	597 .	531	434
Chief Secretary	598	570	480	375
Difference	<u>30</u>	<u>27</u>	<u>51</u>	<u>59</u>

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(2) The Secretary of State proposes that the following capital expenditure programme (set out in Appendix 3 of E(79)) should be approved on the normal basis:

	£mn 1978/79 Prices		
	1980-81	1981-82	1982-83
	587	575	583

The Chief Secretary recommends that approval should be delayed until the Board have accepted the financial limits he has proposed under (1) above.

(3) The Secretary of State recommends taking powers to issue Public Dividend Capital. This is opposed by the Chief Secretary.

4. Issues

(1) Are the assumptions realistic? In particular

- are there solid grounds for believing that productivity will rise by 2% p.a.? Output per man year has been static in recent years at levels lower than in the early 1970s. If zero growth continued, trading losses could rise by, say, £200 mn a year by the fourth year (loss of 8 mn tonnes of output at over £25 a tonne). This, of course, would dwarf the differences shown in paragraph 3(1) above.
- even if the assumed 3% p.a. increase in real earnings is reasonable on average, how would it affect the financial targets if (as seems possible) much of it is bunched into the coming year? If the miners' settlement was, say, 20%, the additional shortfall could be £50 mn next year and probably more thereafter.
- there are at least two questions on the prices assumption
 - (a) is the Board's assumption of a 2% increase p.a. in real prices compatible with their agreement (see footnote to Appendix 2 of E(79)) to sell two thirds of their total production to the CEEB at a price indexed only to inflation? The amount at stake is over £35 mn in the first year, £70 mn in the second and so on.
 - (b) the agreement with the CEEB apart, is there not more scope to raise coal prices than the 2% assumed, given the likely rises in oil and gas.

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(2) Is there a case for PDC?

Mining companies normally depend substantially on equity finance. This might suggest that new investment should be financed partly through PDC. But the case for converting existing debt seems much more doubtful. It would certainly improve the appearance of the NCB's accounts but, with little or no prospect of dividends, is it any different from a write-off of capital debt?

(3) How will the strategy be enforced?

Given the uncertainties involved, there is clearly a risk that breakeven will not be achieved by 1984-85 on this prospectus.

What, then, are the Government's options?

(i) take no disciplinary action and allow the cash limits to be broken. This would discredit the cash limit system and should, we think, be ruled out.

(ii) as the Secretary of State suggested in E(79)45, press for a faster phasing out of uneconomic capacity, perhaps with substantial changes on the Board. It is doubtful if this would significantly improve the financial position, at least in the short term. The proposed closure rate is in any case well above that achieved in recent years.

(iii) capital investment could be cut. But if the cut had to be substantial this would have damaging consequences (see Appendix 3) to E(79)).

(iv) prices could be raised by more than the 2% p.a. in real terms assumed. But in paragraph 3 of Annex A to E(79) , the Secretary of State proposes that revenue from higher prices should only be used as an extra contribution to self-financing (i.e. that it should be used to finance investment, not revenue costs).

i.e. they should not be used to pay higher wages etc.

The CPRS suggests that if these rules on price ^(revenues) were adhered to, the financial limits could not be enforced and the cash limits would break. This would be unacceptable. It would be better, in the CPRS' view, to allow the Board to use the proceeds of higher price rises to offset losses (as with other nationalised industries) so that the consequences of excessive wage increases and lack of productivity growth are brought home sharply to both sides of the industry. If this course were adopted there would be a much

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yes || better chance of living within the Chief Secretary's financial limits. To reinforce the Board's bargaining position, the Government could consider making it clear that it would place no obstacles in the way of imports.

5. Conclusion

The CPRS recommends that Ministers should consider the questions raised in paragraph 4 above before settling the specific issues set out in the joint paper by the Secretary of State and the Chief Secretary.

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file B
Nat Inds

C Sir K. Bennell

10 DOWNING STREET

From the Private Secretary

8 October 1979

~~BF 9-10-79~~

T.P.L. agreed that the minutes would do.

Mineworkers' Pay

The Prime Minister read your minute of 5 October, and as you will have seen from my letter of today's date to Mr. Burroughs, she is content for E(EA) to discuss this issue tonight. I would be glad if you could let me have a report of the discussion.

T. P. LANKESTER

P. le Cheminant, Esq., C.B.

S.B

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VB



C. HO DOE
FCO SO
HMT WO
D/IND
LPO
D/M
MAFF
D/TRADE
CS, HMT & CO

10 DOWNING STREET

From the Private Secretary

8 October 1979

Mineworkers' Pay

The Prime Minister has read the recent correspondence about mineworkers' pay - your Secretary of State's letter of 27 September to the Chancellor, the Chief Secretary's reply of 1 October and Mr. Howell's further letter of 4 October.

The Prime Minister would like this issue to be discussed at E(EA) Committee this evening. However, she has asked me to say that in her view the line proposed by Mr. Howell is right - in that she feels that it would be counter-productive to intervene in the NCB/NUM discussions which are scheduled for Wednesday. Moreover, she does not believe there would be much disadvantage in changing the miners' settlement date to 1 November. For if there were to be such a change, strike action in future would be more likely to take place in September/October rather than at the turn of the year when, because of the coal stock situation, the miners would appear to have greater leverage.

I am sending copies of this letter to the Private Secretaries to members of E and E(EA), and to Sir John Hunt.

TPL

W.J. Burroughs, Esq.,
Department of Energy.

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Minister of State

Department of Employment
Caxton House Tothill Street London SW1H 9NA
Telephone Direct Line 01-213 5949
Switchboard 01-213 3000

The Rt Hon David Howell MP
Secretary of State
Department of Energy
Thames House South
Millbank
LONDON
SW1P 4QJ

12/10
5 October 1979

Dear David,

MINEWORKERS' PAY

I have seen a copy of your letter of 4 October to John Biffen and I endorse the line you are proposing to take with the National Coal Board. I do not believe that we have good grounds for questioning the Board's judgement that some movement this year in the settlement date will be necessary if the danger of a strike is to be avoided; and that being so I consider, despite the possibility of repercussions in other industries, that the Board can hardly say less than they propose to say on 10 October if these crucial negotiations are not to be soured at the outset.

More generally I share your view that we should do our utmost to avoid being drawn into these negotiations or becoming closely identified with the Board's stance in them. Once their 1980/81 cash limit has been fixed we shall need to give the Board as much freedom as we can to handle the negotiations in their own way.

Copies of this letter go to members of E and E(EA) and to John Hunt.

Yours,
L/G

LORD GOWRIE

8 OCT 1979



I am very much in agreement with Energy Sec's letter. Further - I don't see much disadvantage in going to

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P.0116

1st Nov. for a settlement date. Status

MR LANKESTER

would then come in Sept-Oct or in Jan Feb or in Feb.

cc: Sir Kenneth Berrill

MINEWORKERS' PAY

Prime Minister

Shall we let E(EA) consider this and report to you on Monday evening, or would you prefer to take a meeting yourself on Monday?

R 5/10

Flag A

Flag B

The Prime Minister will have seen a copy of the Energy Secretary's letter of 4 October to the Chief Secretary, Treasury about the handling of the mineworkers' pay claim which is due to be discussed by the NCB and the NUM next Wednesday (10 October). The Chief Secretary's letter of 1 October to Mr Howell is also relevant.

2. There are features of the NCB's proposed reaction to the NUM claim which cause unease, particularly the proposal that the Board should indicate now that they are willing to consider flexibility on the timing of the settlement (due under present agreements on 1 March but with the NUM pressing hard - as they have done for some years - for a return to their old settlement date of 1 November). The NCB's judgement is that they must show flexibility here (by which in practice they mean negotiating a phased return to 1 November over a period of 2 years, with the first step taken this winter) and Mr Howell's approach is that this is a decision which, in accordance with the Government's general approach to pay in the nationalised industries, should be left to the NCB to decide within their cash limits. We have had as yet no Ministerial reactions to Mr Howell's letter though, at official level, the Department of Employment see little alternative to the NCB's proposals and are not unduly worried about the increased vulnerability which follows from a 1 November settlement (at the beginning of the winter instead of at the end). They argue that if the miners wish to force a showdown, they can do so at any time, whatever the nominal settlement date. The Treasury too are worried though their prime concern is the maintenance of cash limits (and the Board apparently has some headway in their cash limit for 1979-80 to accommodate an earlier settlement than 1 March).

3. We have in any case arranged for E(EA) to consider this correspondence on

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Monday evening and a report will be made to the Prime Minister on Monday after that meeting. If the Prime Minister wished, she could then have a meeting with the senior Ministers immediately concerned (The Chancellor, The Secretary of State for Employment, the Secretary of State for Energy and the Secretary of State for Industry) on Tuesday morning. The alternative would be to discuss the matter with the smaller group on Monday in place of the E(EA) discussion.



P Le CHEMINANT

Cabinet Office
5 October 1979



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 SW1P 3AG

4 October 1979

See John

MINEWORKERS' PAY

Thank you for your letter of 1 October.

I fully agree with the importance of ensuring that the National Coal Board negotiations are conducted within cash limits, as we agreed for Nationalised Industries generally at E Committee. I also feel strongly that we must stick to our agreed principles of letting Nationalised Industries' managements get on with their negotiations within these limits, and not, as a government, be drawn in if we can possibly avoid it.

For these reasons, and since the National Coal Board do not intend to give any indication on the 10th of how much money might be available I suggest that the 10 October meeting should go ahead and that it would be most dangerous for me to interfere, as a serious departure from the attitude which we have collectively agreed to take to such negotiations. The National Coal Board say that to refuse to meet would appear as an obvious delaying tactic, would lead to a sharp deterioration in their relationship with the union and would jeopardise the subsequent negotiations. It is of course most important that these negotiations should go as smoothly as possible.

They hope to postpone mentioning figures until November, and indeed one reason for the meeting with the union on the 10th is that it will make it easier for them to do this. The main purpose of the meeting as the Board see it will be to defuse the issue of the settlement date.

I am of course fully alive to the point you make about the significance of changing the date, but the fact is that it is to this aspect of their claim that the NUM have given most emphasis, and it is an issue on which the Union's moderates and militants can all too easily unite. The Board's view is that in this year's negotiations some movement of the date, and probably an agreed timetable for moving back eventually to 1 November, will be necessary if the danger of a strike is to be avoided.



As my previous letter made clear, a ballot on the Board's response to the claim is inevitable. If the Board do not show some flexibility about timing on 10 October, there would be a strong risk that the Union's National Executive Committee would immediately go to a ballot which could lead to early industrial action.

The Board therefore plan to say on 10 October that, while they would prefer to negotiate a further twelve-month settlement from 1 March, they are willing to consider some flexibility on the timing and to discuss possibilities, on the basis that these cannot increase the total offer in money terms; any change of date would therefore require an offsetting change in the percentage increase to be offered (although neither this nor the amount of money involved will of course be specified on 10th; these matters will be left for the further negotiations next month).

Since the Board, as I say, do not intend to mention any figures on 10th, I think that your questions of financial effects do not arise immediately. However you will note that each 1% increase in the mineworkers' pay bill represents an additional cost of £18 million per annum. Advancing the effective date of the settlement would therefore necessitate an offset of £1½ million for each month's advance.

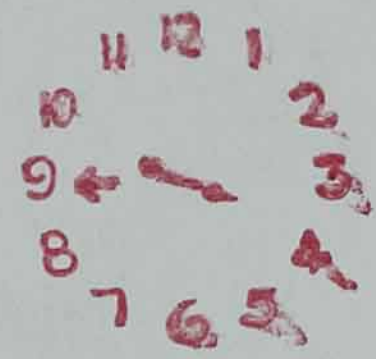
We must clearly fix the cash limit for 1980/81 and convey to them very shortly. I shall also ask them not to put forward any figures until the 1980/81 cash limit is notified to them, and thereafter not to make any commitments on figures without consulting us. I shall of course continue to keep my colleagues informed.

I am copying this letter to Members of E and E(EA) and to Sir John Hunt.

D A R HOWELL

for an
David

1-4 OCT 1978





MBM

12/24

Treasury Chambers, Parliament Street, SW1P 3AG

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

1 October 1979

MINEWORKERS' PAY

In Geoffrey Howe's absence, I am replying to your letter of 27 September.

In the light of our decisions at E Committee on 20 September on the paper about nationalised industries' cash limits, and given that we still have to reach decisions on the cash limits for 1980-81, I do not think we can proceed in the way you propose. Although we shall of course need the NCB's assessment of the situation, and proposals, we shall also need full information on the effects of an NCB offer not only on this year's cash limit, but also on next year's in the light of the decision on NCB expenditure for 1980-81 which we took in the summer, and on the NCB's proposals for financial viability described in your recent paper to E Committee. We shall need to know, for example, whether a settlement for this year which is acceptable to the NUM could simply put NUM into an impossibly strong bargaining position next year. Only when this information is available can we take a view on the position, in the light of the Government's overall policies on pay and the possible repercussions of any offer.

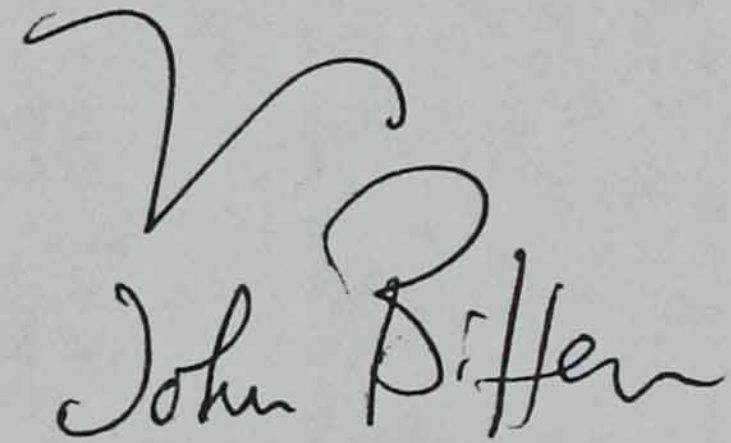
There is also the possibility that the NCB settlement, and especially the movement of the effective date, may cause trouble for other industries. Gas and electricity are probably the most closely affected by what is done in the coal industry. Would you think it worth pressing Ezra to take his colleagues into his confidence and get their reaction?

Because of these points and because I understand that there is no prospect of a full E Committee meeting to discuss this before the NUM Executive meeting on 11 October, I think you must press the NCB for their assessment of the scope for avoiding a response to the NUM on 10 October (on the argument that the move of settlement date is inextricably linked with the quantum of the settlement, which they

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are not yet in a position to discuss) without serious industrial action ensuing. However, we must also cater for the possibility, however undesirable, that we may be forced to take a rushed decision. I therefore think it would be essential if you could circulate, by close of play on Wednesday at the latest, the best information you can obtain on the points I have covered. In the light of this, we can consider how best to proceed.

I am copying this letter, together with a copy of yours, to members of E and E(EA) Committees, and to Sir John Hunt.

A handwritten signature in cursive script, reading "John Biffen". The signature is written in dark ink and is positioned above the printed name.

JOHN BIFFEN

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45 - I want to speak to
 Mr Rayner the telephone
 2 Mr Bam
 3 Mrs

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

01 211 6402

CH	EXCHEQUER
REC.	27 SEP 1979
ACORN	MR RAYNER
COMES TO	CST FST NST (L) NST (R) SIR D WASS STR LADLEY MR LITTLER

MR UNWIN
 MR TOWER
 MR WICKS
 MR RIDLEY

27 September 1979

The Rt Hon Sir Geoffrey Howe
 Chancellor of the Exchequer
 The Treasury
 Parliament St
 London SW1

Dear Sir

MINEWORKERS PAY

The miners' pay claim was formally delivered to the National Coal Board (NCB) by the Joint National Negotiating Committee of the National Union of Mineworkers (NUM) on Monday. The claim is precisely in line with the resolution of the NUM's annual conference last July and calls for

- (i) a return to 1 November as the annual settlement date (this was traditionally the date of settlements but the 1971 settlement was not made until 1 March 1972 when the Wilberforce Court of Inquiry published its report after the miners' strike of the preceding winter. Though the Inquiry said that the settlement date could in due course revert to 1 November it has remained at 1 March since then as a result of the insistence under earlier incomes policies on 12 month settlements).
- (ii) new grade rates ranging from £140 per week for the highest grade of face worker to £80 per week for the lowest grade of surface worker, representing increases of £55 per week (65%) and £18.65 per week (30%) respectively, with intermediate rates and increases for other grades.
- (iii) a protection of earnings scheme when men have to take lower paid work because of accidents.
- (iv) the revaluation of allowances (eg for wet working conditions etc).
- (v) a commitment by the Board to reduce the working week.

The National Coal Board tell me that the claim was presented unemotionally and in low key, although with considerable emphasis on the union's determination to return to a November settlement date. The NUM sought a response "in principle" to their claim from the Board by 10 October so that it might be considered at their next National Executive Committee (NEC) meeting on 11 October. The NCB were non-committal but believe they may need by then at least to give the NUM an indication whether they will contemplate an advance in the settlement date, and to give their fuller response to the claim before the following month's NEC on 8 November.

The NEC are required by the July Conference resolutions to hold a coal-field ballot of any response falling short of the claim. Such a ballot is therefore inevitable and NCB's preliminary view is that the most favourable time for it to be held would be in the early part of December.

The Board will be considering shortly their tactics and how they might respond to the claim and will let me know their proposals for handling it. I will then write to colleagues again.

D A R HOWELL

h m e
David

1979 OCT 2

7 6 5 4 3 2 1
8 9 10 11 12

Ref. A0305

PRIME MINISTER

Strategy for the Coal Industry

(E(79) 45)

BACKGROUND

This is an important paper. It includes a number of expensive proposals and ties in closely with the decisions on public expenditure to 1983-84 which the Cabinet will be taking in the second half of October. It is also possible, though this is not dealt with in the paper, that the Committee will want to spend time on the related issue of the mineworkers' pay claim and the prospects for industrial trouble this winter.

2. In preparation for the meeting you may care to refresh your memory of the discussion in E on 17th July (E(79) 5th Meeting, Item 5). In your summing up of that discussion you recorded the Committee's broad agreement to three propositions:-

- (a) The desirability of accelerating the closure of uneconomic pits.
- (b) The need for continuing investment in those pits which had the prospect of profitability and high productivity.
- (c) The need to avoid a situation in which money provided for investment was diverted to meet current pay demands.

3. You also asked Mr. Howell:-

- (a) To seek to reach agreement with the Chief Secretary on the finance required by the NCB for the later years of the public expenditure programme.
- (b) To consider with the Chief Secretary and the Secretaries of State for Scotland and for Wales the rates of phasing out uneconomic capacity which might be realistically obtained in Scotland and Wales; to consider what investment would be required to develop high productivity pits in those countries; and to assess what levels of redundancy and redundancy payments were likely to be needed. The Secretary of State for Employment was to be associated with consideration of the latter issue.

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- (c) To consider with the Chancellor of the Exchequer the restructuring of the NCB's capital.
- (d) To examine and report to you on the measures which might be necessary to improve the management of the coal industry, not excluding questions about the structure of the NCB.

4. Some of these matters are dealt with in the paper and there has, so we are told, been contact between officials of the relevant Departments about them. But Mr. Howell's paper is silent on the question of whether any, and if so which, of his colleagues agree with his proposals. I think you should assume that most of them are not committed and, if this proves to be the case, it may be necessary to regard the discussion as a "Second Reading" debate rather than an occasion for final decisions.

5. However this may be, colleagues will all face the particular difficulty that Mr. Howell's proposals are effectively being offered as a single solution to a complex situation where many variations and alternatives are available. To put it crudely, colleagues may feel they are being asked to take the judgment of the NCB and Mr. Howell on trust - and to foot the bill - in a situation where many hundreds of millions of pounds are at issue in one of the most potentially explosive areas of the economy. At the least Mr. Howell must be made to fight his corner. Questions to this end might be:-

- (a) How much money is Mr. Howell asking for over and above the proposals which the Chancellor put to Cabinet two weeks ago for nationalised industry financing to 1983-84 (in C(79) 37) and which were generally endorsed by the Cabinet subject to bilaterals? The arithmetic is complex and cannot be derived from the Annexes to Mr. Howell's paper. Treasury understanding is that he wants about £50 million extra in 1980-81, about £100 million more in 1981-82 and reducing, though still positive, extra amounts to 1983-84, i.e. his proposals worsen the budget arithmetic throughout the life of this Parliament as against the Chancellor's hopes.
- (b) How realistic are the financial numbers quoted by Mr. Howell? The tables are in terms of constant 1978-79 prices and the assumptions about changes in real pay, prices and productivity are not stated. We believe

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them to be: productivity plus 2 per cent a year. But quite small changes in these assumptions can have significant effects on the outcome - for example if miners' wages were to rise by 5 per cent a year in real terms the additional loss would be over £100 million, and if output per man year does not change (and it has moved very little in the last decade) the additional costs by 1983-84 could be over £100 million. The apparent precision in the financial forecasts therefore may be positively misleading. Faced with a not dissimilar situation of uncertainty in the steel industry Sir Keith Joseph is attempting to operate through financial targets, leaving it to the industry as the responsible body to work out its own salvation within that target. Colleagues will wish to consider whether the NCB's problem should be tackled in a similar way.

(c) It is relevant that the two financial projections in Annex 2 show losses, before grant but after interest payments, of £231 million in 1979-80, declining to £90 million in 1983-84 (on the 1½ million tons a year closure case) and to £113 million in 1983-84 (on the 3 million tons a year closure case). Is it acceptable to Ministers that the NCB should plan to remain in such substantial deficit throughout the quinquennium? The NCB, of course, has the endearing habit of talking of its results in terms of "operating" profits and loss without taking account of interest payments (which are largely offset by Government grants). But interest payments are made in real money and, when financed by Government, have to be paid for by real taxes. Moreover throughout the period the price of the main competing fuel, oil, is likely to be high and rising. If colleagues want to set a financial objective they will need to determine how far they can see a justification for continuing grant - e.g. to cover social costs - and whether they want to take on part of the burden through PDC (see below).

(d) Is it wise to base the strategy on a chosen level of colliery closures rather than on financial targets? During the major colliery closure period in the late 1960s the then Labour Government took great pains to avoid direct responsibility for individual colliery closures which were, it said, matters for the NCB to decide. Whatever the means - including assumptions on closures - which may be needed to calculate the

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realism of particular financial targets the Government will want to avoid closures becoming a matter where the NCB places responsibility on Government and thereby invites the NUM to treat direct with Government on them.

- (e) Is it really the case that an accelerated programme of colliery closures will worsen the NCB's financial results as far ahead as 1983-84? The NCB appear to have persuaded Mr. Howell that this is the case. But colleagues may want to be convinced that the cost of closing uneconomic pits are significantly higher than the savings made over so long a period.
- (f) Are colleagues prepared to see the introduction of public dividend capital (PDC) as a way of helping to balance the NCB's books? There is, on the arithmetic presented, little hope of dividends being paid on PDC over this period so that the proposal is difficult to reconcile with the normal criteria attaching to the creation of PDC. What is really being proposed is that a substantial part of the NCB's outstanding capital should be written off and cost of servicing it transferred to the Exchequer. This need make little real difference to the Exchequer if the Board's losses would otherwise continue to be financed, as now, by various forms of grant. But an element of discipline on the NCB would be lost as would such opportunity as there may be to make the industry service the capital with which it has been provided by the taxpayer.
- (g) Colleagues may well find the proposal for enhancing redundancy/transfer payments attractive as a means of reducing opposition to closure (British Steel experience is relevant here). But are they satisfied that the particular proposals do not have unacceptable repercussions elsewhere? It will be important to have the Secretary of State for Employment's view.
- (h) How does Mr. Howell envisage the NUM's current 60 per cent pay claim being handled? Are the NCB to be told that they must do the best they can within their existing cash limits and that under no circumstances will this be increased to accommodate pay settlements? As a corollary are the NCB to be left free to adjust their prices or cut their investment programme to make the books balance? And how vulnerable is the economy to a coal strike this winter? You will recall that at E on

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24th July (E(79) 6th Meeting, Item 3), you summed up a discussion about the prospects for this winter by stressing the importance of ensuring adequate supplies of coal to the power stations and asking the Secretary of State for Energy to keep you in touch with progress. You might care to ask for an up-to-date report to reach you very quickly.

- (i) Colleagues may also repeat the doubts which surfaced at your July meeting about the managerial competence of the NCB and the appropriateness of its present structure. At the end of that discussion (E(79) 5th Meeting, Item 5) you asked Mr. Howell to consider the matter and report to you. I am not aware that he has yet fulfilled this remit. Mr. Howell may of course have spoken to you privately about this but if not you could ask him when he proposes to do so.

HANDLING

6. You might ask the Secretary of State for Energy to introduce his paper and then call successively on the Chief Secretary, the Secretary of State for Scotland, the Secretary of State for Wales and the Secretary of State for Employment to make their contribution. If any of the points above have not surfaced you could throw them into the pool yourself. Thereafter much will depend on the way the discussion has gone. It may be (though I would personally doubt this) that colleagues will be prepared to accept Mr. Howell's proposals and explanations. It may be that they will be prepared to accept some of his conclusions - e.g. on improving redundancy pay and perhaps approving the investment programme - but have considerable doubts about the proposed financial strategy (where they might want to explore the alternative of setting specific financial targets designed to bring the NCB to genuine financial viability within a measured period) or the appropriateness of PDC. And it may be that they feel sufficiently uncertain to want to return to the whole matter again. In addition you are likely to see a deal of regional unhappiness about the employment and political consequences of closure patterns of the kind set out in Annex 1 to the paper, together with considerable uncertainty about the prospects of industrial trouble in the mining industry this winter. In these latter circumstances you might feel it better to avoid specific conclusions this time round and invite Mr. Howell to put in a further paper or papers dealing with the points raised in discussion. You will

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also want to ask him to distinguish particularly those decisions which are operationally urgent (e.g. the finance to be provided to the NCB in the years to 1983-84 where the Cabinet needs to have made up its mind by 25th October and the parameters to be set for the NCB in this winter's pay negotiations where they presumably need their marching orders pretty soon).

CONCLUSIONS

7. Very much subject to discussion, the Committee may conclude:-

EITHER

(i) To accept the Secretary of State for Energy's proposals subject to any modifications agreed in discussion

OR

(ii) To accept particular proposals - e.g. that at paragraph 9b. about improving redundancy payments but defer conclusions on the other proposals until further information has been provided by the Secretary of State for Energy

OR

(iii) To defer decisions on all of the Secretary of State for Energy's proposals until further information has been provided by him (you could use the questions in paragraph 5 above as a checklist). In this event the Committee will need to meet again, and have all the relevant information, immediately after the Party Conference if the Cabinet's public expenditure timetable is not to be jeopardised.

Additionally, the Committee may conclude:-

(iv) That it wishes to have an urgent paper from the Secretary of State for Energy on the handling of the miners' pay claim.

(v) That it wishes to have an urgent paper from the Secretary of State for Energy on the prospects for fuel supplies and stocks at power stations this winter.

And you may wish to ask Mr. Howell:-

(vi) For an urgent report to you about the management and structure of the NCB.

J.H.
JOHN HUNT

26th September, 1979

*At E Committee
in July, you
asked Mr. Howell
to keep you in
touch with
this: not a
word since.*

*JH
26/9*

Nationalised Ind.

NBPM
MS

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon David Howell MP
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1P 4QJ

6 August 1979

Dear Secretary of State,

STRATEGY FOR THE COAL INDUSTRY

Thank you for your letter of 30 July.

I am content with the way you propose that the further work that is necessary arising out of the E Committee discussion should be undertaken.

I fully agree that the discussions you propose must be entirely without commitment both for the major matters of cost reduction and for changes in the financing arrangements which, though important, are in my view secondary.

In view of the publicity being given to the idea of giving the NCB public dividend capital, perhaps I could explain the counter-arguments, which seem to me to be strong. The NCB would not at present pass the criteria of viability and ability to pay dividends cumulatively equal to the interest on NLF loans. (In 1978/79 the Board lost over £100 million on coal mining before grants of £170 million and before interest: excluding opencast profits the equivalent loss for deep-mined coal was over £200 million.) If there were no realistic prospect in the next few years of earning sufficient profits to pay dividends, that would have to be explained to the House. I understand that the Coal Board already capitalises much of its interest on large and hence presumably slow-yielding investment: the capitalised interest does not affect the profit and loss. The object is presumably therefore to reduce the external finance required by the Board. If that is right I would find less difficulty with the other possibility you mention - voted loans for part of the Board's investment on which the timing of the interest obligation would be fixed but designed to match the timing of the expected return. The return on economically justified investment would of course by definition be enough to pay interest at a sufficiently high rate to compensate for the deferment.

CONFIDENTIAL

On timing, I note that you intend to submit a paper to colleagues in September so that the financial implications can be considered in the context of the discussion of the later years' public expenditure, but, as you know, Cabinet agreed to resume its discussion of public expenditure on 13 September. I therefore think you should aim to be in a position to circulate a paper to colleagues by early September.

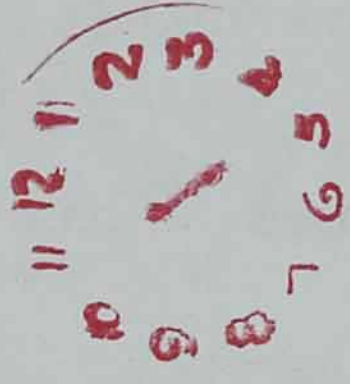
I am copying this letter to the Prime Minister, other Members of E Committee and to Sir John Hunt.

Yours sincerely
A. King

MP. JOHN BIFFEN
[Approved by the Chief Secretary
but signed in his absence]

CONFIDENTIAL

6 AUG 1979



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NBM

MS

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 3HE

30 July 1979

Dear John

STRATEGY FOR THE COAL INDUSTRY

In the light of the discussion in E Committee last week of my paper on coal strategy, I think it would be helpful if I set out how I intend to carry forward the further work that needs to be done. What I propose below has already been discussed between our officials.

I have had a preliminary meeting with Sir Derek Ezra at which I went over the broad lines of our proposed strategy, without reference to figures. I intend that John Moore or I should meet him again shortly to explain in more detail what we have in mind and to request the Board's co-operation in further discussions at official level on patterns of enhanced redundancy and transfer payments; the feasibility, financial and potential employment consequences of rates of closure; the method of setting and monitoring cost reduction targets; and the effect on the Board's financial structure of various modifications including different levels of PDC and deferment of interest. It would of course be made clear to the Board that this was entirely without commitment.

In parallel, my officials will consult the Department of Employment on possible levels of redundancy and transfer payments and will be in touch with other Departments to take account of the level of such payments in other nationalised industries (particularly the shipbuilding and steel industries). There will also be discussion with the Scottish and Welsh Offices about rates of closure once further advice has been obtained from the NCB.

My aim is to submit a paper with more specific proposals to colleagues in September, in time for the financial implications to be considered in the context of Ministerial discussion of the later years of the public expenditure programme. I will of course ensure full discussion with the Treasury before a paper is circulated.

I am copying this letter to the Prime Minister, other members of E Committee and to Sir John Hunt.

*How a
Daw*

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CONFIDENTIAL

Ref. A09980

PRIME MINISTER

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Strategy for Coal

(E(79) 19 and a minute of 10 July from the Chief Secretary, Treasury, to the Secretary of State for Energy)

This paper from the Secretary of State for Energy follows a preliminary discussion of more detailed papers by him (E(EA)(79) 22 and Addendum) at E(EA) last Wednesday (E(EA)(79) 7th Meeting). The main thrust of Mr. Howell's detailed proposals was that:-

- (a) Investment in the coal industry should be maintained.
- (b) There should be an increased programme of closures for loss-making pits with improved redundancy, etc. payments to the workers concerned to make the closures more palatable to the National Union of Mineworkers.
- (c) The industry's financial structure should be recast to reduce the burden of debt (by introducing PDC) and by eliminating its responsibility for historic deficiencies in its pensions arrangements (the industry carries as many pensioners as its currently employed workforce).

2. E(EA) did not discuss the proposals to reconstruct the NCB's finances which are for the Department of Energy and the Treasury to consider together in the first instance. Neither did they discuss the very wide difference of view between the Chief Secretary and the Secretary of State for Energy about the pace at which the NCB's deficit might be eliminated. They did however give a general blessing to the main thrust of Mr. Howell's strategy as far as investment and closures were concerned, while expressly reserving their position on the extent and nature of the steps to be taken to give effect to it.

3. The questions here are intimately bound up both with longer term energy policy and with the current public expenditure exercise. On the former there is no doubt that, even with an enhanced nuclear programme, we will continue to need a substantial coal industry for as far ahead as one can see if massive extra imports of coal and oil are to be avoided (the industry's current 120 million tonnes annual

CONFIDENTIAL

output of coal is equivalent to 70 million tonnes of oil, which, if available and imported, would currently cost us £5 billion across the exchanges). On the other hand, although producing coal more cheaply than the coal industries of our EEC partners, the NCB currently loses a great deal of money (£222 million in 1978-79 after interest and before grants) and requires upwards of £500 million of public finance each year for its investment capital. The Department of Energy's forecast is for losses and the capital requirement to continue at around present levels for the next few years. In the current public expenditure operation the Chief Secretary is looking to the NCB to save £55 million in 1980-81 with much larger sums in later years. Mr. Howell on the other hand is asking for more money than previously planned for 1980-81. (There is some uncertainty about how much extra he wants though the Chief Secretary puts it at £16 million) and assumes no very significant improvement in the following four years even with a substantial closure programme.

4. There are really six issues:-

(a) Should we continue to invest in coal at something like the present level?

E(EA) could see merit in a high continuing investment programme both to provide a secure indigenous source of energy supply (without investment output would drop fairly rapidly) and as a means of reconciling the NUM to a faster closure programme for the unprofitable pits (the worst 10 million tonnes capacity loses £200 million a year). This view does not preclude asking the NCB to make do with a marginally smaller investment programme in the years ahead; or asking them to finance more of their programme from their own revenues; or allowing modest imports of foreign coal (we do not in any case have the physical infrastructure - ports and railways - to import more than say 10 million tonnes of coal a year at present).

(b) Should the closure of uneconomic pits be accelerated and if so is it worth paying more to "buy out" the opposition of the mineworkers concerned?

Again, E(EA) thought the idea was sensible, though without committing themselves to specific measures. Given the £200 million annual loss from the marginal pits - and that these marginal pits are irrelevant to

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long-term coal supplies - the case for faster closures is strong, as is the case for higher redundancy payments if these ease the course of a major cost-cutting exercise.

(c) Should coal prices be further increased? There are inevitable delays in obtaining savings from pit closures - because of the quite elaborate consultative procedures built into the system and because of the costs associated with closure. Indeed, a closure programme of the kind Mr. Howell has in mind (3 million tonnes of capacity a year) would involve higher costs in 1980-81 (of the order of £10 million) in order to achieve savings in subsequent years. But if savings from closure come through slowly the industry's finances can only be brought to order by one or more of the following measures:-

- (i) Reduce investment at the margin (the Chief Secretary would argue that the £55 million he seeks in 1980-81 is at the margin on a programme exceeding £500 million).
- (ii) Increase productivity. The trouble here is that significant productivity improvements are already assumed in the figuring and, given the shape of the industry's productivity scheme, much of the financial gain from improvement goes to the men. The papers do not discuss how, if at all, productivity could be increased. The point is worth pursuing though Mr. Howell's caution reflects past experience.
- (iii) Raise prices. E(EA) did not discuss the scope and merit of further increasing coal prices and, although the point was made at the public expenditure discussions following Thursday's Cabinet, the Secretary of State for Energy gave no clear answer. However the industry's turnover is around £3 billion a year so that each 1 per cent increase in prices across the board brings in £30 million. And OPEC raised the price of oil again substantially only a few weeks ago and may well do so again before we reach 1980-81. If money is to be found other than by cutting the investment programme there is where it must come from.
Mr. Howell needs to be pressed.

CONFIDENTIAL

- (d) Should the Government get heavily involved in questions such as closure and redundancy pay or should it set the financial parameters and leave the NCB to get on with its job? This question is bound up to some extent with general policy towards the nationalised industries some aspects of which are to be discussed at this meeting under item 2 of the agenda. But the broad principle of the Government's policy is clearly to stand back as far as circumstances permit from the affairs of the nationalised industries. And to get involved in urging one level or another of closure on the NCB is for the Government to put itself directly in the firing line with the NUM. There is thus much to be said for fixing the limits of financial help and leaving the NCB management to do the job it is paid for (assuming the NCB is capable of acting without having its hand held by Government - you could ask Mr. Howell for his assessment of the Board's performance and attitude). On this reading the key next step is to set the financial limits for 1980-81 - and this in turn means taking a view on the dispute between the Chief Secretary and the Secretary of State for Energy on what those limits should be. On the face of it, given that the difference between them for 1980-81 is only some £70 million, representing a little over 2 per cent on prices - if indeed prices need to carry the whole burden of adjustment - and given the need for public expenditure savings, your colleagues may feel that the verdict should go in favour of the Chief Secretary. Financial limits for later years do not have to be set now but can wait until public expenditure in 1981-82 and later years is discussed by Cabinet in the autumn. The key issue then will be how far and how quickly it is possible to seek to reduce the NCB's deficits. Any broad guidance which might emerge from E would be useful.
- (e) Is there some radical recasting of the organisation or direction of the NCB which would serve better than the present set-up? A number of ideas surfaced briefly at the E(EA) discussion, e.g. turning the coal mining industry into some kind of co-operative venture. You may feel that these ideas have little immediate relevance: they would certainly

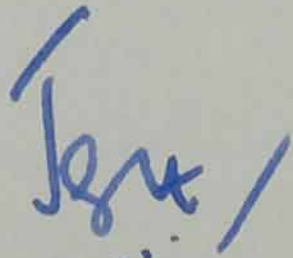
CONFIDENTIAL

require a good deal more thought before their feasibility could be determined. If anyone presses them they could be remitted for study.

- (f) Recasting the NCB's capital structure. This possibility, mooted by Mr. Howell, is, at bottom, an arrangement for converting overt subsidies to the NCB into covert ones (it has happened several times before). If action is to be contemplated a very strong case will need to be made out. The Secretary of State for Energy and the Chancellor of the Exchequer might be asked to study the issues together and come up with a joint analysis.

CONCLUSIONS

5. Subject to discussion you might guide the Committee:-
- (i) To endorse the broad lines of E(79) 19 subject to the points made in discussion.
 - (ii) To decide that the finance to be made available to the NCB in 1980-81 should be reduced as recommended to the Cabinet by the Chief Secretary, Treasury and to confirm that responsibility for keeping within those limits, by whatever means, rests with the NCB.
 - (iii) To note that financial limits for the NCB in the three years following 1980-81 will need to be settled in the autumn. The Chief Secretary, Treasury, should be invited to discuss these matters further with the Secretary of State for Energy with a view to reaching agreed proposals in the light of the Committee's discussion.
 - (iv) To remit the question of a capital restructuring of the NCB for joint study by the Secretary of State for Energy and the Chancellor of the Exchequer with a view to the production of an agreed analysis by the end of the Summer Recess.


(John Hunt)

16th July, 1979



10-7-79

R

SECRETARY OF STATE FOR ENERGY

(13/1)

STRATEGY FOR COAL

I note that your paper, E(EA)(79)22 was circulated to the Committee only a day before our meeting, notwithstanding the complexity and political sensitivity of the subject. I had intended to circulate a paper to the Committee, but there is clearly now insufficient time for that. I am therefore setting out briefly in this minute some of the points that I will be making at tomorrow's E(EA) discussion.

2. First, your paper does not bring out the seriousness of the NCB's financial position. The NCB made a loss of £222 million in 1978-79, after interest and before grant, despite the virtually captive markets of the Generating Boards and the British Steel Corporation and the protection of some £3.75 a tonne given by the fuel oil tax (now increased by 20 per cent in the Budget). Although there has been a 50 per cent increase in oil prices in the last 6 months, higher coalburn in the power stations, £200 million additional revenue from the July price increase (raising average prices by 18 per cent in 1979), steeply rising investment in recent years, much of which has gone into existing pits, and now the prospect of selling more coal than can be produced, the Board still expect to make a loss this year of about £270 million, after interest and before grant. Costs exceed revenues by nearly 10 per cent and are way above the price of imported coal. Moreover, the recent rise in coal prices has absorbed the leeway created by increases in oil prices and losses are expected to average £190 million over the next 4 years, declining only slightly during the period.

3. Turning to the proposals in your paper, it seems from our quick figuring that these would result in an increase in the NCB's public expenditure requirement compared to that in the Financing and Investment Review of:

1.

CONFIDENTIAL

£ million 1979 Survey Prices			
1980 - 81	1981 - 82	1982 - 83	1983 - 84
16	11	5	2

rather than the decrease proposed in my paper on the Financing and Investment Review of:

£ million 1979 Survey Prices			
1980 - 81	1981 - 82	1982 - 83	1983 - 84
55	95	140	195

which assumed a faster phasing out of uneconomic capacity. One reason for the increased public expenditure requirement proposed in your paper, besides the lower rate of closures you suggest and the enhanced redundancy payments, is the additional public expenditure requirement rising to £55 million by 1983-84 because of the assumption of a lower productivity increase of 2 per cent per annum instead of the 3 per cent which the NCB put forward in its Medium Term Development Plan agreed with the unions. I accept that the lower productivity increase is the more realistic, but colleagues should be aware that the taxpayer is once again being called upon to finance, through public expenditure, the deficiencies of the NCB and its work force.

4. I should like the Committee to consider tomorrow the case for reducing the NCB's public expenditure requirement by a faster rate of closures than you have in mind, for example phasing out the present 24m tonnes uneconomic capacity over the years to 1983-84 at a rate of 6m tonnes a year (compared with the 3m tonnes you propose). I believe also that we will need to consider some reduction in the NCB's capital expenditure programme in existing pits. I suggest this both because of the need to keep down public expenditure and because we need to consider whether there will not in fact be a problem in the medium term of coal surpluses. It will be easier to come to a judgement on this point when you circulate your Department's forecasts of medium term energy demand. In any event there is a good case, on both grounds of the efficient use

of national resources and minimising the NCB's public expenditure demand, for relying on coal imports for our marginal coal requirements in the medium term. I therefore will find it difficult to agree with your proposal that the Board's current investment programme to 1982-83 should be fully endorsed in the way you suggest.

5. Finally, you make suggestions in your paper about the future financing regime for the Board. These issues are secondary, both in importance and in time, and I will suggest tomorrow that you and I should discuss them bilaterally rather than take up the time of the Committee. The essential point for discussion tomorrow is what needs to be done to put the industry on the road to viability in a way which minimises its claims on public expenditure.

6. I am sending a copy of this minute to the Prime Minister, the members of E(EA) Committee and to Sir John Hunt.

A. Biffen

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

10 JUN 1979

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Nat Industries

SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01-211 6402

9 July 1979.

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

R 9/7

Dee Jon

Thank you for the agreement, in your letter of 2 July, to the proposals to seek Parliament's approval to an increase in the NCB's borrowing limit and in the limit on operating grants.

I accept that the proposal to increase the limit on regional grants should be deferred until we have considered the review of strategy for the industry.

You suggest that the need to increase the borrowing limit now is further evidence of an industry out of financial control. I think this is quite unjustified.

It was clear from the NCB's Medium Term Development Plan submitted in December 1978 that the Board's requirements for external loans would begin to exceed the present borrowing limit of £1800m about half-way through 1979/80. (The Plan showed external loans rising from £1624m to £2084m during the year.) Loans in fact totalled about £1550m by the end of March and the Financial Statement and Budget Report includes £510m for net borrowing (after deducting the provision for leasing). This gives a cumulative total of £2060m by the end of 1979/80, again implying that the borrowing limit of £1800m would be exceeded about mid-way through the year.

The only uncertainty was precisely when during 1979/80 the limit would be reached. We had expected that it would not be reached until later in 1979, but, even so, the laying of an Order would have been required shortly after the Recess. The difference between laying the Order just before or shortly after the Recess hardly justifies the inference that the industry is out of financial control.

I am copying this letter to the Leader of the House, the Chief Whip, Members of E Committee and to Sir John Hunt.

D.A.R. Howell.

*Yours
David*



10 JUL 1979



cc: HO DOT
FCO Chief Sec.
HMT D/Ind.
LPO CDL
D/EMP CO
MAFF Chief Whip

10 DOWNING STREET

From the Private Secretary

5 July 1979

Dear Bill,

The Prime Minister has now had an opportunity to consider your Secretary of State's letter of 27 June about the NCB's borrowing limits. She has also seen the Chief Secretary's letter of 2 July.

The Prime Minister is prepared to go along with the laying of an Order which will raise the NCB's borrowing limit to £2200 million on the understanding that this will not involve any increase in the public expenditure provision for the NCB. However, like the Chief Secretary, she thinks it would be wrong to put a draft Order before Parliament raising the present limit on regional grants until this whole aspect has been properly considered.

I am copying this letter to the Private Secretaries to the Leader of the House, the Chief Whip, members of E Committee and to Martin Vile (Cabinet Office).

W. J. Burroughs

T. J. Vile

W. J. Burroughs, Esq.,
Department of Energy.



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon David Howell MP
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1P 4QJ

PM
Prime Minister

Mr Howell (Flag A) wants to lay an Order raising the NCB's borrowing limit. Mr Biffen agrees on the understanding that this does not involve any increase in the public expenditure provision or cash limit. But he rejects the proposal to increase the

2 July 1979
limit on receipt of regional grants.

Dear Secretary of State, *Yes no.* Are you content to go along with the Treasury?

Flag A

Thank you for your letter of 27 June seeking an increase in the NCB's borrowing limit and the limit in the Coal Industry Act on operating and regional grants.

TL
3/7

First, it is most disquieting that the NCB have suddenly sprung upon us the need for an increase in the borrowing limit. This is surely further evidence of an industry out of financial control. I am sure that Ministers collectively must urgently consider the industry's future and what needs to be done to restore it to viability. I was therefore disappointed to learn that Ministerial discussion has been delayed and the paper will not be available for colleagues to consider in the coming week.

Turning to your three proposals, I understand that your officials have assured mine that they have no effect on the NCB's public expenditure requirements and that grants would not be paid over without prior Ministerial agreement. Nor, so I am told, does the increase in the NCB's borrowing limit, although earlier than originally expected, signal a breach in the NCB's cash limit.

On the understanding that the increase in the limit on borrowing and on operating grants does not affect public expenditure and cash limits, I can agree to these limits being raised as you propose in your letter. However, I am more doubtful about the proposal to increase the limit on regional grants. The whole question of the NCB's regional grants needs to be considered in the Coal Review and I think that it would be wrong to put a draft order before Parliament raising the present limit until we have decided our policy.

I am sending a copy of this letter to the Leader of the House, the Chief Whip, members of E Committee and to Sir John Hunt.

Yours sincerely
John Biffen

JB

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



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
 SW1P 3AG

Dear Tom

Section 1(3) of the Coal Industry Act 1965 as amended allows the NCB's present borrowing limit of £1800m to be increased by Order by two tranches of £400m each.

We had expected that an increase in the borrowing limit would not be needed until later in the year. However, the NCB have now advised that an earlier increase will be needed. A re-assessment of their capital requirements has led them to conclude that they will risk exceeding the present limit by early September. They have examined whether this could be postponed, but there is really no prospect of their being able to continue within the present limit until after the resumption of Parliament following the Recess. To allow for the usual notice the draft Order will need to be laid on Friday, 29 June; and time will need to be found for a debate before the House rises. It is unfortunate that the Board have given us such short notice, but we really have no option but to take action now to increase the limit to £2200m.

Rather than have two Debates on the coal industry - one shortly before and one shortly after the Recess, it will be sensible, I think, to take action at the same time to increase the limit on operating grants in Section 5 of the Coal Industry Act 1977 from £100m to £175m. The headroom under the existing limit is only £9m compared with the total of £21m for which there is Estimates approval; and an Order would be needed in any case soon after the House resumed if it was not made now.

Although there is no Estimates approval for payment of Regional Grants under Section 8 of the Act, the headroom under the present limit of £75m is £25m compared with the NCB's request for Regional Grants of £100m this year. We have yet of course to consider the total level of grants to the NCB but I think it would be convenient to take the opportunity to increase the limit for Regional Grants to the upper limit in Section 8 of £100m. This could be explained in the Debate as implying no commitment.

Prime Minister 2
~~I have told Energy that the Order must not be laid until Ministers have considered it collectively. E(EA) are due to consider next week and the Order can still be laid next Friday and meet Mr Howell's timetable.~~

27 June 1979
 Friday and meet
 Mr Howell's timetable.

TL 27/6

Energy agree that the following Friday would do, even if the House rises on 25 July.

TL

I shall be grateful for your agreement to the laying of orders as proposed above.

I am copying this letter to the Leader of the House, the Chief Whip, Members of E Committee and Sir John Hunt.

D A R HOWELL

Yours ever
David
5

77 JUN 1979





PREM 19/302

Part 1

Confidential Folder

The Financial Position of the Coal Industry.
Mineworkers Pay.

NATIONALISED INDUSTRIES
Part 1
JUNE 1979.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
9.7.79							
11.7.79							
16.7.79							
17.7.79							
30.7.79							
6.8.79							
26.9.79							
27.9.79							
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5.12.79							
12.12.79							
23.1.80							
11.3.80							
17.3.80							
ends							

PREM 19/302

Related file: Energy (July 79) Working Coal.

PART 1 ends:-

CST to S/S Energy 17.3.80

PART 2 begins:-

E(80) 67 11.7.80

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(EA)(79) 22	09/07/79
E(EA)(79) 7 th Meeting, Minute 2	11/07/79
E(79) 19	13/07/79
E(79) 5 th Meeting, Minute 5	17/07/79
E(79) 45	21/09/79
E(79) 9 th Meeting, Item 1	27/09/79
E(EA)(79) 16 th Meeting, Minutes	08/10/79
E(79)	12/10/79
E(79) 50	12/10/79
E(79) 56	15/10/79
E(79) 12 th Meeting, Minute 1	17/10/79
E(EA)(79) 70	23/11/79
E(EA)(79) 72	27/11/79
CC(79) 23 rd Conclusions, Item 4c (Extract)	28/11/79
CCU(79) 31	28/11/79
E(EA)(79) 23 rd Meeting, Item 1	29/11/79
CCU(79) 7 th Meeting, Minutes	29/11/79
E(79) 73	30/11/79
Limited Circulation Annexe E(79) 17 th Meeting, Item 3	04/12/79
L(80) 4	18/01/80
L(80) 2 nd Meeting, Item 1	23/01/80

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 Wayland

Date 22 July 2010

PREM Records Team



Nat Inds.

Treasury Chambers, Parliament Street, SW1P 3AG

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

*12
17/3*

17 March 1980

Dear David,

NATIONAL COAL BOARD EFL FOR 1980-81

Thank you for your letter of 11 March about the NCB's EFL for 1980-81.

I entirely agree with you that the first step is for there to be an early and thorough examination with the Board of their cash prospects and of the alternative options available to them if special action is needed to keep within the EFL. I am quite content for this to take place at John Moore's next monitoring meeting, which I understand will take place later this month. I hope that you can then let me have a full report of the position.

I am sending a copy of this letter to Members of E Committee and to Sir Robert Armstrong.

*Yours
John Biffen*

JOHN BIFFEN

17 MAR 1980



A Duguid

Left

Nationalised hd.

01 211 6402

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

11 March 1980

John

will request if required

Thank you for your letter of 5 March about the National Coal Board's EFL for 1980-81.

I share your concern that the Board should keep within their EFL next year. We need in the first place an early and thorough examination with them of their cash prospects and of the alternative options available to them if special action is needed. I suggest that this can best take place at John Moore's next monitoring meeting, at which the Treasury are of course represented - by then the Board should have completed their own review of next year's prospects. I have written to Ezra to say this. We can then consider what further action is necessary.

I shall as you suggest arrange for a study of the option of selling on some of the CEGB's imports. We can consider this further when the work has been done. I would only emphasise now the importance of building up coal stocks against the possibility of a miners' strike next winter.

I am sending copies of this letter to members of E Committee and Sir Robert Armstrong.

John

John

D A R HOWELL



11 MAR 1980



Treasury Chambers, Parliament Street, SW1P 3AG

D Walker Esq
Private Secretary to the
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1

MBM
2 11/3

10 March 1980

Dear Dennis

LAYING OF ORDERS

PPS TPM

The Chief Secretary has no objection to the laying tomorrow of the Order increasing the government's contribution to the Mineworkers' Pension Scheme, and is content with the terms of the draft statement.

In respect of the draft Redundant Mineworkers and Concessionary Coal Order, he understands that your Secretary of State has written to him giving the assurance which he sought in his letter of last week that the additional cost involved in raising the earnings limit for the Redundant Mineworkers' Scheme will be met from within the Department's existing PES provision. In the light of this, he has no objection to the Order being laid.

I am sending copies of this letter to Tim Lankester (No.10) and to the Private Secretaries to the Secretary of State for Industry, the Chancellor of the Duchy of Lancaster, the Chief Whip and Sir Robert Armstrong.

Yours sincerely
R. W. H.

77
A C PIRIE
Private Secretary

11 MAR 1980

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CCPUS
MR MOORE
MR TUKER
MR MONYER
MR AGREN
MR GILBERT
MR MURRAY - ON FILE

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01 211 6402

3 pps

R T J Watts Esq
Private Secretary to the Chief Secretary
HM Treasury
Parliament Street
LONDON SW1P 3HE

MBM

10 March 1980

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Dear Richard,

My Secretary of State mentioned in his letter of 21 February to the Secretary of State for Industry, copied to the Chief Secretary and the Chief Whip, that we needed an affirmative order before the end of March to increase our contribution to the Mineworkers' Pension Scheme, and that we were statutorily required to lay a statement on the NCB's finances at the same time.

The content of the order and the statement have been agreed between the Treasury and this Department but the Secretary of State has asked me to circulate a copy of the draft Statement. It is designed to say as little as possible on the Board's finances.

We hope to lay at the same time the draft Redundant Mineworkers and Concessionary Coal (Payment Schemes)(Amendment) Order, as agreed between the Chief Secretary and my Secretary of State in their recent exchange of letters.

We ought to lay these orders tomorrow to catch the meeting of the Select Committee on Statutory Instruments on Wednesday.

I am sending copies of this letter to the Prime Minister's Office, Secretary of State for Industry's Office, Chancellor of the Duchy of Lancaster's Office, Chief Whip's Office and to Sir Robert Armstrong's Office.

Yours ever,

Denis Walker

DENIS WALKER
PRIVATE SECRETARY

Mineworkers' Pension Scheme
(Limit on Contributions) Order 1980

STATEMENT BY THE SECRETARY OF STATE FOR ENERGY

Laid before the House of Commons pursuant to Section 2(4)(c)
of the National Coal Board (Finance) Act 1976

The draft Mineworkers' Pension Scheme (Limit on Contributions) Order 1980, laid before the House of Commons with this statement, provides for the increase to £41.08m of the limit on the contributions which I may make under section 2 of the National Coal Board (Finance) Act 1976 towards expenditure incurred by the National Coal Board in reducing or eliminating deficiencies in the Mineworkers' Pension Scheme which relate to liabilities to and in respect of persons whose service in the coal industry was terminated before 6 April 1975.

Mineworkers' pensions were increased on 24 September 1979 by 11.4% ie for the majority of pensioners receiving £6.62 per week, an increase to £7.37 per week. These increases were made solely for the purpose of maintaining the real value of these pensions. The annual sum which would be required to eliminate over 16 years (the balance of the twenty year period over which the contributions may be paid under the 1976 Act) the resulting increase in the deficiency in the pension fund which is estimated to arise in respect of the pre-April 1975 pensioners is £4.60m. In order to reimburse the Board for this additional outlay, it is accordingly necessary to raise the limit of £18m. laid down in the 1976 Act, and subsequently increased by Orders in 1977, 1978 and 1979 to £36.48m to £41.08m.

I have reviewed the overall financial position of the Board. The present indications are that, based on unaudited actual results to the end of December 1979 and estimated results for January to March 1980, on a historical cost depreciation basis, and after payment of interest and taking credit for agreed Government social grants, the consolidated results from the Board and its subsidiaries are likely to show a deficit in 1979/80 substantially greater than the sum of £4.6m at issue in this Order.

I expect the Board still to require financial assistance next year. I take the view, therefore, that the financial deficit likely to be suffered this year and the prospects for next, offer no background against which to expect the Board to take on the additional contribution of £4.6m a year which will be necessary if the deficiency in the pension fund is not to increase.

Section 2 of the 1976 Act authorises but does not require me to make any payments, and if the fortunes of the Board improve beyond what can be foreseen at present, then consideration will be given to the possibility of limiting the actual grants paid.

Having regard to all these considerations, I have concluded that this Order should be made.

CC PUS
MRTUCKOR
MR MONGOR

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01 211 6402

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

2/13

21 February 1979

Dear Keith

You will remember that when Legislation Committee discussed the Coal Bill on 23 January it was decided to postpone publication until it would no longer adversely affect arguments about issues involved in the steel strike. It was left that I would consult you and the Chief Whip about the timing of introduction.

When we discussed the matter in January we knew that there was a risk that comparisons would be drawn between our policies for coal and steel whether we liked it or not. The risk was increased by the fact that various Government statements with an implication for coal would have to be made before the end of March. Nevertheless, we decided on the delay and I readily accepted this because I recognised your difficulties over steel. But I think it fair to say that none of us at the time thought that the delay would be so long. Indeed, there is still no clear prospect of an end to it if publication of the Bill must await the settlement of the strike. I believe that this prolonged delay has changed the balance of advantage for us and that further delay will risk major difficulty and embarrassment for the Government, on steel as well as on coal. The events which are likely to focus public attention on the comparison between our policies for the two industries are now impending. As you know, estimates have now been published providing for support for the NCB in 1979-80 and estimates will be published next month making similar provision for 1980-81. The Public Expenditure White Paper to appear in mid-March will have to deal with the problem of what to say about coal support. We must have an affirmative order before the end of March to increase our contribution to the deficiency in the Mineworkers' Pension scheme, and we are statutorily required to lay a statement on the NCB's finances at the same time as the draft order. All these events run the risk of provoking public debate about coal and steel. The worst possible outcome, from both your point of view and mine, would be a one-sided debate in which we could not properly present our policy on coal. I am sure that we must avoid this by explaining our coal policy properly, and putting it in the context of the Government's general policy. We have indeed a constructive story to tell and one that may help to reduce the general industrial temperature.

(2)

I might add also that continued delay would create special difficulties on coal. For example, the new deficit grants to the NCB to be paid by the end of the financial year should if possible be authorised not only by the Appropriations Act but also by Second Reading in the Commons of the Coal Bill. I imagine also that further delay in introducing the Bill will increase the difficulties of managing Parliamentary business during the rest of the session.

For all these reasons, I believe that we should now introduce the Coal Bill as quickly as possible and I am writing to seek your agreement to this.

I am sending copies of this letter to John Biffen and Michael Jopling.

D A R Howell

Howell
David

ACTION

RESTRICTED

New Ind 2

told

PRIME MINISTER

Stephan Parass-7 refers to
an important timing difficulty.
MS

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

L(80)4

COPY No. 2

18 January 1980

C A B I N E T

LEGISLATION COMMITTEE

COAL INDUSTRY BILL

MEMORANDUM BY THE SECRETARY OF STATE FOR ENERGY

I should be
reluctant to debate this
before the House unless
it is settled
MS,

RESTRICTED

Attitudes to the Bill

5. As powers to assist the NCB in different ways are well established, I should not expect the provisions of the Bill to be controversial as such. However, the debates on the initial Bill will be the vehicle for the announcement of our new financial strategy for the NCB, and there may be some criticism from our own supporters that we are doing too much, as well as the inevitable Opposition arguments for more support. The present steel strike will attract attention to the differences between our treatment of NCB and British Steel Corporation (which have already attracted some public attention) and may make these issues more sensitive.

Handling of the Bill

6. Despite this sensitivity, I believe that the Bill should be given an early Second Reading. Since there is already comment upon different support given to the steel and coal

5/12/79

MINERS VOTE FOR PAY PEACE

BRITAIN'S 232,000 MINERS TODAY ACCEPTED THE NATIONAL COAL BOARD'S 20 PER CENT PAY OFFER.

IN A MAJOR REBUFF FOR THEIR UNION'S EXECUTIVE, THE MINERS VOTED BY 51.25 PER CENT AGAINST A RECOMMENDATION THAT THEY SHOULD REJECT THE OFFER AND GIVE THE EXECUTIVE AUTHORITY TO CALL INDUSTRIAL ACTION.

IN AN 87 PER CENT POLL, 113,160 (51.25 PER CENT) TURNED DOWN THE EXECUTIVE'S RECOMMENDATION.

ONLY 107,656 (48.75 PER CENT) VOTED FOR REJECTION AND INDUSTRIAL ACTION, IF NECESSARY.

MINERS' PRESIDENT JOE GOR LEY SAID THE BALLOT RESULT MEANT 'THE OFFER HAS BEEN ACCEPTED. YOU CAN'T INTERPRET IT ANY OTHER WAY.'

THE EXECUTIVE NEEDED A 55 PER CENT MAJORITY TO CALL INDUSTRIAL ACTION.

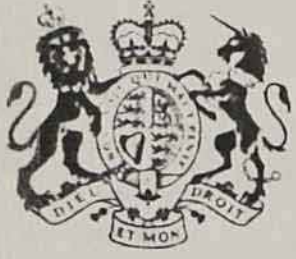
SIR DEREK EZRA, COAL BOARD CHAIRMAN, SAID AFTER HEARING THE BALLOT RESULT: 'THE MINeworkERS' DECISION MEANS THAT WE CAN GO ON WORKING TOGETHER TO DEFEND OUR MARKET AND OUR JOBS, AND TO CONTINUE OUR INDUSTRY'S EXPANXION.'

OF THE UNION'S 22 AREAS, ONLY THE FOUR TRADITIONALLY MOST MILITANT BACKED THE EXECUTIVE'S RECOMMENDATION FOR REJECTION.

THESE WERE YORKSHIRE, SCOTTISH, SCOTTISH ENGINEEMEN AND SOUTH WALES.

1152

Not full



Chancellor of the Duchy of Lancaster

 PRIVY COUNCIL OFFICE
 WHITEHALL, LONDON SW1A 2AT

4 December 1979

De David
De Sumner
R 4/12
NGPM
MS

COAL INDUSTRY BILL

Thank you for your letter of 23 November about the Coal Industry Bill.

I note that E(EA) Committee approved most of the policy for the Bill at its meeting on 29 November. I am glad, therefore, to give approval for Parliamentary Counsel to be employed on drafting this Bill on the lines agreed by the Committee. Instructions should be sent to Counsel as soon as possible so that they can be fitted in with his other work.

I am glad that it will be possible to ease the Parliamentary timetable if necessary. If we get the Bill in reasonable time we should be able to fit in a Second Reading before the debate takes place on the Consolidated Fund Bill authorising the Spring Supplementary Estimate.

The Bill's progress after Second Reading will depend on its final form. I hope it will be possible to resolve quickly with the Chief Secretary the outstanding issues on deferred interest and disposals. I must however reinforce the warning which was given during the discussion about the effect on the progress of the Bill if disposal provisions are added to it. The Bill was included in the programme on the understanding that it would be uncontroversial and indeed was likely to be welcomed by the Opposition. We already have a large number of highly controversial bills in the programme, including a number on the disposal of assets, and we shall have difficulty enough in getting them through by the end of the session. I could not promise to secure the enactment of a further controversial bill introduced at this stage in the session. I should therefore be grateful to be informed of the outcome of your discussions with the Chief Secretary.

I am copying this letter to the Prime Minister, to the members of E and E(EA) Committees, the Chief Whip, to First Parliamentary Counsel and to Sir Robert Armstrong.

See you

The Rt Hon David Howell, MP
 Secretary of State for Energy



-4 DEC 1979



10 DOWNING STREET

Private Minute

Mr. Pym, Mr. Mansfield,
Mr. Edwards, Mr. Fowler,
and Mr. Ferrus have
been invited for this
item. (Mr. Ferrus
because of the implications
for food processing).

R.

CONFIDENTIAL

Damir Amirish

See also Tikhon
Huskey's brief in
this folder.

Ref. A0841

PRIME MINISTER

12
3/12

Miners' Pay

(E(79) 73 and minutes of 26 and 27 November from
the Secretary of State for Energy to the Prime Minister)

BACKGROUND

The Secretary of State for Energy reported on 26th November on coal stocks, and on 27th November on the state of play in the coal industry's wage negotiations. You asked (Mr. Lankester's letter of 28th November) for this to be placed on the agenda at this meeting. You also asked for a report from the Civil Contingencies Unit (CCU). This has been circulated as E(79) 73. The Secretary of State is speaking to Sir Derek Ezra today, following the NCB Board meeting. He will either report orally or circulate a separate letter following that talk. (Contrary to earlier hopes the result of the miners' ballot may not now be available before the meeting of E, though the NCB's current belief is that the result is likely to be 'marginal').

He will
report
orally -
results are
not yet
in.

12
3/12

2. The Government's line so far has been that it has set a cash limit ('external financing limit') for the NCB, and that it is for the Board to decide what increases it can afford within that. Any extra cost is to be met from prices, and the consequences for jobs in the longer term must be accepted. Sir Derek Ezra took steps to publicise the policy and the consequences of an excessive settlement last week. The cash limit is enough to accommodate the offer which the NCB has already made - of about 20 per cent on basic rates - provided coal prices rise in line with inflation. It is not enough to accommodate any increases beyond that. If the NCB conceded the miners' modified claim for 25 per cent, the consequence would be an extra 2½ per cent on coal prices, which would in turn mean an extra 1 per cent on electricity prices. There would be no immediate impact on jobs in the coal industry, but in the longer term, as Sir Derek Ezra has said in public, the marginal bits of the electricity and steel markets would both be at risk. In fact, given the likely movement of oil prices,

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the CEGB are unlikely to go back on their commitment to take 70-75 million tons of NCB coal a year though they might try to import a little more. The loss of the steel market is much more likely, because BSC is already anxious to import extra coking coal, on cost as well as quality grounds. A further increase in United Kingdom coal prices would increase the incentive for them to look overseas for supplies.

3. The effects of various kinds of industrial action are set out in the CCU paper. This has been prepared by CCU at official level, and the Home Secretary is not committed to it. He is unlikely to challenge the analysis but is thought to be reluctant to assume the job of 'Supremo' in what he still regards essentially an 'Energy' problem. The consequences of prolonged action are inevitably very grim.

4. There are two distinct elements in the discussion: the consequences of industrial action; and the attitude which the Government should adopt to the pay negotiations. It would make sense to separate them.

HANDLING

Consequences of industrial action

5. The CCU report deals with this at length. You might invite the Secretary of State for Energy to speak first and then seek contributions from the Home Secretary, the Secretary of State for Employment, the Secretary of State for Industry and any other Ministers who wish to speak. You might also ask Sir Kenneth Berrill for his views.

6. There are really five different issues:

- (i) The likelihood of strike action. Everything turns on the outcome of the ballot. If the Executive gets less than the 55 per cent vote needed to authorise industrial action, then subsequent negotiations should be relatively easy and industrial action (other than local action) can be discounted. If they get more than 55 per cent, the outcome will depend on the reactions of, and the balance of forces within, the Executive. Mr. Gormley and Mr. Scargill are due to leave for the United States on 8th December. Decisions are therefore likely at the Executive

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meeting on 6th December. The Department of Employment view (which we believe Mr. Prior shares) is that, given a supportive vote in the ballot, a significant improvement in the NCB's present offer will be needed in order to avert industrial action. Even if the Executive postpone a decision until after Christmas, there is a risk of sporadic local action before then. The effect of that would, of course, be to limit endurance.

- (ii) Endurance. The CCU paper sets out the position. A go-slow with a threat of a full strike later is almost as serious as an out-and-out strike because it steadily erodes the coal stock position.
- (iii) Remedial measures. Again, the report makes clear that there are very few steps which can be taken to reduce the damage done by a strike. The options are, as they were in 1974, to start rationing electricity as soon as serious industrial action (including a systematic go-slow) begins, or to sit out a strike for a week or two, and be then left with shorter endurance if there is no settlement.
- (iv) Side effects. Colleagues may be particularly concerned about the interaction between a possible coal strike and other problems. Any major interruption of world oil supplies is unlikely to coincide with a coal strike. There is enough oil still in transit to keep us going, together with North Sea supplies, for some time. If a coal strike led to a restriction of electricity supplies, and this coincided with either a health service or a water industry strike, there could be problems. We are told that the health service auxiliary generators could be kept going even without the manual workers. We think the same is true within the water industry. An oil tanker drivers' strike coinciding with a coal strike could, however, further limit endurance; and might also restrict supplies to auxiliary generators. There is not much that could be done about this.
- (v) Political aspects. The motivation of some members of the Executive may be suspect. You may wish to ask the Home Secretary for a view on this. But a majority of the Executive, including many moderates, voted for rejection of the 20 per cent offer. If trouble does start, appeals to public opinion will cut little ice with them.

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7. At this point you might take stock. In essence there is little further the Government can do at this stage to prepare for the worst. CCU might however be invited to keep the problem under continuing review and to report to Ministers as necessary.

The Government response

8. The Coal Board's negotiating options are listed in Mr. Howell's minute of 27th November. Taking these in order:

- (a) To stand firm on 20 per cent: it is apparently the part-time members who wanted to stand firm. The full-time professionals, like Ezra, were, we are told by the Department of Employment, prepared to improve their offer. But the Department of Energy say that Ezra, who dominates the Board, is taking a tough line in talks with their Secretary of State.
- (b) To settle with the NUM, without frills, on the basis of the 25 per cent increase which the NUM Executive said earlier they would accept (or at a higher figure if the NUM raise their bid).
- (c) To settle with the NUM on the basis of a lower figure than 25 per cent coupled with either
 - (i) improved incentives. Experience of previous incentives schemes has of course been very disappointing;
 - (ii) an indexation scheme. While this is, technically, a matter within the NCB's management competence, it is perhaps the least satisfactory to the Government, in terms of its wider repercussions.

9. The Government, for its part, has two options:

- (a) To leave the whole thing to the NCB. This option is available just so long as the NCB does not look to the Government for extra money to finance a settlement. The moment they did this, the ball would be firmly in the Government's court. It is for Mr. Howell to ensure that no such request is made and he might be reminded that this should be his prime objective.

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(b) To nudge the NCB in a preferred direction. For the reasons given above, the Government may want to head the NCB away from an 'indexation' agreement. It is unlikely that the Committee will want to guide the NCB among the other options - bearing in mind that the more guidance given the more the Government risks being saddled with the negotiations and their consequences.

10. Whatever the settlement, Treasury Ministers are likely to argue that the Coal Board and Government should together make the consequences very clear immediately. This means announcing both the coal price increase and the consequent electricity price increase - and in both cases the announcement will need to give the total increase, not just the increment for a settlement above 20 per cent (to do otherwise would sanctify 20 per cent as "acceptable" and mislead the public about the actual price increases likely next year). At the same time both the coal and electricity industries will be reluctant to announce their future price increases without a parallel announcement of the likely size of next year's gas price increase. It will be for consideration therefore whether the Secretary of State should (securing the agreement of the BGC on the way) stand prepared to announce all three increases - coal, electricity and gas - simultaneously, as soon as a miners' settlement is reached and its consequences appraised.

CONCLUSIONS

11. Three conclusions are needed:-

- (i) To note the report of the Civil Contingencies Unit and to ask them to keep the situation under review and report to Ministers as necessary.
- (ii) To confirm that no further Government money will be made available to the NCB in 1980-81 to finance the coal miners' pay settlement and to ask the Secretary of State for Energy to ensure that no request for such money is made by the NCB.

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- (iii) To agree that, as soon as a settlement is reached, the consequences for coal and electricity prices should be made plain in the form of a foreshadowing of the gross increases in coal and electricity prices needed next spring; and to decide whether next spring's gas price increases should be foreshadowed at the same time.

RA

(Robert Armstrong)

3rd December, 1979



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31 DEC 1979

COAL PAY NEGOTIATIONS

You are discussing the coal pay negotiations at E tomorrow. This note is concerned with our longer-term position on this type of problem, rather than any ad hoc response to the present negotiations, in which latest reports suggest that the ballot may turn out favourably.

1. According to David Howell's minute of 27 November, Ezra's position seems to be rather confused. He says that standing firm might lead to a strike, while settling would reduce management's credibility. He therefore suggests an improvement in the incentive scheme, which sounds like a fudged compromise; or else a commitment to "over-index", by increasing a 20% base rate offer in line with any RPI index which goes above the figures expected. Imagine other big industries indexing themselves in line with an RPI which itself reflects their own pay awards!
2. The refusal by miners and dockers to handle coking coal for Llanwern today suggests that Ezra's warning that excessive pay awards to the miners will simply lead to shrinking markets and fewer jobs, may fall on deaf ears. However, I have heard that the decision not to handle the coking coal was only narrowly taken.
3. When a labour monopoly effectively "owns" a nationalised industry whose disruption can bring the country to a halt, we have to consider a number of questions before we can work out what Government's posture and strategy should be. An ad hoc solution this time round (even if a favourable one) will not make the problem go away for good.
4. There are many questions which we need to consider before the problem comes round again next year. For example:
 - (a) Can the Government remain uninvolved ^{at the start;} in negotiations which may go wrong and escalate into a situation where the Government has to be involved?
 - (b) Should the Government, in any case, be more closely involved in developing a negotiating strategy, with NCB (rather as we have tried to do with BL)?
 - (c) What is the long-term solution to the NUM bargaining problem? For example, is it conceivable the NUM would consider a no-

strike package with special pay arrangements (very unlikely, I would think)? Or is intelligent "ad hocery" with some sharpening up of NCB's bargaining techniques, the best way to continue, even if it costs more? Would that be seen as a fair deal in other industries? If one group need not face economic reality, why should others?

- (d) Should Government's effort be concentrated on keeping competitive sources open so that, at the margin at least, there is some alternative supply? What would this mean in infrastructure investment, or using troops to unload etc? Lead time, investment required, dangers of escalation to all-out strike? Are we quite satisfied that an all out strike would be unbeatable?
- (e) Depending on the route we adopt, how do we/NCB (or in the Llanwern case, BSC) mobilise public opinion to see just what militant union leaders are proposing?

These questions cannot be answered quickly enough to help us decide how to handle this pay round for the NUM. But they can and should be, for next time round. It may therefore be worth having them at the back of your mind during tomorrow's discussion.

JA

JOHN HOSKYNS

3 December 1979



From the Minister

CONFIDENTIAL

The Prime Minister

As you know I shall be involved in discussions in the Community on Tuesday and shall not be able to attend the meeting of the Economic Strategy Committee.

I am in favour of a Central Press Unit for use in emergencies - E(79)62. Food and agricultural supplies would be affected in many emergencies and - although I accept that there is no occasion for my Department to be included in the regular membership of the Unit - I should want us brought in when food and agricultural problems were likely to be in question.

In case the discussion on miners' pay should turn to contingency planning for the consequences of industrial action in the mines and the spin-off into electricity supply, I should like to register that food production and distribution would be greatly affected by cuts in electricity supply. It is important to maintain full production as long as possible, otherwise our capacity to hold out should the situation deteriorate would be badly affected. I should hope therefore that contingency plans will wherever possible provide priorities and that food will have first priority.

I am sending copies of this letter to members of E Committee, the Secretary of State for Scotland, the Paymaster General, the Minister of Transport and Sir Robert Armstrong.

Peter Walker
30 November 1979

*Original filed
Gov. Mach. Man 74 Contingency
Planning*

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

CONFIDENTIAL

ds



10 DOWNING STREET

cc HO SO
FCO D/TRANS
HMT CO
D/IND
LPO R Prescott
D/EMP PMG
MAFF
DOT
CSO

From the Private Secretary

28 November 1979

The Prime Minister was grateful for your Secretary of State's minute of 27 November about the miners' pay negotiations, and for his minute of 26 November about power station fuel.

The Prime Minister agrees that Ministers will have to discuss the question of miners' pay and she has asked that this be included in the Agenda for E Committee next Tuesday. Mr. Howell's minute of 27 November indicates that the miners' ballot result should be known next Monday and that Sir Derek Ezra will be reporting back to him on the NCB's negotiating options. It would be helpful if Mr. Howell could circulate a further note in time for the E Committee meeting in the light of these further developments.

The Prime Minister has also asked that the Civil Contingencies Unit at official level should produce a rapid appraisal of the potential consequences of possible industrial action by the miners and of the various fuel economy measures which might be available in the event of such action.

I am sending copies of this letter to the Private Secretaries to members of E Committee, the Secretary of State for Scotland, the Minister of Transport and Sir Robert Armstrong.

J. P. LANKESTER

Bill Burroughs, Esq.,
Department of Energy.

CONFIDENTIAL

48



10 DOWNING STREET

From the Private Secretary

MR. VILE
CABINET OFFICE

Coal Miners' Pay

BF 3.12.79

Not Ind.

The Prime Minister would be grateful for a rapid appraisal by the Civil Contingencies Unit at official level of the potential consequences of possible industrial action by the miners and of the various fuel economy measures which might be available in the event of such action - in time for a meeting of E Committee next Tuesday. (As you will see from my letter of today's date to the Department of Energy, the Prime Minister has asked that miners' pay should be put on the Agenda for that meeting.)

I am sending a copy of this minute to John Chilcot (Home Office).

T. P. LANKESTER

28 November 1979



10 DOWNING STREET

Tim.

This is what we were going
to put in today. Perhaps
you can draw on the
attachment to the draft minutes
for your letter to Bill Burroughs
- if the PM has agreed the
proposals.

Mr.
- 28/11

Approved by Peter Le Cheminant, prepared by David Miles

pl Bp

DRAFT MINUTE FROM SIR ROBERT ARMSTRONG TO THE PRIME MINISTER

POSSIBLE INDUSTRIAL ACTION IN THE COAL INDUSTRY

Things are now developing quite fast in the wage negotiations in the coal industry, and I suggest that you should take an opportunity to

go over the ground in E Committee next Tuesday. ^{The Secretary of the F.O.} ~~Mr Howell~~ has written

to you, on ~~the~~ 26 November, commenting on Power Station fuel. But

^{before} ~~before~~ next Tuesday I understand that he will also know informally

the results of the miners' ballot, and the NCB will need to be deciding on their next step. Although the Government wishes to stand aside from the negotiations, Ministers will wish to know the implications of possible courses of action by the NCB.

I suggest therefore that you should ask Mr Howell for a short paper discussing these options, and that in parallel I should arrange for a rapid inter-departmental appraisal at official level, using the Civil Contingencies Unit machinery, of such matters as potential endurance, and the effect of possible economy measures, in the event of industrial action in the industry. CCU provides a convenient inter-departmental

forum for this appraisal, but I suggest that Mr Whitelaw^{as Chairman} need not
get involved himself at this stage.

If you agree I attach a draft minute which you might send to Mr
Howell.

R A

Cabinet Office
November 1979

CONFIDENTIAL

DRAFT MINUTE FROM THE PRIME MINISTER TO THE SECRETARY OF STATE FOR ENERGY

Thank you for your minute of 26 November, commenting on the present position on Power Station Fuel. Since the results of the miners' ballot will be coming through next week, I should like to discuss the position at the meeting of E next Tuesday. Some of the possible courses of action open to the NCB would have ~~widespread~~^{wide-ranging} implications, and I should be grateful if you could put forward a paper discussing the possible options, and the consequences that might flow from them.

In parallel, I have asked ~~Sir Robert Armstrong~~^{the Secretary of the Cabinet} to arrange for a rapid inter-Departmental appraisal using the Civil Contingencies Unit machinery at official level, to produce a report on the likely endurance in the event of different possible types of industrial action by the miners, on the extent to which endurance can be extended by the various possible economy measures, and on the consequences of the possible different regimes for the life of the community as a whole.

I am sending a copy of this note to the Home Secretary.

✓ Mr Whitton
Mr Hoskyns
Mr Lyell
Mr Duguid

PRIME MINISTER

COAL PAY NEGOTIATIONS

I suggest i) we put this on the agenda for E next Tuesday with a further report from Mr Howell in the light of the ballot outcome; and ii) we ask CCO for a note on the contingency arrangements if there is a strike. Agree? 27/11

Yes. av

Sir Derek Ezra came to see me today at his own request to set out the options before the National Coal Board on the miners' pay negotiations and to ask if the Government had any view to put to the Board about the choice facing them.

The NUM ballot is to be held this Friday, 30 November. Sir Derek said that in the Board's view it was now probable, though not certain, that the NUM National Executive would get the 55% vote they needed for rejection of the NCB's offer and authority to take industrial action. If this happened, the Board had three choices:

- a. To stand firm on the offer they had so far made, which is about 20% on basic rates. The argument for doing this was that, in the Board's view, the miners do not want a strike and that if the Board now increased their offer it would undermine their credibility in future negotiations. But the Board think that taking this line would mean industrial action by the union after Christmas. This could be either a strike or an overtime ban leading to a strike.
- b. To settle with the NUM. They said before the ballot that they would have been willing to settle for 25%, but it is impossible to be sure what the figure now would be. Much would depend on the exact size of the majority in the ballot. The Board's present view is that they should not adopt this course, because of the effect on their credibility and on future negotiations with the NUM. An increase in the offer could however be financed, without breaching the Board's external financing requirement, by higher prices or a cut in investment.
- c. An intermediate course. The Board are considering two possibilities:
 - i. An improvement in the incentive scheme, with extra pay financed by extra output.

ii. An offer that if the RPI increase next January or February exceeds the figure assumed by the NCB, the offer will be raised to this level.

Ezra said that the Board intended to decide between these options when the ballot result was known, probably next Monday, 3 December. He said he would report this to me and ask if the Government had any comments. The NUM Executive meet on Thursday, 6 December and it may then be necessary for the Board to make a response to them at once.

I made no response to Ezra other than to emphasize the importance of keeping within the Board's external financing requirement. We shall however need to consider whether to give the Board any advice and, if we do, what that advice should be. This would suggest a discussion early next week.

I am copying this to other members of E Committee and to Sir Robert Armstrong.

OH
2

SECRETARY OF STATE FOR ENERGY

27 NOVEMBER 1979

Original filed
Energy (Policy) Pt 3

PRIME MINISTER

POWER STATION FUEL

See
summary
(Pt 3) { You asked to be kept in touch with the position on fuel stocks at CEGB power stations on which I last minuted you on 17 August. ✓

CEGB coal stocks stand at 16 m tonnes, well above forecasts made earlier this year; if we include power stations in Scotland (for which the Secretary of State for Scotland is responsible) the figure exceeds $17\frac{1}{2}$ m tonnes and reflects the rapid rate of stockbuild in recent weeks. The NCB and British Rail have worked hard to shift coal. Deliveries to the CEGB have been above programme and the mild autumn has helped. The CEGB are importing all the coal that can at the present time be shipped and transported ($2\frac{1}{2}$ m tonnes for the year).

Oil stocks are at a record level of 1.3 m tonnes and the CEGB has arranged for supplies (including BNOC oil) which will enable them to raise oil burn to the maximum economic level this winter; they are talking to the oil companies with a view to obtaining additional deliveries (There are implications here for our international commitments which will need careful handling but which need not stand in our way).

It is difficult to forecast the level of electricity demand (so much depends on uncertainties including the weather and availability of other fuels to consumers) but if there is no disruption to either coal or oil supplies before Christmas the Board expects the level of stocks of both fuels at power stations to sustain an endurance during the period of peak demand (January and most of February) of four weeks with a further period of progressively declining output. Reduced supplies of coal and oil before Christmas for whatever reason would affect the level of stocks and therefore endurance after Christmas. Currently coal stocks are not as well balanced as they might be but their distribution can be manipulated by operating stations out of merit order in order to balance stock levels across the system while a certain amount of additional oil can be consumed in coal fired stations to conserve coal. The CEGB are examining both these courses.

CONFIDENTIAL

Ancillary materials are important; the Board are taking action to replenish stocks as soon as they are drawn down. I am informed that these stocks would support 6 weeks of average winter output in January/March under operating practices designed to preserve materials rather than to minimise costs. Under normal circumstances the Board would not expect stocks of ancillaries to be affected by the holiday period - deliveries could be reduced but electricity output also declines as many firms close down for several days at that time. There is no expectation of difficulty in the water supply industry at present but much of the Board's capacity depends on mains water supply and there is little scope for increasing storage against disruption.

Copies of this minute go to E Committee, to the Secretary of State for Scotland, to the Minister of Transport and to Sir Robert Armstrong.

DA

SECRETARY OF STATE FOR ENERGY

26 NOVEMBER 1979

CONFIDENTIAL



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

Nat. Ind.

R 261-

T P Lankester Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1

25 November 1979

Dear Tim,

Thank you for your letter of 12 November 1979 concerning publicity by the National Coal Board for the consequences of an excessive pay settlement.

The Board were reminded of the Prime Minister's wishes on 13 November, and we have been assured that if a settlement is reached which they regard as excessive, the Board are ready to mount an immediate campaign to spell out clearly to the public what the consequences will be for prices.

W.J. BURROUGHS
PRIVATE SECRETARY

Yours sincerely,

Bill



NOV 26 1979

26 NOV 1979

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SECRETARY OF STATE FOR ENERGY

THE HOUSE OF COMMONS

MILLBANK LONDON SW1P 4QJ

01 1 6402

The Rt Hon Norman St John-Evas MP
Chancellor of the Duchy of
Lancaster
Privy Council Office
Whitehall
SW1A 2AT

7
267

23 November 1979

See above

COAL INDUSTRY BILL

Thank you for your letter of 2 November.

As I said in my letter of 30 October, I understand your warning about the need for urgency and I can assure you that we are pressing ahead with all speed.

I note your warning that the chances of the Bill being enacted before the end of March are extremely remote. I have looked into the possibility of contingency arrangements to sustain the NCB whilst the Bill is going through the House. The Treasury have confirmed that it would be possible to use the normal supply procedure to make additional grants to the NCB this financial year before the Bill came into effect. This assumes, of course, that the Consolidated Fund Bill, authorising issues in accordance with the Spring Supplementary Estimate, would have been passed before the end of March. The Estimate would make clear that the amount being sought in the Estimate for grants to the Board rested on the authority of the Estimate itself and the confirming Consolidated Fund Act.

Though not necessary for this purpose it would be desirable if the Bill had received its Second Reading before the Supplementary Estimates proceedings; and I hope that we can make good progress with the Bill once it has been published.

In order to avoid delay, I shall be grateful for your agreement that Counsel may be instructed as soon as EA Committee have approved the content of the Bill.

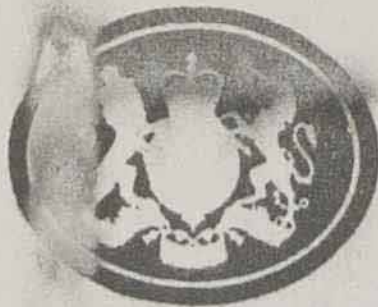
I am copying this letter to the Prime Minister, to the members of E Committee, the Chief Whip, to First Parliamentary Counsel and to Sir Robert Armstrong.

David

D A R HOWELL

26 NOV 1979





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

12
261

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

23 November 1979

Dear John

COAL STRATEGY: DEFERRED INTEREST LOANS

Thank you for your letter of 9 November on the possibility of providing deferred interest loans to the NCB for the construction of major projects. I am disappointed that you now have doubts about this proposal, but I am grateful to you for setting out your views at length.

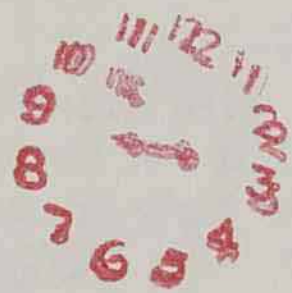
I accept that the Board would gain no benefit in terms of external financing from deferred interest. However, I believe that if we followed the lines of your option (i) there would be some relief (though, I admit, not great) to the profit and loss account in that the Board would not have to pay interest on money borrowed to finance the interest which they are currently capitalising. The NCB estimate that this would amount to £30 m a year by 1983/84 at out-turn prices. There are also wider considerations which I should like an opportunity of discussing with colleagues when we consider my paper on the proposed Coal Industry Bill. I shall therefore be including this proposal in the paper I am circulating.

I am copying this to members of E Committee and to Sir Robert Armstrong.

D A R Howell

Yours ever
David

226 MAY 1979





u
Mr Ingham
Mr Walker
Mr Harty

Prime Minister

2

DEPARTMENT OF STATE FOR ENERGY
AND CLIMATE
10, WHITEHALL, LONDON SW1A 2BQ
01 211 6402

R 23/11

MS

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

22 November 1979

Dear Sir

I last wrote to you about miners' pay on 15 November when I said that the NUM negotiators had rejected the NCB's offer and had summoned a special Executive meeting for 21 November.

When the Executive met, it confirmed the rejection of the Board's offer, but asked to see the Board again. This further meeting took place almost at once. The union said that by a substantial majority they had decided that they would accept a 25% offer. The Board refused to increase their basic offer, although they said that they were prepared to look at any proposals the union made for improvements in the incentive scheme. This suggestion was not taken up by the union, and the meeting ended.

The Executive have now decided to go to ballot on the Board's offer, with a recommendation to reject it and give the Executive authority to call industrial action if necessary. The ballot will be on 30 November, and the union hope to have the result in time for their next Executive on 6 December. The Board think the result of the ballot is very uncertain. There is no mood of militancy among the miners themselves, but traditionally they have always been loyal to their union.

The Board will do all they can to publicise their offer and achieve a favourable result in the ballot. I am sure that any Government publicity at the same time could do no good and might do harm. We shall however need to give further thought to our attitude when we know the result of the ballot.

I am sending copies of this letter to the Prime Minister, members of E and E(EA) Committees and Sir Robert Armstrong.

Yours

David

D A R HOWELL

22 NOV 1979

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

Prime Minister

2

*R.
W/11*

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

19 November 1979

Dear Tim

Thank you for your letter of 12 November 1979 concerning publicity by the National Coal Board for the consequences of an excessive pay settlement.

The Board were reminded of the Prime Minister's wishes on 13 November, and we have been assured that if a settlement is reached which they regard as excessive, the Board are ready to mount an immediate campaign to spell out clearly to the public what the consequences will be for prices.

I am copying this to those who received a copy of your letter.

Yours sincerely

W J Burroughs
Private Secretary

Bill

WB



20 NOV 1979



Wat (nd)

Treasury Chambers, Parliament Street, SW1P 3AG

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

R 19/11

19 November 1979

Dear David,

GRANTS FOR THE NCB IN 1979-80

Thank you for your letter of 15 November seeking my agreement to additional assistance for the NCB in the current financial year of £169m at outturn prices (£154.2m at Survey prices).

Subject to the points below I can support your proposal to take a power in the forthcoming Coal Industry (Finance) Bill to pay the NCB deficit grants instead of regional grants as hitherto. Deficit grants are a more honest presentation of the purpose of the grants agreed by E Committee on 17 October as part of the NCB's financial strategy to 1983-84. They would also have the incidental advantage of preventing the NCB claiming to have "broken even" at a time when they are receiving substantial grant assistance.

I think that it is important that a system of deficit grants should be subject to the following conditions:

- (i) The forthcoming Bill should specify the total amount of grant payable.
- (ii) Each year's deficit grant should be agreed in advance with the NCB before the year begins. This ought to be made clear to the House in the Committee Stage of the Bill.
- (iii) The grants would be payable only in respect of the NCB's financial years up to and including 1982-83. The financial strategy agreed by E Committee on 17 October assumes that they will not need grants, other than social grants, after 1982-83.
- (iv) If the NCB's deficit turned out to be lower in any year than assumed when fixing the level of deficit grant, the amount of grant actually paid would be reduced by an equal amount. We must avoid the situation where deficit grants paid are higher than actual deficits.

Turning now to your particular proposals for grants for 1979-80, I accept that the payment of the level of grant you suggest for the NCB would not add to the Board's demand on public expenditure this financial year. This follows because to the extent that their grants are increased, their loans are reduced.

You suggest that on the basis of the Board's present forecast, they would need a deficit grant in 1979-80 of £169m to balance their expected losses for the year. I am content with this proposal provided that you agree that if the NCB's deficits exceed this amount, the amount of deficit grants will not be increased, but if it is less, the amount of deficit grant will be reduced. And, of course, if it is agreed that further operating grants should be offered to the NCB this financial year for particular purposes, their deficit grant should be reduced by the same amount so that there is no increase in public expenditure.

I am sure that since one of the essential conditions for deficit grants is that they should be fixed in advance, the grant should appear on the relevant cash limited Vote of your Department (Class IV, Vote 8). This means that the current cash limit for that Vote of £53.055m would have to be increased by up to £169m. I suggest that our officials should agree the precise amount in the light of the latest forecast outturn on the Vote. When that is agreed the new cash limit will have to be announced to Parliament by way of an arranged PQ and answer before any Supplementary Estimate is presented. The announcement should make clear that the increase in the cash limit implies no increase in public expenditure or in the NCB's financing limit for 1979-80. I should be grateful if your officials could consult mine about the terms of the answer.

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

Yours

John Biffen



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19 NOV 1978



Noted

SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

12 15/11

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

15 November 1979

Dec John

GRANTS TO THE NCB IN 1979/80

The decisions taken at E(79)12th on the financial strategy for the National Coal Board set the levels of external finance, within which the Board are to operate, for the years 1980/81 to 1983/84. The Board's external financing for the current year was set at £709m when their cash limit was fixed in June. Although the Financial Statement and Budget Report shows a grant element of £175m within this total, this was an arbitrary sum based simply on the level of grants paid to the NCB in 1978/79. It was recognised that the actual level of grants to be paid would need to be decided in the light of the decisions on the strategy as a whole. I believe we should now seek to agree what the grants should be for 1979/80.

The provision in Estimates is only £86m at out-turn prices, and covers:

	<u>1979/80</u> <u>out-turn</u>
	£m
<u>Social Grants</u>	
Contributions to Early Retirement Benefits and Pit Closures	23
Mineworkers Pension Scheme deficiency	40
<u>Operating Grants</u>	
Support for sales of coal to SSEB	9
Stocking aid to National Smokeless Fuels for coke	<u>14</u>
	86



In their forecasts the NCB had assumed that in addition to the provision for operating grants in Estimates they would also receive stocking aid for coal and assistance for coalburn at Carmarthen Bay power station in South Wales. Whilst I believe the NCB could properly qualify for coal stocking aid (about £10m at out-turn is our latest estimate) in accordance with the ECSC rules on state aids, I do not propose to press that this be paid. With the heavy draw-down of stocks this year, this is not now a major problem for the Board. Nor am I proposing to agree to the request for assistance for coalburn at Carmarthen Bay. This power station is the only one capable of burning a stock of poor quality coal held by the NCB; and I take the view it is in the Board's own commercial interest to dispose of this stock.

There are two further items in respect of operating grants on which the NCB had assumed support: coking coal and their Phurnacite plant at Aberaman, South Wales. In neither case am I yet ready to put proposals forward. On coking coal, following the discussion at E(EA)(79)9th meeting in July we are awaiting a response from the NCB on the outcome of their talks with the BSC. As regards the Phurnacite plant, the NCB have made proposals to the Department and these are currently under consideration.

Consequently, I propose that, subject to the outcome on these two issues, operating grants be confined to the support for coalburn by SSEB and the coke stocking aid for which Estimates provision already exists.

The Social grants will also be confined to the provision in Estimates subject to whatever is agreed on the revised proposals on improvements in transfer terms (and redundancy payments).

In their forecasts the NCB had also included regional grants. I shall shortly be submitting proposals for the Coal Industry (Finance) Bill. These will include one that the present power to pay regional grants be replaced by one to pay deficit grants (on which the Treasury have already been consulted at official level). This change would recognise the reality that the Board are in deficit, and prevent them from claiming that they are breaking even, so meeting a point which Geoffrey Howe has made and on which I entirely agree with him. We need to decide how we would use the new power for 1979-80. For this year, I propose that the Board should receive a deficit grant up to the level needed to cover their deficit. On present forecasts this would mean a grant of £169m. For future years of course the procedure will be different. The maximum level of grant will be fixed in advance, according to the financial strategy agreed by E Committee. If the NCB's deficit exceeds this, the grant will not be increased to cover it; if it falls



- 3 -

short, the grant will be reduced to the level needed to cover it. But we cannot apply this procedure to 1979-80, two-thirds of the way through the year and in the absence of an agreed objective. I also have in mind our relationship with the NCB, who are very disappointed about the way the decisions on capital structure and grants have gone and to whom it would be difficult to explain why, if we have taken a power to pay deficit grants we should not, for this year, use it to cover all the deficit.

In addition to the grants in paragraph 2 above, this would make a total of £255m at out-turn prices. The additional grant assistance over and above the £175m assumed in the Financial Statement and Budget Report will not result in an increase in public expenditure because there will be a corresponding decrease in the Board's net borrowing. In any event, the Board's latest estimate of their total external finances for the current year is £607m which is well below their cash limit of £709m.

I hope you will see your way to approving the additional £169m of grants for 1979/80 at out-turn prices.

I am copying this letter to the Prime Minister, the members of E committee and Sir Robert Armstrong.

D A R HOWELL

Howell

Davis

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15 NOV 1979

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EMP
CO

577



Dr MC ASKYN

10 DOWNING STREET

From the Private Secretary

12 November 1979

BF 19/11/79

I told you last week that the Prime Minister had asked whether the National Coal Board were prepared to mount a campaign spelling out the price consequences of an excessive pay settlement. You told me that the NCB would not be prepared to mount such a campaign while their negotiations are proceeding, and I have mentioned this to the Prime Minister.

The Prime Minister has nonetheless asked whether the NCB have the figures ready and whether they will be prepared to use them once a settlement has been reached.

I am sending a copy of this letter to Martin Hall (HM Treasury), Ian Fair (Department of Employment) and Martin Vile (Cabinet Office).

T. P. LANKESTER

86

W. J. Burroughs, Esq.,
Department of Energy.

CONFIDENTIAL



12/11

Ned

Ind

Treasury Chambers, Parliament Street, SW1P 3AG

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

9 November 1979

COAL STRATEGY: DEFERRED INTEREST LOANS

Thank you for your letter of 23 October in which you asked for approval in principle to the inclusion in the forthcoming Coal Bill of a power to provide loans on which interest would be deferred during the construction of major projects and then paid at an enhanced rate. (I covered the other points in your letter in my letter of 29 October.)

I certainly agree that deferred interest loans are less objectionable than the issue of PDC to the NCB, as indeed I conceded in my letter to you of 6 August. But the more I examined your proposal, the less any real benefit that I see in it for anyone and I am most reluctant to agree to such a novel financing device unless there are sound reasons to justify it. I recognise the interest burden on the NCB caused by their large investment programme, some of which takes many years to begin to generate revenue. But other industries are in very much the same position. The construction of power stations takes many years, but I understand that the CEGB's practice is nevertheless to charge interest straight to their profit and loss account. They do not even seek to capitalise the interest as the NCB can under present arrangements. One way of dealing with the NCB's interest problem would, of course, be to proceed to a capital reconstruction, but I recall from our discussions on the coal strategy that you are reluctant to adopt such a course.

It might be helpful if I set out in some detail the reasons for my scepticism about the proposal for deferred interest loans, dealing first with their effect on the Board's cash flow and then on their profit and loss account.

Effect on Cash Flow

I accept that deferment of interest would benefit the Board's cash flow and thereby reduce their borrowing in the period of deferment at the expense of later periods when the Board would have to begin to pay the interest at the enhanced rate. But this would be of no benefit to the Board since to the extent that their borrowing needs were lower because of the introduction of deferred interest loans, we would have to insist that the external financing figures agreed by E Committee, which were postulated on the Board's present capital structure, should be reduced commensurately. Otherwise public expenditure would be higher. And if the Board's external financing figures were reduced in this way, the NCB would not be any better off.

Effect on Profit and Loss Account

The effect on the Board's P & L account is more complex, but in the long run each of the available accounting treatments produces no better results than the present financing and capitalisation arrangements. This is because the interest rate on a deferred interest loan would have to be enhanced to allow for compounding during the period of deferral. The result would be that the NCB would be in no better position overall than if conventional financing had been entered into. For example, if a deferred interest loan had a 15 year duration with a 5 year moratorium on interest, the nominal interest rate for the last 10 years could be virtually double that compared to the rate payable on a "normal" loan over the whole period. And even if the interest is deemed to accrue over the first 5 years, but is not paid until the last 10 years, the nominal interest rate would have to be higher again to allow for compounding. The possible P & L account treatments, based on this example, are:

(i) If nothing is payable on the loans for the first 5 years, nothing will be charged to the P & L account during that period, but over the remaining 10 years enhanced interest would be debited to the P & L account. This improves the Board's P & L account in the first 5 years at the expense of the next 10. But the effect of this is broadly similar to the present practice of capitalising interest in that it defers the P & L impact of interest costs until the start of production. There therefore seems to be no advantage to the Board.

(ii) Interest, though not paid, could be deemed to accrue during the first 5 years and would be debited to the Board's P & L account. The effect would be to reduce profits (in fact increase losses) compared to the present practice of capitalising interest. I cannot believe that either you or the NCB have this in mind.

(iii) Interest would be deemed to accrue during the first 5 years and would be capitalised during that period. It would later be charged to the P & L account in the normal way. The effect on the P & L account is broadly the same as the existing treatment of capitalisation of interest described at (i) above. While this might be an acceptable accounting practice, it seems to me a transparent cosmetic device to massage the NCB's results and could attract some criticism.

I am sorry to have written such a long letter, but I think that it might be helpful to you if I explained in some detail the reasons for my doubts about your proposal. In short, deferred interest loans would reduce the Board's borrowing in the period of deferral, but this would be of no benefit to them since their external financing figures would be reduced by an equivalent amount. If their P & L account is not to be adversely affected compared with existing arrangements, interest payments would need not only to be deferred, but it would be necessary for the Board to capitalise such deferred interest during the period of deferral and this seems to be a rather bogus device to improve their results.

I am sending a copy of this letter to members of E Committee and to Sir Robert Armstrong.

JOHN BIFFEN

- 9 NOV 1979

12 1 2 3 4 5 6 7 8 9 10 11 12



cc Mr. Haskins

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

01 211 6402

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1

Price limits 2
To note. (Energy say that the NCB would not be prepared to mount a campaign relating price increases to wage increases while the negotiations are going on).

Have they got the figures & November 1979
needs? not prob
R 8/11

Dea Scotland

I am writing to keep you and my other colleagues informed about the progress of the miners' pay negotiations. A further meeting between the NCB and the NUM was held yesterday.

In my letter of 25 October I described the three options on timing which the Board planned to put to the NUM. At yesterday's meeting the NUM delegation accepted option c - advance payments from 1 January 1980, with the main settlements on 1 March 1980, 1 January 1981 and 1 November 1981. This acceptance was confirmed by the NUM Executive today. Acceptance of the NCB's proposals on timing is a big step forward, in view of the importance the NUM have always attached to this issue.

As to amount the NCB have told the union that £20m would be available for the advance payments in January and February 1980, and £240m for the main settlement from March to December 1980. The Board propose to present their offer to the union as equivalent to about 17%.

The NUM have told the NCB that the cash on offer is not enough. The NCB have promised to consider this, and the meeting was adjourned until next Tuesday, 13 November. The NCB have not yet decided on their response, but they were encouraged by yesterday's meeting and are optimistic about the prospects for a settlement. They have of course been left in no doubt about the need to keep within their cash limit or the need, if there is an excessive settlement, to make its implication for prices clear to the public very quickly.

I am sending copies to the same recipients as before.

Howe
David

D A R Howell



Faint handwritten notes and stamps in the upper left quadrant.

Mr. [Name]

FEB 18 1954

Mr. [Name]

Mr. [Name]

Main body of faint, illegible text, possibly a letter or report.

Lower section of faint, illegible text.

Mr. [Name]

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Chancellor of the Duchy of Lancaster

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

V
MS

2 November 1979

MR LAWICETER

to see

MS

De David

COAL INDUSTRY (FINANCE) BILL

Thank you for your letter of 30 October about progress with the Coal Industry (Finance) Bill.

The present Parliamentary climate is such that, even if this Bill were ready for immediate introduction, I would be cautious about promising Royal Assent before the end of this Financial Year. As I understand it, however, your Bill will not be ready for introduction until December at the earliest. I must warn you that the chances of the Bill then completing all its stages in both Houses before the end of March are extremely remote, even if we secure, as is by no means certain, a measure of co-operation from the Opposition. I am sure, therefore, that it would be prudent to examine now what arrangements might be available to sustain the Coal Board while the Bill is still going through the House.

I am copying this letter to the Prime Minister, to the members of E Committee, the Chief Whip, to First Parliamentary Counsel and to Sir Robert Armstrong.

John de K...

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

RESTRICTED



CONFIDENTIAL



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
 ASHDOWN HOUSE
 123 VICTORIA STREET
 LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
 SWITCHBOARD 01-212 7676

2. November 1979

Rt Hon David Howell MP
 Secretary of State for Energy
 Thames House South
 Millbank
 London SW1P 4QJ

Ry11

Dear David.

Thank you for sending me a copy of your letter of 25 October to Geoffrey Howe about the mineworkers' pay negotiations. I agree with Geoffrey and with Jim Prior that negotiating tactics are a matter for the NCB and that we should avoid being drawn in.

You will recall that when we discussed this subject in E(EA) on 8 October we decided that both the NUM and the public should be left in no doubt about the implications of excessive wage increases for both prices and jobs. You may wish to suggest to Derek Ezra that the price implications for any settlement should be brought out early as a negotiating tactic if big claims persist, so that there is no misunderstanding in the public mind about the link between pay and prices.

I am copying this letter to the Prime Minister, members of E(EA) and E Committees and to Sir Robert Armstrong.

E. ...

Kevin

2 - NOV 1979



Mr Hoekman



Denis Walker

2

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

01 211 6402

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2/4*

N Sanders Esq
Private Secretary to the
Prime Minister
No 10 Downing Street
LONDON SW1

AM sm

2 2 November 1979

Dear Nick,

NCB STRATEGY

My Secretary of State has noted your letter of 29 October to Alistair Pirie in the Chief Secretary's Office about the interest of the Prime Minister in seeing in advance the proposed text of what is to be said in Parliament on the financial strategy for the coal industry.

↑ In the meantime the Prime Minister might like to see the text of the letter, agreed with the Treasury, which my Secretary of State is intending to send to Sir Derek Ezra on this issue.

I am copying this letter to Alistair Pirie in the Chief Secretary's Office.

Yours ever,

Denis

DENIS WALKER
PRIVATE SECRETARY



61781 NOV 11 12 11 23 4 5 6 7 8 9 10

2 - NOV 1979



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

Sir Derek Ezra MBE
Chairman
National Coal Board
Hobart House
Grosvenor Place
London SW1X 7AE

November 1979

I am writing to set down, in more precise terms than I stated them at the Coal Industry Tripartite discussions, the Government's conclusions on the financial strategy that the Board should follow.

May I start by acknowledging with thanks the cooperation that the Department has received from the Board in reviewing your financial position.

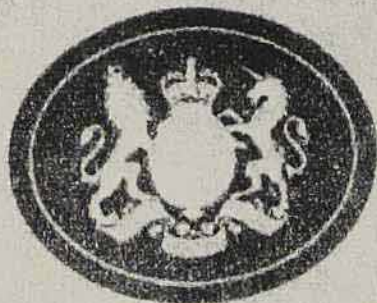
In the shorter and the longer term, it is clear that the country will need to look to an efficient coal industry if we are to avoid undue dependence on imported energy. The basic strategy adopted when Plan for Coal was endorsed therefore continues to be sound: investment in profitable pits to secure an efficient industry capable of a higher level of output. I am glad that, subject to the small reductions that the Board have been able to make, the Government have been able to endorse the investment programme to 1982/83 in the normal way. (My officials have written to the Board giving the agreed capital allocations).

But the Government must also have regard, in the shorter term anyway, to the very important objective of reducing the demands of the nationalised industries on public expenditure. The financial strategy is therefore designed to permit the continued rebuilding of a new industry out of the old whilst progressively reducing financial support for the Board's operations.

The Government will continue to provide social grants and will continue to finance the Redundant Mineworkers' Payments Scheme. As you know, we are now considering the Board's revised proposals on transfer payments and redundancy terms.

Financial support for the industry's operations will be provided on a declining scale in accordance with Appendix B to the Board's Supplement to the Review of Financial Position, as amended by the reductions in external finance that we have recently agreed, ie (at 1978/9 prices):

<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>
15	27	51	59



This means that the Board is expected to break-even from 1983/84 after social grants and after interest on the present capital structure. Could I emphasise that the Government attaches the greatest importance to the Board's attaining this objective. If it is possible to reach it earlier the Board should certainly do so. If the Board appear to be encountering difficulty in operating within the external finance figures set out below, the Board will need to take action, by means of cost reductions or increases in prices, to ensure that the figures are not exceeded.

At an appropriate stage in the near future I shall need to announce the objective of break-even from 1983/84 and the phased progress towards it as the Board's formal financial target. My officials will be in touch with yours in due course about the form of words for such an announcement. The external finance requirements within which the Board will be expected to operate are (at 1978/79 prices);

<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>
613	570	480	375

The cost, including the cost to the Government, of any improvements in redundancy and transfer terms, if they are in due course agreed, will have to be met from within these figures. At our meeting on 22 October you referred to the question of flexibility in cash limits. I said that this was not a matter on which I could give any assurance and I advised that it was best pursued by the Nationalised Industries Chairmen's Group in connection with the paper they have submitted to the Chancellor.

Within the external finance figures, the Government will be prepared to pay grants as follows:

	£m 1978/79 prices			
	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>
Social grants	57	57	57	57
Other grants	135	109	28	-
Total	192	166	85	57

The reductions in external finance which we agreed have been reflected in the provision for 'Other grants'. Any grants which may, exceptionally, be agreed in addition to those assumed above would not be allowed to relax the break-even objective as defined in paragraph 6. The Coal Bill will provide for payment of the grants assumed and I shall be considering what upper limit would be appropriate to take account of varying assumptions about, eg inflation. I have also decided, subject to consultation with the European Commission, that the Bill will replace regional grants by grants to cover deficiencies in the Board's profit and loss account.



-3-

The Government have decided that it would not be appropriate to issue Public Dividend Capital to the Board at this stage. But I am giving further consideration in conjunction with my colleagues to the possibility of deferred interest loans; and we shall examine further the other suggestions in your letter of 15 October to John Moore.

The Government will wish to monitor closely the Board's progress towards financial break-even by 1983/84 on the basis of a monthly progress return. For this purpose it is essential for us to agree very quickly the forecasts of unit costs underlying the strategy. I myself should like to have quarterly meetings with you for monitoring. My officials will be discussing arrangements with yours.

I am sure that it is in the best interests of the industry that the objective of financial viability, in the way I have defined it, should be achieved as quickly as possible; and I look forward to following the Board's progress.

D A R Howell

CONFIDENTIAL



Nat. Ind.

SECRETARY OF STATE FOR ENERGY
THANKS HOUSE SOUTH
MILLHAM LODDON SW1P 4QJ 211 6402

ABM

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Ry

31 October 1979

Dee Scully

.Thank you for your letter of 30 October about miners' pay.

As you say, negotiating tactics must be a matter for the NCB, but we have mentioned your points (i) and (ii) to them. On (i) they say that an offer of less than 13.4% would just not be plausible, and would risk embittering the negotiations. I think this is right but in any case is something for them to judge. On (ii), of course their calculations will take account of all the costs arising in 1980-1 from their offer.

I am not clear from your next paragraph whether or not you want the NCB to increase coal prices to the maximum extent. Of course it follows from the operation of the cash limit that a higher wage increase must be offset by a higher price increase. Our discussions on electricity prices assumed in fact that the price of coal to the electricity industry would rise by about 3% in real terms next year. We shall however consult you before decisions are taken about the next coal price increase.

What about steel ?
R

I agree that the Board's references to break-even are misleading, and I am considering what can be done to achieve a more realistic presentation. But this point does not of course affect the figures now at issue.

I am copying this letter to the recipients of yours.

Yours

David

D A R Howell



31 OCT 1979



BF 7/11/79.



Pam Thurst

To note.

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

30 October, 1979

TL

cc McLyschan

D/Energy will ring back on this
Andrew Board TL

Has the NCB job ready - public opinion - compare directly with price increases do we get increases? no.

MINERS' PAY

Thank you for your letter of 25th October.

Negotiating tactics must be a matter for the NCB, and I am therefore broadly content with the position you outline. However, I think you should ensure that the NCB are fully aware of a couple of points which could affect their negotiating strategy, and have taken them into account:

(i) it appears that their opening offer will go as far as they can within the pay and price assumptions within the cash limit. This may well lead to pressures to increase the quantum. Are the NCB prepared for this, or would it be better to open with a lower offer?

(ii) have the NCB allowed for any cost of the 1981-82 pay settlement? Even if the settlement date is not moved, one month of this will fall within the 1980-81 cash limit: if the settlement date is moved forward, the period to be covered will increase. If the NCB have not allowed for this, the alternatives would be a further price increase, or no pay increase until the beginning of FY 1981-82.

You suggest that the increase of 13.4 per cent implied by the cash limit is unlikely to achieve a settlement. If so, then in accordance with the conclusions of E Committee (E(79)12th Meeting, Item 1) any excess will have to be financed by price increases over and above the increases in

/line with

17.10.79

The Rt. Hon. David Howell, M.P.



line with the RPI already implicit in the cash limit. I am not clear how this can be reconciled with the recent agreement between the NCB and the CEGB that coal will be maintained at a constant real price over 5 years in return for the CEGB taking a certain tonnage. Further, such increases would, unless the electricity industry can absorb the costs by increased efficiency, alter the assumptions on which our decisions on electricity price increases at Cabinet on Thursday were reached, and thus put at risk our decisions. In any event I should like to be consulted before decisions are taken about the next coal price increase, presumably in March 1980. I think we will need to be convinced that the NCB take full advantage of higher oil prices when increasing coal prices.

✓ Let me also say that it seems most undesirable to refer, as you do in the second paragraph of your letter, to "break even" by the NCB. In fact the industry's financial strategy endorsed by E Committee recently shows them making a loss after interest of some £200m in 1980-81 which is reduced to "break even" only by an equal amount of Government grants.

I know that practice in recent years has been for the Board to present their financial results in this way, but I suggest that you should make clear to their Chairman that this Government does not favour such a misleading presentation. This is important since unless the true facts of the NCB's financial position are publicly recognised the pressure on the Board to move towards viability will be that much reduced.

I would welcome your urgent comments on these points.

I am sending copies of this letter to the Prime Minister, members of E(EA) and E Committees and to Sir John Hunt.

A handwritten signature in dark ink, appearing to read 'Geoffrey Howe', with a horizontal line underneath.

(GEOFFREY HOWE)

30 OCT 1979





File 116

BF 8/11/79

10 DOWNING STREET

From the Private Secretary

30 October 1979

The Chief Secretary copied to the Prime Minister his letter of 29 October to the Secretary of State for Energy about the financial strategy for the coal industry. I should be grateful if we could see in advance the draft text of the announcement referred to in the third paragraph of that letter.

I am copying this letter to Bill Burroughs (Department of Energy) and to Martin Vile (Cabinet Office).

*not taken by events,
no announcement due
strategy being referred by to E (EA)*

N. J. SANDERS

A. C. Pirie, Esq.,
Chief Secretary's Office,
H.M. Treasury.

KRB



Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

R307W

2 pps

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

30 October 1979

David Howell

MINEWORKERS' PAY

I have seen a copy of your letter of 25 October to Geoffrey Howe and would like to endorse the point you make that it is for the NCB to conduct the negotiations themselves within the cash limit. As Grey Gowrie said in his letter to you of 5 October we must try to avoid being drawn into these negotiations or becoming closely identified with the NCB's stance.

Copies of this letter go to the Prime Minister and members of E and E(EA) and Sir Robert Armstrong.

Howe
T

30 OCT 1978





Mich
-

he had better
see the draft at
X, don't go
back!

Treasury Chambers, Parliament Street, SW1P 3AG

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

R
29/10

29 October 1979

Dear David,

NCB: STRATEGY

Thank you for your letter of 23 October in which you sought my agreement to approval to the NCB's investment programme being given in the usual way and to agreement in principle that the Coal Bill should contain a power to provide deferred interest loans in respect of certain projects. I am not yet in a position to reply on the latter point but I understand there is a priority written Question down for answer on Tuesday 30 October on the investment programme and this letter therefore deals with that point as well as making some further points.

Now that Sir Derek Ezra has accepted the external financing figures agreed by E Committee on 17 October I agree that approval to the NCB's investment programme can be given as to 100 per cent for 1980-81, 85 per cent for 1981-82 and 70 per cent for 1982-83. If the Board's public expenditure requirements looked as if they were going to rise above the totals agreed by E Committee last week, we would, of course, have to look at the investment programme again.

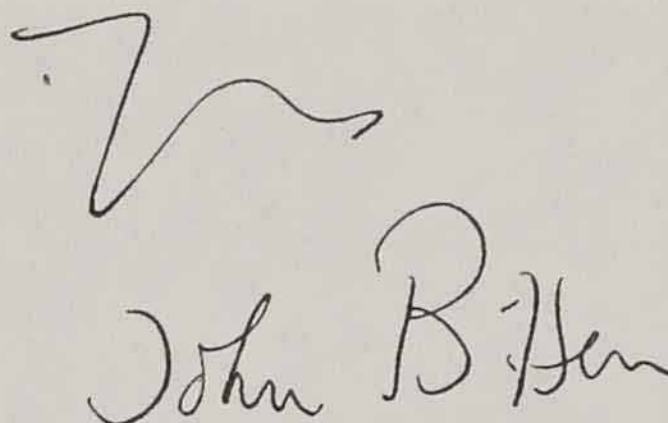
X | I think that Parliament should be told as soon as possible the financial strategy for the coal industry agreed by E Committee last week. I suggest that we should express this to Parliament in the terms of a formal financial target for the industry of breakeven from 1983-84 after interest, together with an indication of the phased progress towards this target. I should be grateful if your officials could agree with mine the drafting of such an announcement.

Finally, I recall that in paragraph 5 of your paper to E Committee (E(79)50) you referred to the need to monitor unit costs and to compare them with the forecasts underlying the strategy. I am sure this is right, but I understand that the

Board have not yet produced their forecasts which are essential for monitoring. I am sure that they should be pressed to provide these as soon as possible.

I will write to you again about deferred interest and any other matters that arise in your letter as quickly as possible.

I am sending a copy of this letter to members of E Committee and to Sir John Hunt.

A handwritten signature in cursive script, reading "John Biffen". The signature is written in dark ink and is positioned to the right of the typed name.

JOHN BIFFEN

29 OCT 1979

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7 8 9 4
6 7 8 5

CONFIDENTIAL

PRIME MINISTER

NATIONAL COAL BOARD: CASH LIMIT FOR 1980-81

At Cabinet on Thursday it was decided that John Biffen and I should agree urgently the National Coal Board cash limit for 1980-81 and report the result to you.

John Biffen has conceded that the cash limit for 1980-81 should be £834 million.

In return I will make clear to the NCB that in future the Government will expect them to adopt the revaluation procedure common to the other nationalised industries, so that this question does not arise again.

I am copying this minute to members of the Cabinet and to Sir John Hunt.

DH.

D A R Howell
Secretary of State for Energy
29 October 1979

CONFIDENTIAL

UNITED STATES



29 OCT 1979

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5 6 7 8 9

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Prime Minister

2

*at the moment -
the Hoskyns*

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

To note - the
conclusion at x
is consistent with
our general line on
pay in the public sector,
but I understand the
Chancellor will be
commenting.

Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Treasury
Parliament Street
London SW1P 3HE

25 October 1979

Dee *Section*

David *mt*

Told Energy

but PM content

TL 30/10

TL

26/10

The National Coal Board (NCB) are to meet the National Union of Mineworkers (NUM) next Wednesday, 31 October, for further negotiations on the NUM's pay claim. The NUM have made it clear that they will want some indication at this meeting of the sum likely to be available.

The NCB have not yet finally made up their minds how much they are prepared to offer. Their present intention, however, is to table a statement at the meeting to show that, assuming a price increase of about 15%, they could increase the total of wages and salaries and associated charges by £240m in 1980-1 and still breakeven. The total of £240m is consistent with an increase of £140m on NUM wages. The Board will talk entirely in terms of the amount available, and will not mention percentages. But the £140m would in fact represent an increase for NUM members of 13.4%, assuming a March to March settlement.

This means
"breakeven
after taking
into account
government
grants".

A travesty
of the
English
language!

TL

The Board also plan to develop the suggestion made at their last negotiating meeting that they are willing to consider flexibility on the timing of the pay settlement. They will put three options to the NUM:

- The next settlement to run from March 1980 to February 1981, and the one after that from March to October 1981
- The next settlement to run from March to December 1980, and the one after that from January to October 1981.
- An advance payment to be made on 1 January 1980, and thereafter option b to be followed

The Board therefore hope to postpone conceding the 1 November settlement date until 1981. They will emphasize to the union that a change in the timing of the settlement cannot affect the total amount, £240m, available for pay increases.

Every 1% increase in the Board's pay bill costs them about £18m, which can be recouped by a price increase of about 0.5%. If this price increase applied equally to all coal consumers, the electricity industry would have to increase its own prices by about 0.2% to offset the effect on its costs. In fact, price increases at the higher levels are more likely to concentrate on electricity.

I should emphasize that the Board are still considering their tactics. I should emphasize too that they cannot foresee whether they will need to be prepared to move from their initial offer during the negotiations. No negotiator can foresee this, but must have flexibility to respond to developments in the negotiations. An offer equivalent to an increase of 13.4% is of course most unlikely to produce a settlement.

It is my strong belief that it is for the NCB to conduct the negotiations themselves within the cash limit we have fixed for them. I shall, if my colleagues agree, tell the Board this. I shall in doing so stress the paramount importance of adhering to the cash limit. Since the meeting is next Wednesday, I ought to let the Board have any comments we wish to make by next Tuesday at the latest.

I am sending copies of this letter to the Prime Minister, members of E and E(EA), and Sir John Hunt.

D A R HOWELL

Yours
an

David

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no.



25 OCT 1973

The Board therefore hopes that the...
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Prime Minister Next 2
Incl.
2 pp 12
29/10

PRIME MINISTER

STRATEGY FOR THE COAL INDUSTRY

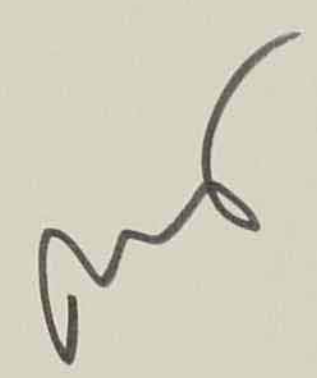
You will wish to know that Sir Derek Ezra has accepted the reductions in external finance requirements on which E Committee agreed on 17 October (E(79)12th Meeting). The revised figures are therefore:

£m 1979 Survey prices			
<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>
613	570	480	375

I am copying this minute to the Chief Secretary, other members of E Committee, Sir John Hunt and Sir Kenneth Berrill.

DA.
2

SECRETARY OF STATE FOR ENERGY
23 OCTOBER 1979





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

Noted

MBM

R 28/10

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

23 October 1979

Dear John

You will see from my minute to the Prime Minister that Sir Derek Ezra has accepted the reduced figures for external finance on which E Committee agreed on 17 October.

There are two matters left over from the E Committee discussion on which I should now be grateful for your agreement. The first is the investment programme. I take it that you will agree that I should now give approval to the programme for 1982/83 in the usual way as follows:

£m 1979 Survey prices

1980-81	587 - in full
1981-82	575 - as to 85%
1982-83	583 - as to 70%

(The figures were set out in Appendix 3 to E(79)50).

The second is the question of capital structure on which we need to take urgent decisions so that provision can be made as appropriate in the Coal Industry Bill.

Whilst I continue to believe that, provided the NCB gave evidence of progress towards viability, issue of PDC would match the circumstances of a mining industry engaged in long-term investment and expansion, I recognise that agreement at present is not possible. However, I think it would be helpful if the Coal Bill could contain a power to provide loans on which interest would be deferred during the construction of major projects (and then paid at an enhanced rate). This would have the effect of reducing the Board's external finance requirement during the period of deferment. I shall be grateful for your agreement in principle to this; the details, including the effect on external finance, to be pursued by our officials in consultation with the Board.



(2)

I shall be grateful for an early reply so that my proposals for the content of the Coal Industry Bill can be completed quickly.

I am copying to the other members of E Committee.

D A R Howell

h

David

23 OCT 1979



10

Nat Ind

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PRIME MINISTER

Strategy for the Coal Industry
(E(79) 50 and E(79) 56)

When the Committee discussed the Secretary of State for Energy's paper on the Coal Industry (E(79) 45) on 27th September (E(79) 9th Meeting, Item 1) they felt that it did not provide adequate information on which to come to a conclusion. You asked the Secretary of State for Energy and the Chief Secretary, Treasury to "produce an agreed joint paper setting out the necessary facts and options and, if possible, reaching agreed conclusions". In the event the two Ministers have been unable to agree. Accordingly the joint paper now before the Committee (E(79) 50) is in effect two separate papers with a covering note pointing to the main areas of disagreement. This format is unavoidably clumsy and the CPRS has circulated a paper of their own (E(79) 56) pointing to the assumptions underlying the strategy recommended by the Secretary of State for Energy; highlighting the points of disagreement between the Secretary of State for Energy and the Chief Secretary, Treasury; and setting out (in paragraph 4) certain key questions which underlie the points of disagreement.

2. This is a tangled and difficult subject but, I suggest, manageable if you begin by running through, and seeking comments on, paragraph 4 of the CPRS paper and then move on to the specific choices set out in the joint paper by the Secretary of State for Energy and the Chief Secretary, Treasury. The conclusion to be drawn from discussion of the CPRS paper is probably that the uncertainties on productivity, the outcome of future wage bargaining and the potential scope of raising coal prices, are too great to allow for the construction of a neat scenario for the future. This is hardly surprising, or indeed, unusual. Uncertainty is a fact in life with which commercial organisations have to live and the art of management is to find a way through uncertainty to the basic objectives. However unusual the NCB may find the

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prospect they are paid to manage the industry and must face their responsibilities. The task for Ministers, as representing the owners of the business, is to set the objectives, to decide how much finance to provide and to replace the management if it fails.

HANDLING

- ① 3. You might begin by inviting the Secretary of State for Energy, the Chief Secretary, Treasury and Sir Kenneth Berrill to introduce their papers.
- ② You might then invite the Secretary of State for Energy to comment on the points raised in paragraph 4 of the CPRS paper. In doing this you might draw particular attention to the apparent incompatibility between the NCB's assumption of a 2 per cent per annum increase in real prices and their recently concluded agreement to sell $\frac{2}{3}$ of their total production to the CEGB at a price indexed to inflation (i.e. allowing for no real increase in prices). The Secretary of State for Energy can no doubt offer an explanation - which may be that the agreement is a propaganda exercise of no real substance. Certainly Ministers would not wish to accept an argument from the NCB that this agreement (which appears to ignore future movement in the price of oil) is a reason for asking the taxpayer rather than the consumer to meet the costs of the coal industry!
4. Thereafter you might run through the specific issues identified on Page 2 of the joint Ministerial paper and seek a decision on each. They are:-
 - (i) Financial Strategy: The difference between the two approaches is neatly summarised in the table in paragraph 3(i) of the CPRS paper. Leaving aside enhanced redundancy payments, the two Ministers are disputing sums of money ranging from £30 million in 1980-81 to £59 million in 1983-84. The argument will be presented in terms of the realism of the closure implications of the alternative strategies - but it can also be presented as an argument about a 1 or 2 per cent addition to coal prices. If the latter presentation is the reality the Committee may well prefer the Chief Secretary's proposals. They are the more likely to do so if they have taken on board the import of the public expenditure issues to be discussed by Cabinet on Thursday.

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- (ii) Investment: The argument here is about the degree of commitment to finance the Board's future investment programme. Given that there is no particular reason to challenge the Board's view that there are profitable investment opportunities in coal - and the longer term need for coal supply - the Committee may feel able to support the Secretary of State for Energy on this point.
- (iii) Capital Structure: The case against introducing PDC into the NCB's capital structure at this time appears strong and the Committee may prefer to back the Chief Secretary.
- (iv) Coal Industry Legislation: The Secretary of State for Energy needs a Bill in this session and seeks policy approval for it. There is, we understand, little prospects of getting the Bill to Parliament early enough to pass it through both Houses and all stages by the end of the financial year. This could cause real difficulty for the Secretary of State for Energy (there is doubt whether the Appropriation Act provides adequate cover for lending over and above the statutory borrowing limits) and he will need to sort out his problems with the Chancellor of the Duchy of Lancaster outside the meeting. There is however no reason why approval in principle for his Bill should be withheld.

5. Decisions on the above points would meet the stated requirements of Mr. Howell and Mr. Biffen. They will however leave outstanding two other points - the NCB's proposals for enhanced redundancy payments and the general question of the enforcement of the Government's decisions on cash limits on the National Coal Board.

6. On redundancy payments, Mr. Howell says in his paper (Annex A, paragraph 7) that he is examining the situation with colleagues and will bring forward proposals as necessary. The Committee need do no more than note this (though it needs to be recognised - and preferably stated - that the cost of any such new arrangement will be a charge on the Contingency Fund unless the

CONFIDENTIAL

Board can find off-setting savings within its own finances). The question of enforcement is more difficult. Responsibility for living within cash limits rests with the Board. Mr. Howell's monitoring proposals may help but the proof of the pudding will be in the eating.

CONCLUSIONS

7. Subject to discussion you will want to record specific conclusions on the 4 issues set out in E(79) 50:-

- (i) Financial provision
- (ii) Investment programme
- (iii) Capital structure
- (iv) Approval in principle of a coal Bill

8. You will also want to record the point about redundancy payments referred to above and an exhortation to the Secretary of State for Energy to impress on the NCB the Government's determination to hold them responsible for the affairs of the Industry within the parameters now being set.

John Hunt

16th October 1979

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- (i) ...
- (ii) ...
- (iii) ...
- (iv) ...

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116 DEC 1979

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