

PART 2

Confidential Filings

The Financial position of the Coal Industry.  
Mineworkers Pay.

NATIONALISED  
INDUSTRIES

Part: June 79  
Part: July 80

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>15.7.80</del>		<del>19.2.81</del>					
<del>16.7.80</del>		<del>20.2.81</del>					
<del>25.7.80</del>		<del>25.2.81</del>					
<del>29.7.80</del>		4.3.81					
<del>12.8.80</del>							
<del>21-8-80</del>							
<del>15-9-80</del>							
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<del>22.1.81</del>							
<del>29.1.81</del>							
<del>10.2.81</del>							

PREM 19/539

ends

PART 2 ends:-

4.3.81

PART 3 begins:-

10.3.87

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E (80) 67	11.7.80
E (80) 25 <sup>th</sup> Meeting, Minute 1	16.7.80
E (80) 96	10.9.80
E (80) 99	11.9.80
E (80) 33 <sup>rd</sup> Meeting, Minute 1	15.9.80
CC (80) 40 <sup>th</sup> Conclusions, Minute 5	13.11.80
E (81) 1 <sup>st</sup> Meeting, Minute 3	14.1.81
E (DL) (81) 4	13.2.81
E (81) 21	17.2.81
E (81) 24	20.2.81
LCA to E (81) 7 <sup>th</sup> Meeting Minute 1	23.2.81
E (81) 25	3.3.81

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     *A Wayland*    

Date     5 July 2011    

**PREM Records Team**

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cc. A. Duguid  
NAT. IND

Qa 05266

To: MR LANKESTER

4 March 1981

From: J R IBBS

Coal Tripartite Discussions

1. It is clear from E(81)25 that the tripartite discussions are still at a delicate stage and that, on the best possible outcome, the cost to HMG will be very large.
2. As the Chancellor has pointed out (his minute of 2 March) there is considerable uncertainty about the Board's figures, and the components need to be challenged. Furthermore, the precise extent of the commitments given by Mr Howell at the tripartite meeting has still to be defined. There is a danger that the NUM, especially the militants, may choose to imagine that they have been promised more than is in fact the case and they may use this to ferment further trouble with charges of bad faith. In particular, they may claim that the commitments were not just for the forthcoming year but extend indefinitely into the future (see paragraph 3(ii) below). It is important therefore that there should be no misunderstanding about what is, and what is not, on offer. But all parties to the discussions are well aware that Ministers are not prepared to risk industrial action and this has put Mr Howell into a nearly impossible negotiating position.
3. It is, nevertheless, important to salvage as much as possible. The CPRS believes that, as an exercise in damage limitation, it would be best for the Government to concentrate on three points in the further discussions:

(i) We agree strongly with the Secretary of State for Industry (his letter of 2 March) that the concessions should so far as possible be confined to the NCB itself to reduce the risk of repercussions in other parts of industry. Any interference with existing contracts entered into by BSC and CEGB should be kept to a minimum, even though they would be compensated to avoid financial loss. Intervention on coal can be justified on the grounds that 'coal is special'. For example, larger subsidies are given in other countries already and

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the costs of holding stock are higher than the marketing subsidies proposed. These are not cast-iron arguments but at least they offer some prospect of drawing a ring-fence round the coal industry. Any payments made to BSC or CEGB weaken this principle.

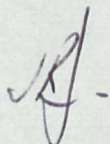
(ii) Mr Howell suggests - paragraph 4 of E(81)25 - that it is "important for us to avoid, if we can, extending our commitment beyond that year" (1981/82). In our view, it is essential that no commitment should be entered into for subsequent years. This would at least leave a <sup>negotiating</sup> card as a means of exercising a restraining influence on the course of the pay negotiations this coming Autumn - the next occasion on which the union will, if they wish, be able to engineer a confrontation.

(iii) We do not believe that Ministers need agree to all the items on the NUM shopping list. In our view, the unavoidable concessions were on closures and imports (already agreed) and some movement on redundancy payments. There should be no need to offer movement on other minor proposals set out in E(81)25 because it is unlikely that they would by themselves give rise to industrial action. However, some of them may be helpful as negotiating cards in the tripartite meetings, in particular to avoid a commitment for later years. For example, the oil to coal substitution scheme might be used in this way and it would be a mistake to concede it prematurely.

4. It has to be recognised that the NUM may seek confrontation, perhaps for political reasons, at the time of the next wage negotiations in the Autumn and it is not too soon to begin to consider what the Government's response should be. There has to be a sticking point beyond which the Government could not be driven and the Secretary of State for Energy might be asked to prepare a contingency plan.

5. Obviously, careful thought needs to be given to the presentation of the outcome of the tripartite meetings in order to minimise the impact elsewhere on industrial relations and wage claims, and on the credibility of general economic strategy.

6. I am sending a copy of this minute to Sir Robert Armstrong.





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MS  
 Howell

PRIME MINISTER

Coal  
 (E(81) 25, 21 and 24)

The Chancellor of the Exchequer's minute to you of 2nd March, the Secretary of State for Energy's minute to you of 25th February and the Secretary of State for Industry's letter to the Secretary of State for Energy of 2nd March are also relevant.

## BACKGROUND

2. In a fast moving situation which the NUM (and possibly the NCB) are trying to exploit for their own purposes, it is worth recalling the basic steps taken and the commitments made so far. Trouble blew up when the NCB announced their accelerated closure programme. The Government commitments made to end the resulting unofficial strike were:-

- (a) To look, with a view to movement, at what could be done to reduce likely coal imports of 5½ million tonnes in 1981 towards the irreducible minimum.
- (b) To discuss the financial constraints upon the NCB, and in particular the financial implications of colliery closures, with an open mind and a view to movement.

3. In addition the NCB withdrew its accelerated closure programme in order to re-examine the position with the miners.

4. The above commitments and decisions were made at the tripartite meeting on 18th February. The second tripartite meeting on 25th February led to the tabling by the NUM of an extensive shopping list ranging from improved redundancy payments to a cut in the price of coal for old age pensioners (Mr. Howell's minute to you of 25th February). In that minute Mr. Howell revealed - so far as I know for the first time - that the likely over-run by the NCB of their EFL's in 1981-82 would be some £450 to £500 million coupled with a revenue account loss of £350 million. These numbers considerably exceed those put forward in Mr. Howell's original paper on 17th February (E(81) 21) - the figuring in that paper was confusing but the general impression it gave was that the extra costs would be in the order of £200 million a year.

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5. Since then there has been extensive, but inconclusive, Ministerial correspondence on redundancy pay; a minute from the Chancellor (2nd March) casting doubt on the NCB's arithmetic; and a powerful warning by Sir Keith Joseph (his letter of 2nd March) about the dangers inherent in action to reduce coal imports.

6. In considering these matters the Committee may wish to disentangle three threads:-

- (i) The likelihood of renewed industrial trouble. On the face of it the cause of the strike - the announcement of the accelerated closure programme - has been removed. If in addition the Government is able to show some progress towards fulfilling the two commitments if accepted on 18th February there would appear to be nothing for the NUM to fight about. But the Committee will want to be sure. My impression is that we are still a long way from being sure that trouble could not start up again: no doubt the unions will maintain the uncertainty as long as they can to maximise their bargaining position.
- (ii) The extent to which the Government is willing now to firm up on its commitments - e.g. by publicly accepting a range of financial costs - albeit through the proxy of the NCB - as recommended in paragraph 11b of E(81) 25. To this is allied the question of whether there are other commitments, quantified or not, which the Government would be prepared to throw into the pot, e.g. on enhanced compensation for redundancy.
- (iii) What is to be done about the basic and newly revealed deterioration in the NCB's financial position.

7. In considering all of these matters your colleagues will also wish to consider the extent to which it is proper and necessary for the Government to continue detailed discussions of the NCB's finances in the tripartite forum.



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Many of the issues which have been brought into the discussion are either matters for negotiations between the NCB and the NUM (redundancy payments) or for settlement between the NCB and the Government (EFL's), as for the Government alone (aid to the conversion of industrial boilers to coal burning). To keep talking about them in the tripartite forum engages the Government in direct negotiations with the NUM in a way contrary to normal practice and, I suspect, contrary to the Government's advantage. The sooner the Government can get off this hook the better.

HANDLING

8. After asking the Secretary of State for Energy to introduce his paper you will want to call for contributions from the Chancellor of the Exchequer, the Secretary of State for Industry and the Secretary of State for Employment before opening the debate more widely. The object of the operation will be to decide:-

- (a) What Mr. Howell may or may not say at the resumed tripartite on 11th March.
- (b) How the Government can best disengage from the tripartite discussions and how quickly can this be achieved.
- (c) What issues require further Ministerial consideration and on what timescale.

CONCLUSIONS

9. These will be determined by the course of discussion but I suggest that as a minimum you will need:-

- (a) A decision on what if anything can be said about money at the next tripartite and who should say it.
- (b) Similarly a decision on what if anything can be said about the individual items of the NUM shopping list especially about redundancy - and possibly investment.
- (c) A decision on how best the tripartite discussions can be brought to an end, and consideration of detailed issues returned to normal channels (in particular, should Mr. Howell seek an end to the discussions on 11th March, or is it





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tactically useful to hold open the possibility of a further meeting - while recognising that every tripartite meeting increases the pressure on the Government to pay up and involves the Government further in direct negotiations with the mineworkers).

- (d) An invitation to the Secretary of State for Energy to bring forward specific proposals on redundancy payments agreed as a minimum with the Chancellor of the Exchequer, the Lord President, the Secretary of State for Industry and the Secretary of State for Employment.
- (e) An invitation to the Secretary of State for Energy, in consultation with the Chancellor of the Exchequer, to bring forward urgently an analysis of the NCB's likely financial position in 1981-82, the scope for offsetting action through higher prices etc., and the implications for the NCB's EFL in 1981-82, (the fact that the NCB expect to lose a great deal more money than previously allowed for does not mean that the Government should automatically make a full corresponding adjustment to the EFL).

(Robert Armstrong)

4th March 1981

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*New Part*  
ab

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6400

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

4 March 1981

COAL TRIPARTITE DISCUSSIONS: MINEWORKERS REDUNDANCY  
AND TRANSFER TERMS

Thank you for your letter of 26 February. In view of the assurance you have already given to Joe Gromley I can see no alternative to proceeding as you suggest. We can only hope that the repercussions in both the public and the private sectors will be limited, and that the improved terms will prove sufficiently attractive to enable an enhanced scale of closures to take place.

I am copying this letter to the recipients of yours.



PA (Coal file)

MS

4/3

FACT SHEET - THE COAL INDUSTRY

1. Manpower

This has ~~fallen~~ <sup>fallen</sup> very rapidly at times in the past (maximum one year fall - 56,000 between 1968 and 1969; average annual fall between 1960 and 1970 - 31,000). More recently (and as planned by NCB) the fall has been much slower (average 1970 to 1980 - 8,000 per year).

Annual wastage from collieries runs at about 20,000 per year so there is ample scope for accommodating some run-down without redundancy.

2. Closures

Closures have always been a fact of life in an extractive industry. Average number of pits closed, 1970 to 1980 - 8 per year (recent years 1978 - 9, 1979 - 5, 1980 - 8). This compares with average 40 per year between 1960 and 1970.

3. Investment

Investment reached the equivalent of £600 million per year at present day prices around 1960 but fell back to around £200 million per year (present day prices) in 1970. From inception of "Plan for Coal" in 1974 it built up rapidly - to £800 million in 1980/81. Example of projects currently in hand:

Selby on stream 1983, peak production 10 million tpa, investment £900 million.

4. Productivity

New pits (Selby) - 10 tonnes per manshift

~~Best~~ <sup>Good</sup> existing pits (Thorsby) - 4.5 tonnes per manshift

National average - 2.3 tonnes per manshift

Many pits whose closure - Under 1.5 tonnes per manshift

is now proposed

ie new pits will have seven times the productivity of pits now proposed for closure - with all that that means in terms of strength of the industry and its ability to pay high wages.



5. Imports and Exports

Year	Imports (million tonnes)	Exports (million tonnes)
1975	5.1	2.2
1976	2.4	1.4
1977	2.4	1.9
1978	4.4	2.3
1979	2.2	2.4
1980	7.1	3.7
1981 (est)	6.7	5-6, possibly 7

(IN CONFIDENCE. The pit closures over the next 3 years will reduce NCB industrial manpower by 34,500. Of this, 8,000 would be achieved by natural wastage; and the process of redeployment would mean that some 16,500 of the remaining 26,500 redundants (ie about 60%) are over 55. Most severely affected regions - S. Wales; 6,100 <sup>redundants</sup> (March 1980 labour force 26,000) ~~redundants~~; N. East - 9,000 (March 1980 labour force 33,000).



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

TELEPHONE DIRECT LINE 01-212 3301  
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Secretary of State for Industry

4 March 1981

The Rt Hon D A R Howell Esq MP  
Secretary of State  
Department of Energy  
Thames House South  
Millbank  
LONDON  
SW1P 4QJ

*R*

*Dear David,*

MINEWORKERS' REDUNDANCY AND TRANSFER TERMS

*572*

Thank you for your letter of 26 February.

2. I understand the difficulties you face and, in the circumstances, I am prepared to accept the NCB proposals. However, I must add that I still see advantage in putting a ~~short~~ time limit on these terms.

*shorter*

3. I am copying this letter to recipients of yours.

*Yours,*

*Might not a shorter period tempt some to opt for redundancy rather than stay on for early retirement at 60? I leave the thought with you -*

*Ken*

01-211-6402

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

4 March 1981

Dear Chancellor,

COAL

*Below* — I have seen a copy of your minute of 2 March to the Prime Minister.

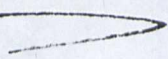
I share your alarm at the rapid increase in the National Coal Board's financing requirement, which must imply a substantial worsening in their underlying position, and I am as concerned as you to limit extra calls on the PSBR to what is necessary. I do not, however, think that it is sensible for me to express a view either on the total increase in NCB's EFL or on any particular item in their calculations, until my officials have, in conjunction with yours, completed their usual detailed scrutiny of NCB's figures. The same goes for the NCB's new proposals for higher capital investment.

As for mining redundancy terms, I welcome your general acceptance of the need for improvement, and can see the general attractions of splitting the package as you propose to give us something in reserve to secure more closures. I fear, however, that practical arguments tell the other way. Since there is no prospect of the mining unions' explicitly agreeing a national rate of closure now or in the future, it would be no easier to use improvements as a bargaining counter in future than it is now. Second, although the proposed improvement may appear generous, there is little that could be cut out without the risk that what remained will not be enough to get closures started again now. Last, if the miners realised, that we are doling out improvements in redundancy terms bit by bit, they would, rationally, have every incentive to delay the closure of individual pits, in the hope that some further improvement could be won. This could in the long run be more expensive than the present package. Naturally,

we must ensure that repercussions are minimised.

I am sending copies of this letter to the other recipients of your minute.

Yours sincerely,

Z. D. W. 

PA. D A R HOWELL

(approved by the Secretary of State and signed in his absence).

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

Tel: 211 6402

Rt Hon Sir Keith Joseph Bt, MP  
Dept. of Industry  
Ashdown House  
123 Victoria Street  
London SW1

3 March 1981

*Dee Kirk*

COAL IMPORTS: BSC

*Belton* - Thank you for your letter of 2 March.

While I understand your reluctance to put pressure on Mr McGregor in a commercial matter, I think that you are slightly misinterpreting what I had in mind. I do not propose that BSC should be prevented from making imports of coal which are essential on quality grounds; on the contrary, my line is designed to protect those imports. Neither do I want to impose additional costs on BSC's revenue account; I propose that those should be met by Government. My proposal was simply an extension of the present system under which NCB align down their prices to world trade levels to compete with imports, and I am asking you to urge Mr McGregor to be as helpful as he possibly can and for you to satisfy yourself that he has done so. I am sure that, in just the same way, you would want me to satisfy myself of the strength of the arguments, if one of my nationalised industries proposed to place a major equipment order with a foreign, rather than a British, supplier. As for the CEGB's position, the whole aim of my proposals is that extra costs should not fall upon the electricity consumer.

More generally, I was, if I may say so, disturbed at the general arguments in your letter. The fact is that the Government is now committed to some action to reduce imports of coal. You will remember that at a meeting in No. 10 on 18 February, it was agreed that our overriding priority was to avert a national coal strike and that I should offer the minimum concessions needed for that purpose. I was - and still am - convinced that some concession on imports is essential to avoid a miners' strike and to enable the discussion of the coal industry's future to continue in a more rational atmosphere, and I therefore gave the assurances which I did at the Tripartite meeting on the 18th and which I repeated in the House the next day. If we are not seen to honour these commitments, even if



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there is no serious renewal of industrial action, there will be the strongest pressure for some formal limitation on coal imports which would be more rigid and more damaging than what I now propose.

I am grateful for your willingness to help over improved redundancy terms for miners. I should say, however, that these improvements would not be an alternative to a reduction in imports of coal. The case for each stands on its own merits and I am sure that we need both if we are to succeed in moving the coal industry to a more stable financial position.

I am sending copies of this letter to the recipients of the previous correspondence including George Younger and Nicholas Edwards.

D A R HOWELL

*Jan 11*

*David*

*→*

cc/ Mr. Whelan  
✓ Mr. Dwyer



(Pmin 3ppp  
Mintsh)

This scheme looks superficially attractive. But the calculations of cash assume that, in its absence, coal stocks will be much higher.

SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILEEND LONDON E1P 3AP

01 211 6402

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

mf

24/3  
12 2/3  
3 March 1981

See Section

I mentioned in my minute reporting on last Wednesday's Tripartite meeting that I would write again about my proposal for an oil substitution scheme for industry.

As you know, I have in mind a scheme to provide grants of 25% of the capital cost incurred in converting from oil-fired boilers to coal. The total available would ideally be £50m, and the grants could be applied for over the next two years, although payments would naturally follow actual expenditure by the firms concerned, and so might be spread over 4 years.

The case for such a scheme seems to me to be very strong indeed:

First, it would be specially attractive to firms in the high volume, low margin, energy intensive process industries, such as chemicals, which have been badly affected by the recession, and vocal in their criticism of high energy and money costs which have squeezed their day to day operations and put a stop to capital spending. It is not true to say that if conversion from oil to coal is profitable it would already have taken place. Even ICI have decided that in current conditions they cannot commit capital to an investment which they acknowledge to be profitable and desirable. The same is true of many other companies such as Courtaulds, British Tissue, Dow Chemicals and Thames Board. You will have seen that the report of the NEDC Energy Task Force pointed out that other countries offer help with the capital conversion and that in current financial conditions such help can make the difference between investment proceeding and being postponed. The scheme would also help the boilermaking industries, which have been hard hit by the current recession, in overseas markets as well as at home. In other words, at the time when the Government is being criticised for giving too much help to the public sector at the expense of the private sector, this scheme would offer direct assistance to the private sector.

Secondly, it would promote our long-term aim to reduce our dependence on oil. This is one of the most important objectives of our energy policy. We also have an international commitment to move in this direction: for example, at the Venice Summit the participants committed themselves to "increase efforts, including fiscal incentives where necessary, to accelerate the substitution of oil in industry".



Thirdly, announcement of such a scheme would help with the difficult negotiations now under way with the NUM. Neither of us wants the scheme to be seen primarily as a concession to them, but we cannot ignore the value of such an announcement in the negotiations. In particular, it would reduce NUM pressure for costly concessions elsewhere.

3  
2  
But the point I want especially to put to you is that the scheme would result in a substantial saving to public expenditure. Your officials have seen our detailed calculations. Payments next year would be very small because of the time taken to design and construct the new boilers, and would be offset by the savings. Thereafter the scheme would show an increasing net saving to public expenditure, mainly because it would reduce the very high cash cost of financing coal stocks. We calculate that the net saving could be some £10m in 1982/3 and could rise to some £50-60m by 1984/5. The indirect benefit to public expenditure would of course be greater still if the introduction of the scheme made it easier to resist other NUM proposals.

In short, the scheme would promote our international and long-term energy policies, and our policy on industry, and ease the difficult negotiations which we now have on hand with the NUM. In addition it would produce a substantial saving in public expenditure. I can see no good reason for not going ahead with it.

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

D A R Howell

Yours ever  
David



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

PRIME MINISTER

ms

COAL

Play A

I have seen a copy of David Howell's minute of 25 February in which he reports the outcome of the second Coal Industry tripartite. As David says in paragraph 6 of his minute, Sir Derek Ezra says that he expects his Board's cash requirements in 1981-82 to be some £450m-£500m in excess of the external financing limit of £886m already announced for the industry.

2. Additional public expenditure by the NCB of the amount envisaged by Ezra would clearly be a formidable addition to the very substantial problems which we already face. Quite clearly we must aim to keep the increase to the absolute minimum. I realise that this is delicate country. Certainly, we must try to avoid action which could provoke the miners into further industrial action. The Government cannot in principle escape the commitment to meet the irreducible bill for the two major commitments, on closures and on imports.

3. But we must ensure that Ezra does not exploit the opportunity to extract miscellaneous financial concessions from the Government, for instance on investment. David must make this absolutely clear to him. I shall, therefore, want to contest some of the constituents of the Board's figure of £450-£500m.

/4. I understand,



4. I understand, for instance, that the NCB have increased their assumption for the wage increase from 1 November 1981 to 13 per cent compared with a previous assumption of 6½ per cent. The cost here would be £70m. The Board are apparently assuming a coal price increase of 5 per cent or less in the winter of 1981; this we should also question - the CEEGB are apparently budgeting in their EFL forecast for a somewhat higher figure.

5. Nor should we accept what I understand to be a bid by the Board for higher capital investment of £90m on top of the investment programme of some £730m (1981-82 prices) they were previously forecasting. The passage in the negotiating brief which Leon Brittan agreed with David certainly did not commit the Government to any increase in investment above existing levels. Indeed, there is a good case for some reduction in investment in productive capacity in view of the Board's chronic surplus production.

6. There may be other items in the list which we will wish to challenge when officials have completed their consideration of the Board's estimates. I understand that David Howell intends to bring proposals to E <sup>his</sup> next week.

Flas B  
7. I have now seen David Howell's letter of 26 February seeking acceptance of the specific proposals for improving redundancy terms which the Board have already put to us. I note that these will cost an extra £18m (September 1980 prices) of public expenditure a year over the next three years in addition to the increase in the Board's EFL referred to above. Needless to say, this money will be difficult to find. I also have considerable sympathy with the views of Keith Joseph

/in his letter



Flag C

in his letter of 25 February. The redundancy proposals are extremely generous and as Keith says, their value would be undermined if the enhanced terms were conceded without any certainty of achieving the desired rate of closures.

8. However, I recognise in the light of what David says in his letter that the unions now expect some improvement in redundancy terms, and that it may be very difficult to achieve even 1½ tonnes of closures without offering some concessions. I reluctantly accept, therefore, that we shall have to concede some enhancement to get closures moving again. But we ought not to concede now the whole of the very generous package proposed by David. We should keep in reserve some further improvement, for use if and when this will enable the Board to return to a faster rate of closures than is now in prospect. I suggest therefore that David should put forward to us a more limited package for immediate use in the Tripartite regulations.

9. This approach would also help deal with any repercussions elsewhere in the public sector. These would add to public expenditure and would have to be resisted.

10. I am sending copies of this minute to the other members of Cabinet and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'G.H.' with a stylized flourish.

(G.H.)

2 March 1981



DEPARTMENT OF INDUSTRY  
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Secretary of State for Industry

2 March 1981

The Rt Hon D A R Howell MP  
Secretary of State for the Department  
of Energy  
Thames House South  
Millbank  
London SW1

*Prin. Answer*

*Dear David,*

*Pr  
(and see today's  
reply at Flag E)*

COAL IMPORTS: BSC

*Flag D*

Thank you for your letter of 24 February asking me to take action with Mr MacGregor to attempt to persuade him to reduce BSC's imports of coal.

2 I know that you are intensely aware of all the dangers in the present situation and that I do not really need to explain them to you. But the repercussions are potentially so great that it may be helpful if I explain in rather greater detail than you might wish the reasons why I oppose making any approach to Mr Ian MacGregor.

3 I am sure that you appreciate how the proposal would conflict with our general policy that industry should be exposed to price competition from imports and should be obliged to improve its efficiency in order to meet the challenge which imports present. So far as monopoly nationalised industries are concerned all of us have emphasised the need to create competitive conditions; you are permitting private electricity generation, Norman Fowler is encouraging competition in public transport and I am significantly reducing the telecommunications and postal monopolies. In contrast deliberate action to discourage BSC from acquiring its coal at market prices would help create an artificial monopoly for inefficiently produced domestic coal. You yourself said in the Appendix to E(81)21, para 18 "the pressure on NCB prices and efficiency from imports has been salutary and contributed towards their present readiness to accept drastic measures".

4 I am also worried, as I am sure you are, about the precedent that might be created. Much of British industry is seriously affected by imports of cheap competitive products; very real harm is being done and firms which have previously made themselves efficient by shedding surplus capacity and reducing overmanning (unlike the NCB and without Government subsidies) are going out of business. The wish to be protected from import competition is

/never ...



never far from the surface and much of manufacturing industry would be most gratified if the Government contrived an opportunity to displace imports and to reduce its spare manufacturing capacity. It is hard to see why the coal industry should receive preferential treatment as you propose and it seems dangerous to foster the coal industry's expectation that it will receive such treatment.

5 Third, I wonder if any of us have given sufficient thought to the consideration that, by making concessions on imports, we would be allowing the NUM ~~to~~ in effect <sup>21</sup> control our policy over a wide area. The NUM has already secured a massive reversal of our policies but the concessions have so far been confined to coal industry matters. Restrictions on imports, or even pressures to restrict imports, affect a wider area. I hope you will agree that we should pause before giving in to any union, however strong it may be, which seeks to dictate general economic policy.

6 You have said in the context of your proposals on coal substitution that you are confident that the price of imported coal will rise sufficiently to secure a market for NCB coal. If that is the case, there is even less case for taking special action to achieve what the market should bring about in due course.

7 I am particularly reluctant to put pressure on Mr MacGregor to change his policy on coal imports. The taxpayer is already providing financial assistance to enable the NCB to lower its prices to "buy out" competition from imports. Under the agreement reached last September, BSC offers contracts to the NCB as they come up for renewal. The NCB is permitted to match ruling world prices to secure these contracts but imports of certain grades of coal in assured quantities are essential (as even the NUM appear to accept). If BSC were to go any further, it would incur an additional cost burden, would damage its commercial relations with suppliers in countries to which it exports its products and would represent a significant interference in the way Mr MacGregor conducts his commercial affairs. You are giving the NCB a further subsidy and, given this advantage, it is surely for the NCB to win contracts by their own commercial efforts. (Indeed, I am not clear why, if its stocks are too high, the NCB does not sell the surplus on world markets at prices which would ensure disposal; that is what a private sector company would attempt to do).

8 Finally, I am worried as I am sure you are too about the impact of the pressure which you are bringing to bear on the CEGB. They too need access to competitively priced coal and imports have played an important role in this. If the CEGB are persuaded to restrict artificially their imports of coal, the price they pay could increase, which would have an impact on the price of electricity. Industry is already burdened by electricity prices which I have argued elsewhere are too high. Since the CEGB would not be slow to place the blame for prices increases on our shoulders, pressure on the CEGB could lead inexorably to further damaging criticisms of our policies from industry.





9 I am looking carefully into the scope for action on redundancy payments. I accept that, since I cannot meet you on coal imports, the way ahead may be through concessions to the NUM on the redundancy payments front.

10 I am copying this letter to the recipients of yours.

*Yours,*

*Kear*

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TO IMMEDIATE WASHINGTON

TELEGRAM NUMBER 313 OF 25 FEBRUARY

FOLLOWING FOR PRIME MINISTER FROM SECRETARY OF STATE FOR ENERGY.

COAL INDUSTRY TRIPARTITE

1. AT THIS MORNING'S MEETING THERE WERE NO POLEMICS. THE ATMOSPHERE WAS CALM. WHILE THE OUTCOME WAS SATISFACTORY FROM OUR POINT OF VIEW, GORMLEY EMPHASISED THE CONTINUING DIFFICULTY OF THE SITUATION. THE DANGER OF INDUSTRIAL ACTION REMAINS AND IN THE NEXT STAGE IT WILL BE IMPORTANT TO HELP GORMLEY MAINTAIN HIS CONTROL OVER THE MILITANTS. AT THE NUM'S REQUEST WE ARE TO MEET AGAIN ON 11 MARCH. THEIR NATIONAL EXECUTIVE MEETS THE FOLLOWING DAY.
2. ON CLOSURES I REPEATED THE ASSURANCE I GAVE LAST WEEK. I SAID THAT I WAS NOW WAITING FOR THE BOARD'S ESTIMATES OF THE COST OF RETURNING TO THE NORMAL CONSULTATION PROCEDURE. IN THE LIGHT OF THESE ESTIMATES WE WOULD DISCUSS WITH THE BOARD HOW TO REVISE THE INDUSTRY'S FINANCIAL ARRANGEMENTS. THE UNIONS DID NOT PRESS TODAY FOR ANY FIGURE FOR THE COSTS INVOLVED.
3. ON IMPORTS I REPEATED THAT WE WOULD SEE WHAT COULD BE DONE TO BRING THESE DOWN TOWARDS THE IRREDUCIBLE MINIMUM. I STRESSED THAT THIS COULD BE ACHIEVED ONLY BY NEGOTIATIONS BETWEEN THE NCB ON THE ONE HAND AND THE BSC AND CEBG ON THE OTHER. THE GOVERNMENT WOULD BE PREPARED TO MEET ANY INESCAPABLE COSTS INCURRED BY THESE TWO INDUSTRIES IN DISPLACING IMPORTS TO WHICH THEY WERE COMMITTED BY CONTRACT. WE WOULD ALSO MEET THE COST OF PRICE REDUCTIONS MADE BY THE NCB IN ORDER TO MATCH THE PRICES OF IMPORTS FORGONE IN THIS WAY. AGAIN I WAS NOT PRESSED FOR A FIGURE FOR THE COST INVOLVED.
4. GORMLEY ASKED FOR GOVERNMENT SUPPORT ON SEVERAL OTHER ITEMS. THESE INCLUDED IMPROVED REDUNDANCY PAYMENTS AND SUPPORT FOR OIL SUBSTITUTION IN INDUSTRY. ON THE FIRST I INDICATED THE GOVERNMENT'S WILLINGNESS TO SEE IMPROVEMENTS IN REDUNDANCY TERMS BUT GAVE NO COMMITMENT AS TO THEIR SCALE. ON THE SECOND I SAID WE WOULD CONSIDER WHETHER THERE WAS ANYTHING THE GOVERNMENT COULD DO TO HELP PRIME THE PUMP. SOME OF HIS OTHER POINTS I REJECTED. THE REST I NOTED.
5. TO MAINTAIN CONTROL OF THE SITUATION WE MUST BE READY TO SHOW FURTHER PROGRESS BY THE NEXT MEETING. ON 11 MARCH. I AM WRITING TO YOU AND OUR OTHER COLLEAGUES ABOUT IMPROVED REDUNDANCY TERMS, WHICH WE SHOULD BE READY VERY SOON TO MAKE KNOWN, AND ABOUT SUPPORT FOR OIL SUBSTITUTION.
6. EZRA HAS MEANWHILE TOLD US THAT HE NOW EXPECTS HIS CASH REQUIREMENTS IN 1981/82 TO EXCEED THE BOARD'S EFL BY SOME £450 -500 MILLION. THE BOARD'S/REVENUE ACCOUNT LOSS HE ESTIMATES AT £350 MILLION. MY OFFICIALS TOGETHER WITH THE TREASURY ARE EXAMINING THESE ESTIMATES AND THE BASIS FOR THEM. THE FIGURES COULD THEREFORE BE REVISED. BUT THEY INDICATE THE SCALE OF THE FINANCIAL PROBLEMS NOW FACED BY THE COAL INDUSTRY.

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Seen by the Home Minister  
25/2/55

PA

PRIME MINISTER

cc: Mr. Wolfson  
Mr. Hoskyns  
Mr. Vereker

COAL DISPUTE

Sir Donald Maitland rang me at lunchtime to report on the outcome of today's tripartite meeting. A telegram containing a full account of the discussion will be waiting for us when we get to Washington.

The atmosphere at the meeting was calm and non-polemical and the discussion was constructive. Nonetheless, in Sir Donald Maitland's view, the situation, though under control for the moment, remains tense. The NUM pressed for rapid progress, and it was agreed that the next tripartite meeting should be on 11 March.

Mr. Gormley produced a long shopping list of subjects for discussion but this contained no surprises. On the closure programme and on imports Mr. Howell said that he would apply the undertakings he had given last week but he went no further today than he had done then. In particular, he did not mention any sums of money on either score; and nor did anybody else. On imports Sir Derek Ezra said that a reduction of three million tons a year might be possible, but he was still in negotiation with the CEEGB on this and had no idea when such a reduction might be achieved.

Mr. Howell rejected two items in the NUM's shopping list - a proposal for cheap coal for pensioners and a smokeless fuel scheme.

Sir Donald Maitland said that the key subject in the NUM's list was undoubtedly redundancy payments. Mr. Howell made it clear that he was ready in principle to see the redundancy terms enhanced but, again, he did not put any figures on the improvement. Sir Donald Maitland believes that if we can move quickly

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on this - and by that he means be in a position to put something to the NUM and the NCB early next week - it will help to get things moving on closures (on which the NCB and NUM have agreed that the accelerated plan should be withdrawn and that the original procedure should be reintroduced). Without early progress on redundancy payments he believes it ~~would~~<sup>will</sup> be difficult to sustain the degree of control of the situation which the Government now has and in particular to keep Mr. Gormley's position intact.

Sir Donald Maitland said that Mr. Howell would be minuting his colleagues later today about the next steps. But there will be a sting in the tail: Sir Derek Ezra has warned Mr. Howell that because of the collapse of the coal market, there are likely to be massive breaches in the EFLs for 1980/81 and for 1981/82, in addition to whatever has to be added to them as a result of the outcome of the closures dispute.

fuw.

25 February 1981

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

Rt Hon Sir Keith Joseph Bt MP  
Secretary of State for Industry  
Ashdown House  
123 Victoria Street  
London SW1

26 February 1981

*ms*

Dear Secretary of State,

COAL TRIPARTITE DISCUSSIONS: MINeworkERS' REDUNDANCY AND  
TRANSFER TERMS

Thank you for your letter of 25 February. My minute of yesterday to the Prime Minister reported that at the Coal Industry Tripartite earlier in the day Gormley had pressed for acceptance in principle that mineworkers' redundancy terms should be improved. I replied that the Government were willing to see improvement though without commitment at this stage to the precise change they would accept. As you know, the National Coal Board some time ago put to us specific proposals for improvements. These are summarised in Annex I (from which, incidentally, it can be seen there is no chance that mineworkers could get more from redundancy pay than from continuing to work), while Annex II gives an indication of their costs. I am now convinced that we should accept these proposals, and announce at the earliest opportunity that we have done so.

The case for a substantial improvement in mineworkers' redundancy terms is very strong. Output from the pits the Board wants to close is of course the most expensive output, produced at a substantial loss. In addition, since coal is in surplus, it will have to be stocked at a very considerable cash cost. My minute of yesterday reported that, with the withdrawal of their closure programme, the Board's extra cash requirements could next year amount to £450-500m. The only practical way of preventing further substantial deterioration will be to accelerate the rate of closure. It is therefore vital to get more closures accepted. The potential savings are very large. Every 1 1/2m tonnes of closures will save cash



costs of £90m in the first full year, rising to £180m, £270m, and so on in arithmetical progression in subsequent years. By contrast, as the Annex shows, the improvements now proposed would, with a closure rate of  $1\frac{1}{2}$ m tonnes, cost an extra £20m a year for the next three years. If the Board achieved a higher closure rate than this, they would cost more, but of course the benefits also would be proportionately greater. If improved redundancy terms succeed in getting more closures, even allowing for the other costs of closure shown in the Annex, they represent a very good bargain.

It is interesting that the militants in the NUM have been opposed to improved redundancy terms, because they are well aware that closures will then become more attractive to the ordinary miners. By contrast, Gormley, who has emphasized that he accepts the need for some continuing closures, wants the improvements. Indeed it is much to our advantage that he has on behalf of the union asked for them since this removes the danger that they will then be seen as simply a device by the Government and the Board to get more closures. Making a positive response to Gormley will also strengthen his position inside the union, as it is very much to our advantage to do.

It has been argued that enhanced terms should be offered in return for a closure programme higher than  $1\frac{1}{2}$ m tonnes of capacity a year. The reality of the situation is, however, that improvements are likely to be needed even to get closures at this rate. Recent events have made the issue so sensitive, and have given such encouragement to those in the industry opposed to closures, that closures are likely to be harder not easier to achieve than they were before. It has also been suggested that the improvements should be made only in return for union agreement that closures will exceed the  $1\frac{1}{2}$ m tonnes level. I have to say that there is no chance whatsoever of any such agreement on the part of the union.

In your letter you mention the problem of repercussions. Annex III shows the comparison between the present and proposed mineworkers' terms, and those for steel and shipbuilding workers. I would not want to argue that there is no danger at all of repercussions. But I do think the danger can be exaggerated. The comparison between the schemes is not clear-cut, and the NUM have never pressed us for improvements in the mineworkers' scheme because some other scheme had been improved, or was superior at a particular age range. Indeed, the NUM have never even pressed for equality with the more generous scheme for staff and officials in the coal industry itself. I believe that we should accept the slight danger of repercussions for the sake of the enormous benefits of closures to the coal industry and to the economy generally.



You mention that it would help to deal with the repercussions if we could put a time limit on the operation of the improvements. Under the statute we have power to pay for improved redundancy terms only up to 1983/4. We could also consider financing the improvements through the Board, rather than directly by the Government, but this would be dangerous since it would make the redundancy terms a matter for direct negotiation between the Board and the unions, who would no doubt then press for more concessions.

It has been suggested that, even accepting that improvements are necessary, we should not reveal the full extent of those we had in mind until it was possible for the Board to resume closures. But the Board have five closures already agreed in principle through the consultative machinery. They are anxious for these closures to take place as soon as possible both because of the direct financial benefits - the pits in question produce more than a million tonnes a year - and because of the big impact they would have in showing that closures are continuing in the normal way.

I would therefore ask you and my other colleagues to agree that we can announce our acceptance of the Board's proposals. The costs and risks are not high, and the potential benefits are enormous. We need to make an announcement at the earliest opportunity for two reasons. First we owe Gormley a response to his request. Secondly, there is so much speculation in the industry about improved terms that no closures will be finally agreed until the improvements are announced and those at the pits concerned know they will get the benefit of them.

I am sending copies of this letter to the Prime Minister, Christopher Soames, Jim Prior and Leon Brittan.

Yours sincerely,

S. D. W. G.

PP D A R HOWELL  
(Approved by the Secretary of State and  
signed in his absence)

EXISTING AND PROPOSED TERMS FOR MINEWORKERS

AGE AT  
REDUNDANCY  
(assumed service  
from age 20)

PRESENT BENEFITPROPOSED BENEFIT  
IMPROVEMENT

UP TO AGE 49

- Immediately on redundancy  
1) RMPS LUMP SUM equal  
(roughly) to  $\frac{1}{2}$  week's  
wage for year of service  
up to age 35, 1 week  
age 35 to 45,  $1\frac{1}{2}$  weeks  
age over 45.  
2) Lump sum payment under  
Employment Protection  
(Consolidation) Act 1978

- Immediately on redundancy  
EXTRA LUMP SUM  
£1000 (age to 39)  
£1500 (age 40 and over)

AGE 50 to 54

- Immediately on redundancy  
1) RMPS LUMP SUM equal to  
 $1\frac{1}{2}$  week's wage per year  
of service  
2) EP(C) Act lump sum

- Immediately on redundancy  
1) EXTRA LUMP SUM equal to  
twice EP(C) Act lump sum.  
From redundancy to age 65  
2) MPS PENSION (AND LUMP SUM)  
(increased by the purchase  
of 5 additional years)  
At present this would be  
about £17 per week)

AGE 55  
AND OVER

- Immediately on redundancy  
1) EP(C) Act LUMP SUM

- Immediately on redundancy  
1) ADDITIONAL LUMP SUM -  
200% of EP(C) Act payment  
at age 55  
150% at age 56  
100% at age 57  
75% at age 58  
50% at age 59  
nothing at 60 or over.

- For three years from  
redundancy (or to age 65  
if earlier)  
2) RMPS Weekly benefit,  
approximately  $\frac{2}{3}$  of pay  
at redundancy

- For additional two years from  
redundancy (making five in all  
2) RMPS weekly benefit

- From three years after  
redundancy to age 65  
3) UNEMPLOYMENT BENEFIT  
EQUIVALENT PAYMENT  
(presently £20.65/£33.40  
per week

- From five years after  
redundancy to age 65 (replacing  
previous UBE and pension  
benefits)

- 4) MPS PENSION (AND LUMP  
SUM) (present rate  
minimum £8.92 per week)

- 3) UBE as before  
4) MPS PENSION (AND LUMP SUM)  
enhanced by number of years  
between redundancy and  
age 60 (at present the  
average would be around  
£12 per week)



COSTS OF PROPOSALS

1. On the basis of pit closures continuing at roughly the rate which has been achieved over the last three years - 1½ million tonnes capacity each year - the additional public expenditure arising from the new proposals would be:

£ million - 1981 survey			
1981/82	1982/83	1983/84	After 1983/84 arising from closures in 1981/82 to 1983/84
18	18	19	44

2. If additional closures are achieved the extra cost of the new terms will be pro rata to these. In addition, there are the costs of existing RMPS and grant payments applied to an increased level of redundancies. In total, an increase of 1 million tonnes capacity each year in the closure rate would result in total expenditure by the Board and Government together (including the improvements) amounting to some £45 million per year average in the three years to 1983/84.

COMPARISON OF PROPOSED TERMS WITH OTHER SCHEMES

1. The attached table compares the existing and proposed redundancy benefits with those typically available to redundant iron and steel and shipbuilding workers. Pension benefits are not included since in the iron and steel industry these vary according to former private employer. The table assumes that redundancy iron and steel workers receive an average of 1 year's pre-redundancy pay (assumed £130 per week for all three industries) in negotiated lump sum payments, wages in lieu of notice, and additional holiday pay.
  
2. The table shows that the proposed benefits for mineworkers age 61 to 64 would still fall short of those payable to their steel counterparts. On the other hand, the comparison for those in the 50 to 60 age group would indicate an advantage to mineworkers, whilst for the 40 to 49 age group, shipbuilding workers would be in the lead.
  
3. However it is important to note that whilst unemployment benefit equivalent payments are included in the mineworkers' total benefits (cols 7 and 12), the Table does not take account of weekly state supplementary benefits which can be claimed by steel and shipbuilding workers when their periods of scheme entitlement terminate. Nor do they take into account the fact that the weekly benefits are taxable.

ATTACHMENT

## COMPARISON OF COAL, STEEL, AND SHIPBUILDING TERMS

Age	Years of Service	Payment under EP(C)A	MINEWORKERS (EXISTING)				MINEWORKERS (PROPOSED)				IRON AND STEEL WORKERS					SHIPBUILDERS		
			RMPS Lump Sums	RMPS weekly Benefit		Total Cols. 3 - 6	RMPS Lump Sums	RMPS weekly Benefit		Supp Lump Sums	Total Cols. 8 - 14 and 3	weekly Benefits	EP(C)A Supplement	Ex-Gratia Lump Sum	Total Incl. Col 3	weekly benefit	Lump Sum	Total with Col 3
				3 yrs basic	UBE only			5 yrs basic	UBE only									
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
25	5	480	325	-	-	805	325	-	-	1000	1805	468	240	6,500	7688	-	300	780
30	10	1,030	650	-	-	1,730	650	-	-	1000	2730	468	540	6,500	8588	-	300	1380
35	15	1,680	1,560	-	-	3,240	1,560	-	-	1000	4240	468	840	6,500	9488	-	300	1980
36	16	1,800	1,872	-	-	3,672	1,872	-	-	1000	4672	468	900	6,500	9668	-	300	2100
37	17	1,920	2,210	-	-	4,130	2,210	-	-	1000	5130	468	960	6,500	9848	-	300	2280
38	18	2,040	2,340	-	-	4,380	2,340	-	-	1000	5380	468	1,020	6,500	10028	-	300	2340
39	19	2,160	2,470	-	-	4,630	2,470	-	-	1000	5630	468	1,080	6,500	10208	-	300	2460
40	20	2,280	2,600	-	-	4,880	2,600	-	-	1500	6380	468	1,140	6,500	10388	3600	3600	9480
45	25	2,640	4,225	-	-	6,865	4,225	-	-	1500	8365	468	1,320	6,500	10928	4800	5040	12480
50	30	2,940	5,850	-	-	8,790	5,850	-	-	5880	14670	468	1,470	6,500	11378	4800	4740	12480
54	34	3,180	6,630	-	-	9,810	6,630	-	-	6360	16170	468	1,590	6,500	11738	4800	4500	12480
55	35	3,240	-	10,519	10,079	23,838	-	18207	6744	6480	34671	8172	1,620	6,500	19532	4800	4440	12480
60	40	3,540	-	10,519	2,880	16,939	-	18207	-	-	21747	8172	1,770	6,500	19982	4800	4140	12480
61	41	3,600	-	10,519	1,440	15,559	-	14222	-	-	17822	8172	1,800	6,500	20072	4800	4080	12480
62	42	3,600	-	10,519	-	14,119	-	10519	-	-	14119	8172	1,800	6,500	20072	4800	4080	12480
63	43	3,600	-	6,434	-	10,034	-	6434	-	-	10034	7964	1,800	6,500	19864	4800	2265	10665
64	44	3,600	-	2,350	-	5,950	-	2350	-	-	5950	2247	1,800	6,500	14147	2400	450	6450

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 (10/17)  
 PRIME MINISTER

MBAM -  
 contents summarized  
 in telegram to Washington.

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I held a further meeting of the Coal Industry Tripartite this morning. The NUM were represented by Gormley, McGahey and Daly. There were no polemics from the union and the atmosphere was reasonably calm. The meeting was therefore satisfactory from our point of view. But Gormley emphasised the continuing difficulty of the situation. The danger of industrial action remains and we must continue to handle the union very carefully indeed if we are to avoid it. We must in particular help Gormley to maintain his control over the militants. He did in fact ask for another Tripartite to be held before the NUM's next National Executive Committee meeting on 12 March, and we made a provisional arrangement for 11 March. He said that such a meeting was necessary if the situation was to remain under control and I am inclined to accept his judgement. I am sure that at that meeting we shall, in some areas at least, have to be more precise in quantifying the commitments we have undertaken, and to be seen to have made progress.

2. The two issues of most concern to the union were of course the cost to the Board of keeping open the pits they had planned to close, and the cost of discounting prices so as to displace imports. On the first, I repeated the statement I made last week that we were willing to discuss the financial constraints on the Board with an open mind and with a view to movement. I added that the Department was now waiting for the Board's estimates of the cost to it of returning to the normal consultative procedure on closures, and that in the light of these estimates we should discuss with the Board how to revise the industry's financial arrangements. The union did not press further today for a figure for the costs involved.



3. As to imports, I repeated the undertaking to see what could be done to reduce these towards the irreducible minimum. I pointed out that this reduction could be achieved only by negotiations between the NCB and BSC and CEGB having regard to contractual commitments. Those negotiations were under way and the Government had naturally asked CEGB and BSC to be as helpful as they could. I also said that I would keep in touch with the negotiations. I added that the Government would be prepared to meet any inescapable costs incurred by CEGB and BSC in displacing imports to which they are contractually committed; and the cost of price reduction made by NCB in matching the prices of imports forgone in this way and substituting NCB coal. Again I was not pressed for a figure for the costs involved, but Gormley made the point strongly that the Board should also be compensated for the discounts they had already made to keep imports down, as well as the discounts needed for the further reduction now under discussion.

4. Gormley asked also for Government support on several other items. He mentioned:

- a. Improved redundancy payments. I indicated the Government's willingness to seek improvement, though without commitment at this stage to the precise change the Government would accept.
- b. Maintenance of investment at a high level. I repeated that the Government would make available to the Board the resources which they saw as necessary for investment consistent with the general approach of Plan for Coal. Again, I gave no commitment as to the actual figure.
- c. Stocking Aid; coking coal grants; reduction of interest payments; help with discounts on export sales. I said that all these proposals could be considered as part of the problem of adjusting the NCB's financial regime to new circumstances, on which we should need to have discussions with the Board.



- d. Support for research and for coal liquefaction. I said that we were willing to consider further the possibility of some limited funding of demonstration projects for fluidised bed combustion (which would come from my Department's existing budget). As to the proposed liquefaction plant at Point of Ayr, I said that we were still considering the proposal the Board had already made for Government support.
- e. Reduction in retirement age for mineworkers. I told the union that this was a matter for the Board in the first instance.
- f. Government support for a scheme of oil substitution in general industry. I pointed out that there was already an economic case for replacement of oil by coal in many parts of industry, but took note and said that we would consider further whether the Government could do anything to help prime the pump.
- g. Support for investment in the Ancit process at the Phurnacite plant. I declined to agree to this.
- h. Government financing of cut price coal for old age pensioners. I also declined to agree to this.
5. I have no doubt that to maintain control of the situation we must show further progress by the next Tripartite on 11 March.  
In particular:
- a. I am convinced that we must be ready very soon to announce our acceptance of the specific proposals for improving redundancy terms which the Board have already put to us. I shall circulate a further letter to my colleagues about these.



b. I hope we can still decide on a Government-financed scheme of substitution of coal for oil in general industry. Acceptance of such a scheme would not only help in our relations with the NUM (and also make it easier to reject some of their other proposals) but could also save public expenditure. I shall circulate a further letter to my colleagues about this also.

6. The questions of the cost of displacing imports and the cost of withdrawing the closure programme are really only a part of the larger question of the general financial prospects for the Board. The Chairman of the Board has just told us that he now expects their cash requirements in 1981/82 to be some £450-500m in excess of their External Finance Limit and their revenue account loss to be £350m. These estimates and the reasons for them are now being examined by my Department and the Treasury and there could be some revision of detail, but they indicate the scale of the financial problems now faced by the NCB. Help with the cost of displacing imports and withdrawing the closure programme will clearly be only a part of the help the Board will need. It is against this general background that we need to consider what we say to the NUM on these two points. I shall consult my colleagues further about this.

7. I am sending copies of this minute to the other members of the Cabinet, and to Sir Robert Armstrong.

MP SECRETARY OF STATE FOR ENERGY

25 FEBRUARY 1981

(Approved by the Secretary of State, <sup>and</sup> signed in his absence.)

C Nat Ind



DEPARTMENT OF INDUSTRY  
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 LONDON SW1E 6RB  
 TELEPHONE DIRECT LINE 01-212 3301  
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Secretary of State for Industry

25 February 1981

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

Dear Secretary of State

COAL TRIPARTITE DISCUSSIONS: MINeworkERS' REDUNDANCY AND  
 TRANSFER TERMS *below*

Your letter of 24 February sought my urgent agreement to an offer of enhanced redundancy payments at today's tripartite meeting, but arrived too late for me to comment before the meeting.

2 I am concerned that you should apparently have offered enhanced terms without any certainty of achieving desired closures. This undermines the whole purpose of redundancy payments. I am most reluctant to agree to such an open ended commitment, since my understanding of discussion at E was that enhanced terms should only be offered in return for a closure programme higher than 1½m tonnes of capacity a year.

3 Your proposals will have repercussions in other sectors. You will know that redundancy payments to shipbuilders are much less generous than those proposed by NCB. In addition, the steel industry is trying to reduce its levels of payment. The level of BSC payments has led to criticism in the private sector, which cannot pay comparable sums. The enhanced terms you propose will increase the difficulties in this area.

4 Furthermore, in the context of the steel payments, Ministers have taken the view that such generous redundancy terms could not go on for ever, and that a time limit should be set. I should like to see the concept of a time limit introduced into any deal with the miners. There will be repercussions, too, in the private sector. The petrochemicals industry is in much the same position as the coal industry, attempting to negotiate their way through a programme of closures of old plant and the

/building ...



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2

building of new ones. Increased generosity by the NCB would make these necessary changes even more costly.

5 I am copying this letter to the Prime Minister, Jim Prior, Christopher Soames, Leon Brittan and Sir Robert Armstrong.

*Yours sincerely*

*Ian Ellison*

KEITH JOSEPH

(approved by the Secretary  
of State and signed in his  
absence)

CONFIDENTIAL

**National Coal Board Staff Superannuation Scheme  
Mineworkers' Pension Scheme**

cc *M. Pottin*  
*M. Courtney*

TEN BOUVERIE STREET LONDON EC4Y 8BA

Director - General of Investments

telephone 01-353 1500  
extension 237  
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HRJ/ALR

Dr. J. M. Ashworth,  
Cabinet Office,  
Central Policy Review Staff,  
70 Whitehall,  
LONDON  
SW1A 2AS

CABINET OFFICE  
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25 FEB 1981  
FILING INSTRUCTIONS  
FILE No. ....

24th February 1981

*Dear Dr. Ashworth,*

Thank you for your letter of 16th February.

The comment concerning our Pension Fund is not specific as to the property involved and we have not been able to trace even an enquiry from Mr. Hartley. However, it might be helpful if I were to set out the basis on which we finance nursery factory units and our letting policy.

The Pension Fund undertakes the development of nursery factory units in partnership with local builders or developers. It is necessary that we have someone on site to supervise these units, which are extremely management intensive not only because of the trades involved but also because of the difficulties which arise as units fall vacant from time to time following the failure of a particular business. It is the developer who is responsible for finding the tenants and granting the leases or tenancy agreements. The Pension Fund will approve almost any tenant on status and we do not require guarantees except in the case of a newly formed company, where we would expect the businessman to stand behind the company. The length of the lease is negotiable and we are able to let on short tenancy agreements if this is what the tenant wants. Our definition of a nursery unit or workshop is individual units not exceeding 3,000 square feet.

CONTINUED

2.

Dr. J. M. Ashworth

24th February 1981

Larger factories are not financed on a basis which virtually leaves the entire risk with the Pension Fund, and it is usual for the developer and the Fund to check on the financial status of the tenants and to act prudently in relation to its dealings with its prospective tenants.

I would like to assure you again that we would not have embarked upon a nursery factory unit programme had we not been prepared to accept the risks associated with the small business and inherent in a scheme of this nature.

*Yours sincerely,*

*Hugh Jenkins*

H. R. JENKINS

CONFIDENTIAL

D. ZW's

01-211-6402

Rt Hon Sir Keith Joseph Bt MP  
Department of Industry  
Ashdown House  
123 Victoria Street  
London SW1

24 February 1981

Dear Keith

TW

COAL IMPORTS: BSC

Clay E

As you know from my Private Secretary's letter of 18 February to the Prime Minister's office, one of the points which the unions pressed hardest at last Wednesday's Tripartite meeting was the level of coal imports. It was clear that this was one of the subjects on which we should have to make concessions if widespread strikes were to be avoided, and I therefore undertook that the Government would be prepared to look, with a view to movement, at what could be done to reduce imports towards their irreducible minimum. Although I took care to word this commitment cautiously, we should be under no illusions that the NUM expect substantial and rapid progress and are most unlikely to accept anything less.

What I had in mind was that the NCB should be put in a position to discount their own prices to CEGB and BSC to a rate at which those two Boards would no longer have a financial incentive to import those coals which were not essential on quality grounds. I expect that if prices were broadly equal they would be willing to help us by reducing their imports.

Since then, NCB have had exploratory discussions with BSC as well as with CEGB. I gather that Mr McGregor insists on the letter of his contract with NCB and that he is not willing to do more than to allow NCB to quote for further sales of coking coal as each of BSC's present import contracts comes to an end, and to have the business if they can match world market prices. I understand that only one such contract is due to come to an end during 1981-82. If NCB can secure it, the effect would be to reduce BSC's imports by some 250,000 tonnes next financial year.

However, the unions are looking for a substantially greater reduction. They had been arguing first for a complete ban on imports, and then, when they had accepted that there was some minimum level of imports which was essential on grounds of quality, they envisaged that imports would be brought down to some 1mt pa (compared with the 5.5mt now expected during 1981). Since then, NCB have sought to persuade them that the maximum reduction in imports which is practicable is about 3mt - as an annual rate, rather than a reduction during 1981-82 - of which about 1mt might be coking coal.

The unions' whole attitude at last week's Tripartite meeting made it clear that they would have great difficulty in accepting continued imports at a time when we were putting our own coal to stock. It will be hard for the moderates among them to accept a smaller reduction than they believe is technically possible. In the present difficult circumstances, our first priority must be to maintain a dialogue with the unions and to avoid a renewed strike. I hope therefore that you will press Mr McGregor to be as helpful as possible in his reply to the further approach which I understand that NCB are about to make to him and to go as far as possible in substituting NCB coal for imports.

In all probability I shall have to hold another Tripartite meeting after tomorrow's meeting. It would be immensely helpful, therefore, to have BSC's response, which I hope will be helpful, as soon as possible.

I am sending copies of this letter to Members of E Committee, Sir Robert Armstrong and Mr Ibbs.

D A R HOWELL

Yours ever

Davis

RECEIVED IN  
 24 FEB 1981  
 SECRETARY OF STATE  
 FOR INDUSTRY'S OFFICE

01 211 6402

24/2

TO Mr Owen	COPIES TO
FOR ADVICE (AND	Ps/NT
DRAFT REPLY IF	Ps/MM
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CONFIDENTIAL

Rt Hon Sir Keith Joseph MP  
 Secretary of State for Industry  
 Ashdown House  
 123 Victoria Street  
 LONDON  
 SW1

24 February 1981

*Dear Keith*

*From*

COAL TRIPARTITE DISCUSSIONS: MINEWORKERS' REDUNDANCY AND TRANSFER TERMS

In the discussion yesterday of my paper E(81)24, it was agreed that I should consult further with you and with Christopher Soames about the proposals for improved terms which are set out in the Annex to my paper.

I understand from Sir Derek Ezra that at yesterday's meeting with the Board the NUM pressed strongly for improvements very similar to those which the Board have envisaged, and I therefore feel that it is essential for me to be in a position to agree in principle at Wednesday's tripartite meeting that there will be improvements in redundancy terms: and to be able if necessary to indicate the improvements, though I will only do this if I judge it essential.

I understand that your officials have been briefed on the content of the proposals and I would therefore be grateful for your agreement during the course of today to the improvements being offered as necessary.

I am copying this letter to Jim Prior and Christopher Soames.

*Yours  
 D. A. R. Howell*

D A R HOWELL

SUBJECT



file

dl

be Wolfson  
Hoskyns  
Ingham

also copied to Master

10 DOWNING STREET

From the Private Secretary

20 February 1981

Dear Trevor.

As you know, your Secretary of State and Mr. Moore called on the Prime Minister this afternoon to discuss the state of play in the coal negotiations. Sir Donald Maitland and Mr. Monger were also present.

There was a general discussion of the tactics the Government should adopt in the coming days. Mr. Howell explained that the NCB would be meeting the unions on Monday to discuss the proposals they would put to the Government at the next tripartite meeting on Wednesday. Sir Derek Ezra had met Department of Energy officials earlier that day, and had given the NCB's estimate of the extra cash which would be required to meet the concessions which had been made at the first tripartite meeting on imports and closures. They estimated an extra £55-60 million would be required if imports were reduced to their "irreducible minimum". £20-25 million of this was accounted for by subsidised sales to the CEGB, and the other £30 million was due to an additional 1 million tonnes of coking coal which BSC would buy from the South Wales coalfield. As regards closures, the NCB were assuming that the unions would insist on a return to the traditional area review procedure and that this would result in a closure programme of no more than 1½ million tonnes per year - instead of the 4 million tonnes per year which the NCB had hoped for. This reduced rate of closure would involve additional costs of £150-200 million in 1981/82, with higher figures in later years. The extra money would be financing increased stocks of coal. Against this, because of the reduced rate of closure, the amount of money which the NCB had envisaged for redundancy payments would be less. Mr. Howell emphasised that the figures were the NCB's and had not yet been crawled over by his officials. Furthermore, the savings on redundancy payments would not be seen as such by the outside world because the NCB's existing EFL did not contain provision for the redundancy payments that would have been required for a 4 million tonne closure programme.

Mr. Howell went on to say the union side were likely to press the NCB to agree a firm package of proposals at their Monday meeting. These would include proposals on imports and closures, and also probably on improved redundancy terms. Once agreed by the NCB, it would be very difficult for the Government to resist them at the tripartite meeting. The Government could no longer have much

/confidence

CONFIDENTIAL

dl

confidence in Sir Derek Ezra's handling of the negotiations, and was therefore important to give him Ministers' views on how he should proceed. Ministers had decided that a national stoppage had to be avoided; but it was also necessary to ensure that this was achieved at minimum cost.

In discussion, the Prime Minister said that the Government and the NCB would have to go along, to a large extent, with whatever Mr. Gormley proposed in order to ensure that the militants did not regain their ascendancy. But it was questionable whether it would be right to offer improved redundancy terms before the unions were prepared to talk seriously again about closures at above the reduced level of 1½ million tonnes per year. Against this, it was argued that it was now very unlikely that it would be possible to achieve even 1½ million tonnes per year without improved terms; and in any case, if Mr. Gormley was to insist on including improved redundancy terms in the joint package (as he was quite likely to), it would be hard for the NCB to resist. Keeping redundancy terms off the agenda would strengthen the hands of the militants.

In further discussion, it was agreed that the best strategy would be for the NCB to listen to the union side at Monday's meeting and not go firm on their proposals until they had had an opportunity to consider. This would give Sir Derek Ezra a chance to consult Ministers privately before agreeing a joint package with the unions, and it would also enable Ministers collectively to reach a clearer view of the concessions that might be required at the E meeting on Monday morning. Mr. Howell or Mr. Moore should try to persuade Sir Derek, whom they would be seeing later that evening, to resist going firm on any figures at the Monday meeting with the unions. If Sir Derek were to say that that was impossible, they would have to form a view over the weekend on the figures which he had already given them and on the figures which might be put forward for redundancy terms. With this in mind, Mr. Howell should immediately consult the Chancellor of the Exchequer.

I am sending a copy of this letter to John Wiggins (HM Treasury), Richard Dykes (Department of Employment), David Heyhoe (Office of the Chancellor of the Duchy of Lancaster) and David Wright (Cabinet Office).

W m

P. L. L.

Julian West, Esq.,  
Department of Energy.



E.R.  
**CONFIDENTIAL**

cc Mr. Wolfson  
Mr. Hoskyns  
Mr. Ingham  
Sir R. Armstrong

1

PRIME MINISTER

COAL

John Moore and Donald Maitland met Ezra this evening as envisaged at the meeting earlier in the afternoon. They tried to persuade him simply to listen to the unions at the meeting on Monday before giving them - or indeed agreeing with them - any figures on the cost of the imports and closure concessions. Ezra, however, said that he would have no option but to give them the figures.

Ezra does not seem to envisage agreeing a package of proposals with the unions; rather, he seems to be intent on just giving them the facts and leaving it to them to put forward proposals at next Wednesday's meeting. If that is the case, it seems to me undesirable: by skilful negotiation, the NCB might be able to hold back the unions' more extravagant demands before they are put to the Government. This is a point which you might like to take up at the E meeting on Monday morning.

Ezra's meeting with the unions had been scheduled for Monday morning; he has now agreed to postpone it until the afternoon so that any views which come out of E Committee can be passed on to him. Apart from the point mentioned in the previous paragraph, I am told that the Treasury have doubts about the basis of the cost estimates, and no doubt the Chancellor will raise this at E.

12

20 February 1981

**CONFIDENTIAL**

Ref: A04308

PRIME MINISTER

Coal  
(E(81) 24: E(81) 21 is also relevant)

## BACKGROUND

The background is familiar to you and I need not rehearse it. The immediate points are what to do next and when to do it. The Secretary of State for Energy's new paper (E(81) 24) represents an extensive and expensive shopping-list. In normal circumstances colleagues would want reasonable time to consider the proposals and can be expected, in any case, to be resistant - unless good cause can be shown - to being bounced by what is inevitably a very late paper.

2. I would suggest therefore that the first question to be settled on Monday is just what Mr Howell needs to say on Wednesday - and indeed whether he needs to say anything substantive at all beyond vague expressions of good will and a repetition of his earlier statement. It is relevant that Mr Howell's Private Secretary's letter to Mr Lankester on 18 February reporting this week's tripartite meeting quotes Mr Gormley as being anxious for next Wednesday's meeting to take place "even if there was by then little progress to report".

3. A lot will depend on how the situation in the coal-fields has developed by Monday morning. If the pressure is easing there would be a lot to be said for letting the dust settle before the Government comes forward with specific proposals. If the situation allows, and if your colleagues accept the view, there would also be a lot to be said for taking time to think of the tactical handling of the tripartite talks before rushing into Government announcements. The objective must be to put the NCB in a position to reach the best deal possible with the NUM on closures; and trying to set out all the goodies in the shop-window next Wednesday may not be the best way of proceeding.

4. And lying in the background are awkward questions, not simply of how much money should be spent, but of how much of the money might be raised by the industry, eg through prices. These need thought and should not be rushed. In this connection it is worth noting that the Secretary of State's earlier paper (E(81) 21: Appendix, paragraph 14) recommended against further price increases, but in the new situation such a view may need to be changed.

## HANDLING

5. You will want to ask the Secretary of State for Energy to introduce his paper and to report on any late developments. You might then suggest that the immediate question is what, if anything, needs to be said, or promised, at the tripartite meeting on Wednesday. If the view is that no new commitments need to be entered into then, you could properly suggest that consideration of Mr Howell's specific proposals in paragraph 11 of E(81) 24 should be discussed on a 'Second Reading' basis. They could then be picked up again for final decision, say next week after your return from the United States - with the benefit of considered reactions from the Chancellor and the CPRS. You might also invite the Committee to spend some moments on considering the tactics and timing in the next stages of this operation and perhaps commission a further paper on this aspect.

6. If on the other hand your colleagues feel that further promises should be made on Wednesday, they will need to decide on the minimum necessary for this purpose. Even if the whole business has to be rushed, not all the elements need go at the same speed.

## CONCLUSIONS

7. These will necessarily follow from the discussion but should I suggest cover -
- (i) What, if anything, new needs to be said on the Government's behalf on Wednesday?
  - (ii) How and at what speed should Mr Howell's specific proposals be processed through to a decision - and in particular can a substantive discussion wait until next week? If so, you might invite the Chancellor of the Exchequer and the CPRS to put in papers commenting on the proposals.



(iii) How and when can questions of tactics, as opposed to substance, be decided? Mr Howell could for example be asked to consult the NCB and let the Committee have a considered view of the best game plan to be adopted over the next days, weeks or months (whichever timescale proves to be the right one).

ROBERT ARMSTRONG

*(approved by Sir R Armstrong  
and signed on his behalf.)*

20 February 1981

## Extremism and the secret world

THE STORY which appears on the opposite page is not one which can give anyone pleasure — and certainly it is one which many people will wish to dismiss out of hand. They should pause before they do so.

It suggests that shortly before his death Mr Airey Neave MP was holding discussions with onetime agents of the security services, in which he and they envisaged the use of covert means to ensure that a particular politician, Mr Tony Benn, should never become Prime Minister.

It should be made clear at once that this is published in spite of strong objections from Mr Benn — who says that he does not believe it, and points out that it is bound to give distress to Mr Neave's family and friends.

Of the second point we are only too well aware. We do not find it agreeable to publish such things about anyone who cannot speak for himself — even less so in the case of someone like Airey Neave, who was himself the victim of a disgusting act of terrorism.

But as to the evidence, we can only say that we know the source and the circumstances better than Mr Benn does, and we don't think the matter should be ignored.

ANY COUNTRY which runs an intelligence service should face the fact that such services, and their operatives, can get out of control. All sorts of motives, from financial corruption to political idealism, may be involved. The result is always an appalling danger to law, and to democracy itself.

In a series of articles, the *New Statesman* has pointed out that Britain is a country where the security services are unusually powerful, and unusually protected from scrutiny. The roles and duties of the official services are poorly defined, and they are surrounded by a penumbra of half-official outfits, semi-private armies and many outright crooks and cowboys.

In many parts of this secret world, the politics of extreme right-wing paranoia are fostered and taken for granted. This perhaps does little harm in saloon-bars where red-faced men canvass the necessity of 'hanging' Arthur Scargill.

But when it happens among people of influence, and among those who have been used to the exercise of clandestine power, it can be something very different. Mr Airey Neave was a politician of very substantial influence indeed, and a close confidant and adviser of Mrs Thatcher's. He was known to take a strong interest in almost every aspect of national security. He had distinguished war service with military intelligence.

There is evidence, on the record, that during a hard-fought election campaign, Mr Neave discussed the possibilities of covert action in the event of that election producing results unacceptable to his strand of opinion. It is one thing to refute such evidence, if people believe they can do so. But it cannot be set aside because of our horror at the fate which overtook Mr Neave himself: the proper response is to renew the campaign for a senior Parliamentary examination of the activities of the intelligence community.

John Winward explains the crisis in coal

## No long-term strategy

THE COAL BOARD's decision to delay its pit closure programme for the time being is welcome, but it still leaves unsolved the main problem: at a time of record productivity, demand is down and imports are rising.

This has compounded the medium term problem of a break-even target which is generally regarded as hopelessly unrealistic for an industry with a heavy investment programme, but is nevertheless putting pressure on the board to close loss-making pits. Behind the medium and short term problems lies a deeper problem: the inability of British governments to sensibly plan their energy requirements.

The *Plan for Coal* on which the NCB's expansion plans are based was published at the height of the energy crisis of 1973-74. It forecast total annual production increasing from 124 million tons in 71/72 to 150mt by the middle Eighties and to 170mt by the end of the century. It never made clear whether pits could be closed exclusively on economic grounds. According to this week's press report the NCB is now aiming for production in 1986 of 85 million tons.

The age structure of Britain's pits — most of them are a hundred years old

— combined with the slowness with which the new super-pits are coming on, now makes *Plan for Coal* technically impossible. Equally important the collapse in demand means there is no need for so much coal so quickly unless the British government changes its energy pricing policy. With so much of the energy industry in public ownership the government could greatly reduce the uncertainty about Britain's future energy requirements.

In Germany, for example, the coal industry has recently signed an agreement with the electricity boards which guarantees their markets to the end of the century and gives explicit assurances on coal import levels and subsidies. The French government provides help for firms wishing to convert from oil to coal. In terms of the EEC Britain's coal industry gives little subsidy. Belgium gives £34.05 direct aid per tonne, France £17.96, Germany £14.85 and the UK just £1.62.

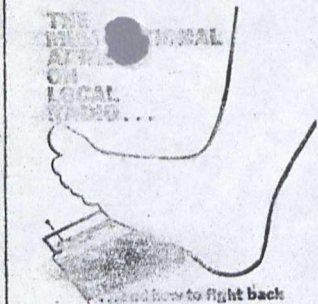
In a sense Britain's problem is that we have too much indigenous fuel reserves. If it were possible to take a more strategic view, as the Europeans do, many of our 'uncommercial' pits would become much more attractive. But for the moment the government and the nationalised

industries have no intention of supporting each other in the market.

THE CEBG, which takes 70 per cent of the industry's output, has no long term commitment to coal beyond the present five year agreement. As the Electricity Council's medium term Development Plan states 'the final coal burn depends on electricity demand, the rate of development of nuclear plant and the price of coal with respect to oil'. The recent ordering of power stations does not show any loyalty to coal: whilst in Germany dual oil/coal stations have been ordered, over the same period in Britain over 7.5 Gigawatts of exclusively oil-fired capacity was ordered.

The more serious threat to coal generated electricity, however, comes from the nuclear programme. Relative costs of nuclear and fossil-fuel generation remain controversial but it is clear the CEBG favours nuclear. (This week's report from the House of Commons energy committee is markedly less enthusiastic.) The decisive factor is likely to be not the generating cost, but the net effective cost of building a new power station, taking into account the system savings which can be gained by running down an equivalent amount of low merit capacity.

Calculated in this way CEBG figures show additional nuclear power stations give a net saving of between £10 and £36 per KW per annum, while ▶



### Battle for the media

Jonathan Coe and Simon Blanchard investigate the history of 'community' broadcasting Page 6

### The Collector: Part II

Reuben Ainsztein continues the story of Pieter Menten, mass murderer and art thief Page 8

### Labour Party

Details of Frank Chapple's attempts to seize control of constituencies Page 10

### Paisley's support

Mary Holland reports from Belfast on the strength of Protestant feeling Page 14

### An American legend

Godfrey Hodgson re-assesses the reputation of Walter Lippman Page 17

### Family voices

Benedict Nightingale reviews Harold Pinter's new play Page 21

Diary: p 15; Roger Woddis: p 15; Letters: p 16; Books/Arts: pp 17-24; Weekend Comp. & Chess: p 24; Crossword: p 25.

Sorry! Because of lack of space, there is no Arthur Marshall this week

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Duncan Campbell reports on the allegations of an anti-Labour 'army of resistance'

## What did a Tory MP say in the Cumberland Hotel?

JUST BEFORE the 1979 election, the late Airey Neave, MP — one of Mrs Thatcher's closest allies — discussed with former security-service agents plans for an undercover 'army of resistance' in case of a Labour victory. These, according to Lee Tracey, an MI6 electronics expert of long experience, included the possibility of violent action if it seemed necessary to prevent Tony Benn becoming Prime Minister.

Tracey, who now runs his own electronics business in London, has been interviewed for next Monday's *Panorama* programme about the security services, furnishing a long account of his experiences with MI6. The programme is only being shown after considerable intervention — and cutting — by the BBC Director-General, Sir Ian Trethowan. But in Tracey's case, the effect of having talked at length for the cameras appears to have made him ready to discuss openly matters which previously would have been taboo.

TRACEY'S ACCOUNT is that his introduction to Neave came through intelligence-world contacts sharing his own starkly anti-Communist views. 'I was phoned up by Neave. I'd never met

him before. But I had a very high regard for his reputation.'

At the Cumberland Hotel, Neave discussed his fears that Labour might be re-elected, and that premature retirement by James Callaghan could leave the way clear for Benn to become Premier. Tracey was asked to consider



Airey Neave feared Benn becoming premier

whether he would join a team, consisting of various intelligence and security specialists, which would 'make sure Benn was stopped'. The conversation was brief, according to Tracey, but he

is quite clear that violent means were a possibility.

Neave, who appeared familiar with Tracey's background, said that if the Tories were to be elected, he expected to become security overlord. He would then carry out a 'purge' of MI5 and the Metropolitan Police, because there were too many officials who, for various reasons, were unreliable. (One Deputy Assistant Commissioner was referred to by Neave as 'Crazy Horse', and singled out for attention.)

His own politics, says Tracey, are 'hard right', and the conversation was based on the assumption that there was a real danger of Britain being taken



over by 'Communism'. He says that he agreed to a further meeting. But one week later, Neave himself was killed by a car-bomb planted at the House of Commons.

Several factors suggest that Tracey is not just gossiping idly about a distinguished man who can no longer defend his own reputation. One is that Tracey is without doubt an experienced intelligence operative, and a veteran of several MI6 operations. (Details of his career are given on page 12.)

His political views have not prevented him discussing intelligence topics on other occasions with the *New Statesman*. He has normally been as discreet as his background would suggest — but whatever the oddity of his political judgments, firm factual statements he has made have turned out to be correct when checked against other sources. He does not appear to be a mere fantasist.

Furthermore, the fact that Mr Neave had conducted meetings of this sort just before his death was known to us in detail at the time, and has since been confirmed by another former security agent. In the immediate aftermath of the assassination, there was nothing we could or would have done to investigate further.

But Tracey's involvement with the *Panorama* programme, and his willingness to discuss the matter attributably, creates a new situation. To put the matter no higher, a man who has been frequently employed on Government intelligence work claims to have had a highly-dangerous conversation with a senior politician during the course of a general election. Ugly as the matter inevitably is, it would be difficult to argue that Tracey's evidence should be suppressed. □

► coal-fired stations give a net loss of between £15 and £27 per KW per annum. These net savings in the words of the CEBG are 'not closely dependent on the future growth of electricity demand'. In other words they hold good regardless of what happens to demand. Electricity demand for coal should decline on this basis by about 5mt per year by 1986.

Other coal markets are also uncertain. Detailed government plans do not show any significant increase in feedstock coal until 2010. The current recession is not encouraging managers in industry to convert from oil to coal. The heavy industries traditionally reliant on coal, like steel, are disappearing rapidly while persistent reports circulate that the financially pressed nationalised industries are so keen to get cheap open cast foreign coal that they are prepared to construct a deep sea port to give the trade a greater boost. □

Adrian Ham on Howe's duff forecasting

## Did I really say that?

SIR GEOFFREY HOWE'S mild manner and lack of presence are his greatest political assets. His speeches are easy to sleep through and even easier to forget. So it is natural that few should bother to find out whether things he has said in the past proved right or wrong. He is, however, a key figure in the most vicious deflation post-war Britain has experienced, the time has come to set his statements against the record.

In June 1979, the Treasury forecast that manufacturing output would decline by 2½ per cent between the first half of 1979 and the first half of 1980. Howe told MPs he was sceptical about such pessimism:

The conventional forecasting arithmetic . . . does suggest that the economy will show no growth in the period immediately ahead. But this prospect, in so far as it can be viewed as a reliable prediction — which itself is open to doubt — cannot be taken to mean that the Budget is, in the traditional language of neo-Keynesian economists, perversely contractionary.

In fact the Treasury's forecast was not pessimistic enough: manufacturing output actually fell by 6 per cent over the period.

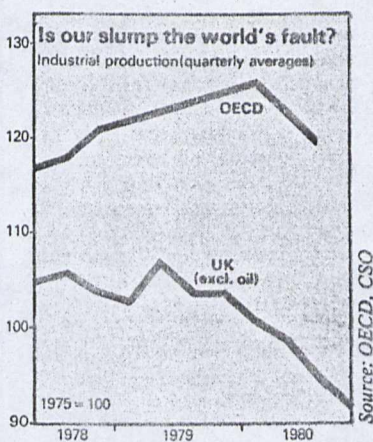
In his March 1980 Budget speech, Howe was obliged to spare rather more words for the collapsing real economy.

It is important to understand the significance of this recession . . . It is, in part, a consequence of the weakness in world demand, in part a consequence of our own inflation — still well in excess of the money supply target — and in part, perhaps most of all, a consequence of the long-run decline of our economy.

To take the last point first: Howe failed to explain how the 'long run decline of the economy' could square with figures that showed a slow but steady upward trend in industrial production being suddenly transformed into a violent decline. The eight per cent decline in 1980 was the same as the decline in 1930 and 1931 taken together.

The straw that ministers most consistently and eagerly clutch at, however, is the Great World Recession

Excuse. The chart shows this to be phoney. Yes, industrial output of the OECD member states (broadly the major western economies) is falling: but the decline started a year after Britain entered recession; and Britain's



Michael Coren on football's biggest problem

## Recruiting on the terraces

LAST WEEK the Football Association decided to set up a committee to look into racism in British football. And not before time: the open activity and recruitment of the extreme right at matches is one of football's biggest problems at the moment.

For example, at Christmas following the Luton v Chelsea game a Moslem religious and cultural centre in Luton

decline has been much more spectacular than in other countries.

The truth of the matter is that until the middle of last year, output among our major competitors was buoyant — while our output was sliding fast.

In November 1976, when he was attacking the Labour government, Howe said:

Where is the sense in imposing taxes that will put tens of thousands of engineers, process workers and people in the private productive sector out of work for the sake of keeping tens of thousands of clerks, civil servants and bureaucrats still at their desks?

It is now quite evident that the tears he shed for the private manufacturing sector were false. And the hundreds of bureaucrats who spend their time circulating Howe's excuses will be reassured by his greater need for their services.

Adrian Ham was special adviser to Denis Healey from 1974 to 1976. □

was stoned and its denizens abused for 25 minutes until the police arrived. At the 'shed' end of Chelsea's Stamford Bridge ground a banner bearing the symbol of the SS appears at every home game. Following proposals to rebuild the 'shed' the Chelsea branch of the National Front has circulated a leaflet at the ground entitled 'Leave our Shed alone'. Among its 'demands' are that 'the interests of Loyal Chelsea fans are put before those of rich Jewish property speculators' and that 'the running of the team should be left to footballers and not businessmen who are interested in profit.'

At Arsenal's Highbury ground the British Movement occupies a section of the stands and has recently sold 'I

are defending is that every branch delegate must be elected by that branch and report back to it. This issue — whether a union branch delegate must be nominated by that branch — has been at the centre of the present NEC inquiry.

THE BEHAVIOUR of the EETPU highlights the inadequacies of the current party rules. Perhaps the most extreme case is that of the union's London EESA (white collar) branch where a delegate had been appointed by head office to Bermondsey CLP without the branch secretary Mr. K. Linney even being aware this was taking place. The particular delegate chosen, Charles Sawyer, was in fact a housing officer. Mr Linney says the matter has now been sorted out and the branch have accepted Sawyer as delegate.

Currently all EETPU affiliations to Ber-

mondsey have been frozen pending the NEC inquiry. But some of the EETPU branches trying to affiliate to Bermondsey have a questionable pedigree. The EETPU General Office branch wishes to send a delegate but does not meet. Similarly the GEC, Plessey and STC telecomms branches applying to affiliate to Bermondsey are national branches, run by Mr Eadie, and meet only once a year. Active members of the London West contracting branch were unaware that they had affiliated to the Bermondsey party, which is some miles from their catchment area. (The full-time branch secretary is based in Luton.)

At Wembley Frank Chapple made a powerful speech against the corruption of the union bloc vote: it will be interesting to see how these reservations are transferred to the union influence on the party at local level. □

## SPOOKS

# Secrets that won't be told

DUNCAN CAMPBELL reports on the censored Panorama programme and the security service's men in the media and at the *Daily Mirror*.

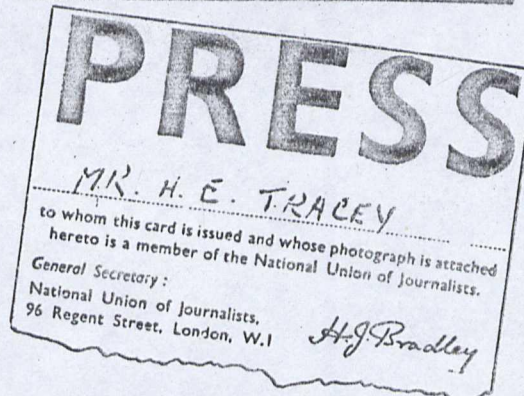
THE BBC'S REPORT on the British security and intelligence services, due to be screened on *Panorama* next Monday, is the first time this part of the establishment has dared to examine intelligence further than the nonsense of Smiley and his people. This has provoked the intelligence establishment to considerable fury, and strong efforts have been made, by MI5 in particular, to have the programme banned. These have succeeded to the extent of a very firm curb being placed on the investigation and form of reporting used in the programme.

Particularly ironical is the fact that, early on, the programme team checked for, and found, an official MI5 representative secretly within the BBC. The MI5 official is posted to the BBC on a tour of duty in a cover post, and is particularly responsible for checks on personal details of all BBC staff and new applicants.

According to *Panorama* reporter Tom Mangold, the MI5 'resident' is responsible for checking all BBC incomers out with 'Curzon Street' — a euphemism for MI5 headquarters. He passes the word back that an applicant has 'come to notice' of the Security Services, then the applicant's job or promotion will be blocked. The criteria the Security Service use for judging subversion are, of course, notoriously wide and embrace any serious kind of libertarian or socialist position. One BBC producer told us how his promotion had been blocked after he had made a documentary in which a young communist student had had a prominent role. The event was dragged up repeatedly at BBC promotion boards and he was asked 'Do you think, with hindsight, you were right to put a card carrying Party member on the screen?'

A former senior BBC producer confirmed Mangold's story. He alleged the MI5 cover post was at the Shepherd's Bush TV centre and involved being responsible for the security of MPs visiting the BBC.

Most government departments have a secret



Harold 'Lee' Tracey, the intelligence agent who infiltrated the *Daily Mirror*. He still has his NUJ press card.

cell of MI5 staff to check covertly on their security besides the orthodox activities of each Department's Security Division. It enables them secretly to watch suspect civil servants and to consult files for information which they might not wish other staff to know was being obtained by MI5. It is little surprise that such an arrangement has also long applied to the BBC. Mangold, however, refuses to identify the official or his cover position, out of 'loyalty to the organisation' (the BBC). He and producer John Pennycate told interviewees that they had shown material to the official to 'clear' it.

Such voluntary co-operation did not however satisfy Curzon Street. The core of the

*Panorama* programme was to include interviews with at least four British security and intelligence agents: Lee Tracey, for more than 20 years an MI6 contract employee; James Rusbridger, a commodity broker who worked as an MI6 bagman carrying cases of US dollars to secret meetings in Eastern Europe; Tony Motion, a former official of MI5's 'B' division, responsible for counterespionage; and Jock Kane, a former radio supervisor for the gigantic monitoring organisation GCHQ, who last year revealed the scale of internal corruption at GCHQ stations in the *New Statesman*.

Many prospective interviewees and in particular all the current and past heads of the intelligence agencies MI5, MI6, and GCHQ were warned not to speak to the BBC researchers. But the BBC were fortunate in reaching Tony Motion in Perth, Western Australia, before the word from Curzon Street. Motion told the BBC, as he had earlier told the *New Statesman*, how he had been dispatched to Oxford University in 1967 to check through the pre-war communist affiliations of Oxford students. He quizzed surviving administrative staff about students who belonged to left organisations. Although the search turned up hundreds of names with Marxist and communist sympathies, Motion will not say if he uncovered any unexpected moles. He did not know if his superiors at Curzon Street had any particular candidates in mind but the investigation appears to be linked to persistent suspicions that one of a very few senior MI5 officials of the 50s and early 60s was a Soviet spy.

The interview of such a recent ex-employee incensed MI5 and by late September, according to Tom Mangold, MI5 Director General Sir Howard Trayton Smith had been to complain to BBC Director General Sir Ian Trethowan. The result was a further series of curbs in addition to the self imposed ordinance on discussing intelligence sources and methods. Trethowan banned the interviewing of former agents, and the filming of supposed sensitive government establishments like GCHQ at Cheltenham.

Trethowan finally called in the proposed two films last month, but yielded to their being shown after a series of leaks about the internal argument led to considerable pressure from the broadcasting union. The programme has now been scheduled for next week — despite embarrassment earlier this week when a local newspaper in Cornwall turned up an awkward recent conviction for fraud by one of the agents the BBC filmed, James Rusbridger. Although this discovery was accidental and not motivated by MI5, subsequent attempts were made to sell derogatory copy about both him and Lee Tracey, who has had a colourful career as a manufacturer of bugs and other snooping electronics since he left MI6 in the late 60s.

LEE TRACEY, whose discussion of the possibility of assassinating Tony Benn is revealed on page 3, was a long term contract employee of MI6. He is unwilling to reveal much of his clandestine work for Her Majesty's Government, but has had a wide ranging, if less than Bondian, career.

He first entered the secret world at the end of the second world war, when he was offered small jobs to do after he became demobbed from the RAF's orthodox intelligence branch.

During his 20 years with MI6, he worked under journalistic cover on the *Daily Mirror* and other newspapers, went to Hollywood to join CIA agents on an undercover trip pretending to make feature films in Roumania, and ultimately ended up in Dublin on a plot to

kidnap Sean Bourke, an Irishman who had been instrumental in the escape of Soviet spy George Blake from Wormwood Scrubs, and whom the intelligence services desperately wished to bring to trial in Britain. He often spent long periods of time working in telephone tapping centres in London, or fixing up individual taps on lines around the country.

Agents like Lee Tracey are generally managed by case officers who if possible, stay as their links throughout their active life. Tracey would report regularly for tasks to MI6's then headquarters at Queen Anne's Gate, SW1.

His first long term assignment was to get good journalistic cover, and he was found employment first, in 1948 at the Derbyshire Evening Telegraph, as a photographer. He then moved to a Bristol paper, and finally was planted on the *Daily Mirror* in 1952. His main task was to identify and report on likely recruits for MI6, either foreigners who might be compromised into becoming British spies, or Britons who might be useful to MI6. He was disliked at the *Daily Mirror* by those who can remember him, particularly for not apparently having had much interest in turning in material for the paper which notionally employed him. A reporter colleague of the time who recalls him describes the area which they both covered as centring on the 'organised vice scene'.

Tracey was assigned by MI6 to visit Stephen Ward and was supposed to do a *Daily Mirror* profile on the man. Nothing ever appeared but a full report went to MI6, who hoped that some juicy target might be sexually compromised inside the Ward circle. Six years later this circle ensnared War Minister Profumo. Tracey's penetration of the group was never revealed to Lord Denning during his investigation, when he commented adversely on the intelligence agencies lack of awareness of the case.

The *Daily Mirror* was not the only newspaper he was planted into. In the early 1960s, he went to the *Montreal Star* with fake Canadian citizenship to pursue MI6 investigations there. His next move finally took him to Hollywood and a cover post of a film company which he used to photograph East European military installations.

It was his work bugging and tapping which gave him the experience to set up in business as a private enterprise phone tap manufacturer. He has run a number of essentially similar businesses making bugs, taps, and bug detectors. He recalls the telephone tapping business of the 60s as completely unsupervised, as far as his department was concerned. Warrants from the Home Secretary were 'never heard of'. □

## This England

£3 book tokens for entries printed. (On postcard, please.)

□ A nun told a court today that cardigans stolen from an Oxford Street store had got into her bag 'because of some devilish miracle'. Sister Bernadette O'Flanagan, 36, was found guilty of shoplifting after Wells Street magistrate Geoffrey Noel said that he could not accept her story. — *New Standard* (P. Roche)

□ The Rev Glyn Wilkinson, the Rector of Barwick, near Leeds, has told his parishioners to produce more babies so that the village infant school can be saved. — *Daily Telegraph* (G.Moor)

□ Shopkeepers in Boulogne say that the English no longer come just to gape, but account for up to half their takings on Saturdays. 'Big breakfast cups are our best seller,' one shopkeeper enthused, 'which is strange, because we get them from Portmeirion pottery, in Wales.' — *The Times* (Madeline Brent)

## Local radio

Contd from p.7

Finally, the prospectus showed that the business directors were putting in very little money: hardly inspiring confidence in the venture.

UNSURPRISINGLY, the prospectus failed: only £80,000 was raised. John Thompson, director of radio at the IBA, rang to ask what had gone wrong. The bank told him that investors objected to not having full voting rights (this was not a problem in Cardiff); the community concept was blamed. At a subsequent board meeting Suess discouraged discussion of what had happened. In return for a vow of silence on the share issue the British Linen Bank promised not to claim their £10,000 fee. Suess was replaced by Mr Hugh Young who refuses to discuss the failed prospectus with us other than to say he does not feel very 'relaxed' about the incident.

For the Association, the effect was demoralising. One member mulled over the financial problems with the radio sales agency Broadcast Marketing Services, which had provided some early advice. BMS is owned by Standard Broadcasting of Canada and soon Standard's managing director, Robert Kennedy — a former IBA employee — was on the line. Two days later he was in Inverness and on the way from the airport to the city he offered cash and expertise, in return for a place on the board. The Association's seats were reduced to three.

The British Linen Bank said further money could only be raised by issuing another prospectus. They said the IBA would never approve of Kennedy's idea of raising it through a private

company (a method employed by other stations). Kennedy rang up Thompson who said there was no need for another prospectus.

PRIVATE CAPITAL is now being raised for Moray Firth, and Standard Broadcasting Company will have a share in the venture. The Association, which won the franchise, has, by taking professional advice, lost the initiative and seats on the board. They are fighting back by organising programme-making groups to put into practice some of the ideas which found support from the IBA, including a highly original studio system which would use post office lines to link together the many dispersed towns and villages that make up the Moray Firth.

The Association has found the IBA decision-making process perplexing. One of Moray Firth's directors remarked that it was hard to keep accurate records of decisions because these were frequently made at casual meetings outside the board room, which went unminuted. Symbolically, when John Thompson rang up he often prefaced his remarks to directors by the words 'Is this a private line?'

Moray Firth and Cardiff are not isolated experiments on the fringes of broadcasting. Rather the opposite: they are experiments which challenge the central ideas of commercial broadcasting in Britain today and for that reason have attracted widespread interest and abuse. In this the IBA has not attempted to resolve the crises in favour of the 'community' nor has it encouraged novel forms of organisation. On its record, it has acted in favour of the narrow, solely profit-seeking commercial interests which predominate in British broadcasting. If its claims about regulating the industry are to be taken seriously, it will need to behave differently in future. □

## BEAT THE BUDGET

### A New Statesman Wine Offer

First, the bad news. The wine trade think it's inevitable that the Chancellor will increase duty in next month's budget. (This, of course, isn't a novel Tory desire to lean on the upper classes. Table wine is now drunk in more than half of British homes.)

Now, the good news. You can get a few glasses ahead of Chancellor Howe with this budget-beating offer of a case of good French wine, delivered to your door for £23.75 all-in. That's under £2 a bottle for wine with a touch of quality.

#### Each case contains

6 bottles of Domaines Les Milles VDQS, a flinty, dry white produced in vineyards a few kilometres from Aix-en-Provence.

6 bottles of Chateau St Vincent VDQS, a red Costiere du Gard, similar to the wines of nearby Cotes du Rhone.

But Hurry! Our shipper needs to receive your order before Budget Day (10 March) so this offer is for TWO WEEKS ONLY.

YES, I wish to get ahead of the Chancellor with a case of good French wine. I enclose a cheque for £23.75 payable to NEW STATESMAN.

NAME.....

FULL POSTAL ADDRESS\*.....

Please send your cheque with your order to New Statesman (Wine Offer), 10 Great Turnstile, London WC1V 7HJ.

\* Sorry, but because of carriage costs this offer applies only to the UK mainland. Please allow up to 21 days for delivery.



ORAL STATEMENT: 19 FEBRUARY 1981

COAL

THE COAL INDUSTRY

I will with permission make a statement.

As the House knows, there was a tripartite meeting of the Coal Industry yesterday. This had been called, at the Industry's request, to discuss the situation which had arisen following the meeting in London on 10 February between the NCB and the unions. At that meeting the NCB had outlined their approach to the current problems facing the industry. They had put forward a four-point plan for bringing the supply and demand for coal back into balance, whilst maintaining investment for the future. The plan included an accelerated programme for the closure of older capacity approaching the end of its productive life. This was to be discussed in detail in the areas. The Board believed its plan to be reasonable and acceptable. However, ~~unnecessary~~ <sup>through numerous</sup> fears and anxiety among the workforce ~~were~~ <sup>arose</sup> created by ~~exaggerated~~ and distorted impressions of what was being proposed.

It was against this background that yesterday's meeting took place. At the meeting, three main points were raised - closures, financial constraints and coal imports. ~~On 10 February~~ I said that the Government was prepared to discuss the financial constraints with an open mind and also with a view to movement. The Chairman of the National Coal Board said that "in the light of this the Board would withdraw their closure proposals and re-examine the position in consultation with the unions!" I accordingly invited the Industry to come forward with new proposals consistent with Plan for Coal.

As regards imports, I pointed out that these would in any case fall this year from their 1980 levels. The Industry representatives said they wished to see this figure brought down to its irreducible minimum. I said that the Government <sup>would</sup> ~~will~~ be prepared to look, with a view to movement, at what could be done to go in this direction.

I welcome the decision of the National Executive Committee of the NUM today and hope that their lead will be followed. I will be meeting the Industry again next Wednesday.

file

SIR ROBERT ARMSTRONG

Coal

The Prime Minister has seen Mr. Le Cheminant's minute about the coal dispute which was attached to your minute A04280 of 17 February 1981 to me.

I believe that she had a word with Mr. Le Cheminant after Cabinet this morning to tell him how useful she had found his commentary.

C A WHITMORE

19 February 1981

KRB



## FACT SHEET - THE COAL INDUSTRY

### 1. Manpower

This has fallen very rapidly at times in the past (maximum one year fall - 56,000 between 1968 and 1969; average annual fall between 1960 and 1970 - 31,000). More recently (and as planned by NCB) the fall has been much slower (average 1970 to 1980 - 8,000 per year).

Annual wastage from collieries runs at about 20,000 per year so there is ample scope for accommodating some run-down without redundancy.

### 2. Closures

Closures have always been a fact of life in an extractive industry - as is the need for investment in new capacity and equipment. Average number of pits closed, 1970 to 1980 - 8 per year (recent years 1978 - 9, 1979 - 5, 1980 - 8). This compares with average 40 per year between 1960 and 1970.

### 3. Investment

Investment reached the equivalent of £600 million per year at present day prices around 1960 but fell back to around £200 million per year (present day prices) in 1970. From inception of "Plan for Coal" in 1974 it built up rapidly - to £800 million in 1980/81.

Example of projects currently in hand:

Selby on stream 1983, peak production 10 million tpa, investment £900 million.

### 4. Productivity

New pits (Selby) - 10 tonnes per manshift

Good existing pits (Thoresby) - 4-5 tonnes per manshift

National average - 2-3 tonnes per manshift

Many pits whose closure }  
is now proposed } - Under 1.5 tonnes per manshift

ie. new pits will have seven times the productivity of pits now proposed for closure - with all that that means in terms of strength of the industry and its ability to pay high wages.



5. Imports and Exports

Year	Imports	Exports (million tonnes)
1975	5.1	2.2
1976	2.4	1.4
1977	2.4	1.9
1978	4.4	2.3
1979	2.2	2.4
1980	7.1	3.7
1981 (est)	6-7	5-6, possibly 7

(IN CONFIDENCE. The pit closures over the next three years will reduce NCB industrial manpower (1980 average about 230,000) by 34,500. This reduction consists of natural wastage of 8,000 and redundancy of 26,500. - 16,500 (about 60%) of these are over 55 as a result of the redeployment of younger miners, and redundancy of older miners, at continuing pits. Most severely affected regions - S. Wales; 6,100 redundants (March 1980 labour force 26,000); N. East 0 9,000 (March 1980 labour force 33,000).)

PRIME MINISTER

cc. Mr. Howell  
Mr. Pym

Mac Ind

Lobby this morning - Coal

The Lobby today sought really to establish:

- i. that the Government had made a massive U-turn under pressure of a strike;
- ii. that Mr. Howell had apparently been authorised to make the U-turn without knowing the financial cost - i.e. the Government had given the NUM and NCB carte blanche to negotiate the industry's EFL;
- iii. that all this would have profound consequences for the Government's economic strategy and pay negotiations; and
- iv. it now represented an entirely different approach to nationalised industries with flexibility the order of the day.

*Handwritten notes:*  
 DLF - Long hand  
 JW - fitting  
 RW - fitting  
 ME - to production  
 LW - EFL  
 TB - accounts  
 SH - minutes

My reaction needs to be read against the attached note of my briefing to the Lobby at 8.30 p.m. last night.

The main points I sought to get over this morning in reply to the Lobby's pre-occupations set out in the four points above were:

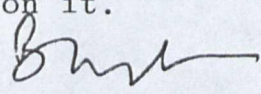
- i. As the Prime Minister had said in the "Analysis" programme, no Government ever gets from A - B in a straight line. There has to be adjustment when circumstances dictate. The coal industry was hit by recession. None the less its EFL for '80/'81 would probably hold and over the nationalised sector as a whole EFLs had held in all bar four cases - steel, rail, shipbuilding and airways, which were either in chronic trouble

/ and

and/or victims of the recession;

- ii. So far as Mr. Howell's negotiating room was concerned I made it clear that Mr. Gormley was reported as saying today that closures would continue - as was inevitable in an extractive industry. The industry was now to examine the pace of the programme and when it had done so the Government would only then be able to examine the financial implications.
- iii. On the consequences for the economic strategy, I made the point that the Government's strategy remained unchanged. What was, however, clear was that, as in life, all of us have to adjust to circumstances from time to time. So far as pay was concerned, the issue before the Government was not pay but a closure programme. The application of industrial muscle had implications not merely for the industries concerned but also for the taxpayer and the consumer.
- iv. On the last point there was not a new policy of flexibility. There was an existing policy; that all Governments had, of coping with circumstances. Finally, I sought to get over the fact that this Government - and in my experience all Governments I have served - did not want confrontation. There may be others who did, but Governments also had a responsibility at a time of deep recession to look at the economy as a whole and the damage that could be inflicted upon it.

19 February, 1981

  
B. INGHAM

COAL TRIPARTITE:

We told the Lobby that Derek Ezra had, in the light of the Government's willingness to review the financial constraints on the coal industry, withdrawn the NCB plan and would re-examine it in consultation with the unions.

All sides remained committed to the 'Plan for Coal' - no-body had said there must be no closures. The average age of the 23 pits which the NCB wanted to close was 97 years.

Obviously there would be differences of opinion over what was economic or non-economic but three points were unanimously agreed:

- i the commitment to the plan for coal;
- ii the need for some closures;
- iii recognition of the need for an efficient industry.

We emphasised that the plan had been withdrawn for re-examination not scrapped. The NCB and unions would come back next Wednesday; they might not have completed their review by then but Joe Gormley was keen to keep on talking.

When did the Government decide to review the financial constraints?

There are financial implications of either carrying out the NCB plan or of altering/scrapping it. Government had to express a willingness to review the constraints before the NCB could withdraw. Review is not the same as abolition and there is no commitment for new money.

Agreement to bring imports down from 8m tonnes to 1m tonnes annually?

No - the two sides will consider the minimum level of imports required. They were expected to be down this year anyway.

Government sold out to avoid strike?

Didn't want one but NCB manages the industry.

Implications for other nationalised industries?

Of 17 nationalised industries only four have had increased EFLs for 1980-81:

shipbuilding  
steel  
railways  
airways

all were chronic loss-makers or hit by the recession.

Lesson for other industries is to threaten a strike to get their financial constraints reviewed?

No: in the end you can't defy the laws of economics.

When was the decision taken by Government?

We don't discuss how Government negotiates; Ministers know their operating limits.

- 2 -

Cost of keeping the 23 pits open?

Don't know specifically but the last 10% of coal produced costs  
£190m = £18 per ton.

ED



Next Top Coal

Extracts copied to  
Water workers +  
Steel.



CONFIDENTIAL

P.0427

PRIME MINISTER

INDUSTRIAL AFFAIRS

BACKGROUND

This item has been placed on the Cabinet agenda at the last minute in order to provide an opportunity for the Secretary of State for Energy to inform colleagues of the latest state of play in the coal-mining dispute, the Secretary of State for the Environment to report similarly on the water industry's pay negotiations and for the Secretary of State for Industry to report on developments in the private sector of the steel industry.

It would be unrealistic to expect the Cabinet to reach specific decisions, having no papers before them, but a useful general orientation may emerge. The situation in the coal and steel industries is of course to be discussed further by E Committee next Monday morning.

HANDLING

Flag A ←

2. Coal: You will want to invite the Secretary of State for Energy to report on Wednesday evening's tripartite discussion with the NCB and the NUM. The Chancellor of the Exchequer and the Secretary of State for Employment will no doubt also wish to contribute - as will the Home Secretary on the CCU aspects (he is likely to indicate that the situation is still much as it was when reviewed in 1979 - E(79) 73 refers). You may judge it wise to limit discussion thereafter on the grounds that E has the whole subject in hand.

Flag B —

Flag C

3. Water: You will want to ask the Secretary of State for the Environment to report on the latest state of play on the water negotiations. His main concern may be to sound out colleagues on whether he should give further instructions to the National Water Council (which would have to be essentially either 'stand firm' or 'settle') or stand back and let them evolve their own solution. The balance of advice from colleagues is likely to be in favour of the latter course.



CONFIDENTIAL

Flags D+E

4. Private steel industry: You might ask the Secretary of State for Industry to report, as far as he can, on the present position. The information he gives may well be commercially confidential and if so you will wish to urge absolute discretion on the Cabinet.

CONCLUSIONS

5. On both coal and steel the Cabinet need do no more than take note - with perhaps a rider inviting the Home Secretary to arrange for the CCU to report on the latest position as it affects coal. On water, it may be sensible to record an invitation to the Secretary of State for the Environment to take account of the points made in discussion in his handling of the situation.

P Le CHEMINANT

Cabinet Office  
18 February 1981

CONFIDENTIAL



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

PA (CF file)

MS

01 211 6402

T Lankester Esq  
10 Downing Street  
London SW1

18 February 1981

Dear Tim,

COAL

As you know Mr Howell, Mr Moore, Mr M. Roberts, Mr Fletcher and officials met the NCB and representatives of the three mining unions this evening in the preliminary Tripartite discussion requested by both sides of the industry.

Sir Derek Ezra described the reasons behind the Board's package of 10 February and subsequent announcements at Area level of pit closures. The unions rehearsed their deep felt fears and anger at these proposals. It was clear that, without the suspension of these proposals and some action on coal imports, the move towards widespread strikes in the coal fields would be uncontrollable, and the industry could be at a standstill by Monday.

Therefore, Mr Howell said that:

- a. coal imports would in any case fall from  $7\frac{1}{2}$  m tonnes in 1980 to  $5\frac{1}{2}$  m tonnes in 1981. The Government would be prepared to look, with a view to movement, at what could be done to reduce this figure towards its irreducible minimum (ie those quantities of coal not produced domestically - perhaps 1 m tonnes);
- b. the unions had argued that Government financial constraints were a burden which the industry could not sustain. The Board and unions should therefore stand back from these in order to discuss a pattern of proposals for closures consistent with Plan for Coal and the severe economic realities. The Government was prepared to discuss the financial implications with an open mind and also with a view to movement.



This in itself did not much move the unions, and Mr McGahey and Mr Daley of the NUM insisted that the Board should withdraw its closure proposals." Ezra said that in the light of the Government's willingness to review the financial constraints on the industry, the NCB would withdraw their closure proposals and re-examine the position in consultation with the unions. "

Mr Howell is clear that this was the least necessary to avoid intensifying strike action in the Areas and avert a decision at tomorrow's executive committee meeting of the NUM to ballot the miners for a national strike. He cannot say whether, in fact, it will suffice but Mr Gormley was plainly ready to argue for moderation. Gormley was also anxious for tripartite discussions to continue and argued that the meeting scheduled for next Wednesday should take place even if there was by then little progress to report. This was agreed.

I am copying this to the private secretaries of Cabinet Ministers and David Wright.

Yours truly

J D WEST  
Private Secretary

COLLIERY CLOSURESNo hit list.COMPLETE COALFIELD LIST

THERE ARE 23 COLLIERIES ON THE NATIONAL COAL BOARD'S LIST FOR CLOSURE DURING THE FINANCIAL YEAR 1981-2, INCLUDING THREE ALREADY WITH THE TRADE UNIONS.

THESE COLLIERIES WILL TOGETHER PRODUCE 4.3M TONNES OF COAL DURING THE YEAR ENDING IN MARCH AT A TOTAL LOSS OF £74M. OR £17.21 A TONNE.

TOGETHER THEY EMPLOY JUST OVER 13,000 MEN. IT IS ESTIMATED THAT, PROVIDED UNION CO-OPERATION CONTINUES TO BE AVAILABLE OVER VOLUNTARY RETIREMENTS OF OLDER MEN AT NEIGHBOURING COLLIERIES TO MAKE ROOM FOR YOUNGER MEN FROM THE CLOSING PITS - WHICH HAS BEEN THE CUSTOM IN THE INDUSTRY - FEWER THAN ONE-THIRD OF THE TOTAL NUMBER OF MEN WILL BE UNABLE TO FIND JOBS IN THE INDUSTRY.

THERE WILL BE NO CLOSURES IN FOUR NCB AREAS - BARNSELY, DONCASTER, NORTH DERBYSHIRE AND NORTH NOTTINGHAMSHIRE. NOR WILL ANY PITS CLOSE IN NORTHUMBERLAND, CUMBERLAND, NORTH WALES, SOUTH DERBYSHIRE OR LEICESTERSHIRE.

THESE FACTS HAVE BEEN ANNOUNCED AT AREA MEETINGS IN THE LAST FEW DAYS BETWEEN NATIONAL COAL BOARD MANAGEMENT AND LOCAL LEADERS OF THE NATIONAL UNION OF MINeworkERS, NATIONAL ASSOCIATION OF COLLIERY OVERMEN, DEPUTIES AND SHOTFIRERS AND THE BRITISH ASSOCIATION OF COLLIERY MANAGEMENT.

WITHOUT EXCEPTION THE CLOSURES ARE AT PITS WHOSE RESERVES ARE VIRTUALLY EXHAUSTED, OR WHERE THERE ARE EXCEPTIONAL MINING PROBLEMS. THE AVERAGE AGE OF THE COLLIERIES IS 93 YEARS.

COMMENTING ON THE LIST, SIR DEREK EZRA, CHAIRMAN OF THE BOARD, SAID: "IT IS NECESSARY FOR THE FUTURE OF THE INDUSTRY THAT WE SHOULD REDUCE OLD AND DECLINING CAPACITY WHICH, THROUGH NO FAULT OF THE MEN INVOLVED, REPRESENTS A BURDEN ON THE REST OF THE INDUSTRY.

"WE ARE INVESTING IN THE NEW AND RECONSTRUCTED COLLIERIES WHICH MUST FORM THE BASIS FOR RESUMED EXPANSION WHEN THE INDUSTRY HAS COME THROUGH THE PRESENT RECESSION. THIS WILL SAFEGUARD AND PROVIDE NEW JOBS FOR THE FUTURE.

"SINCE 1974 WE HAVE STARTED ON 200 MAJOR PROJECTS AT A TOTAL COST OF £2,000M. SOME OF THE COLLIERIES WHERE THE SCHEMES HAVE BEEN COMPLETED ARE AMONG THE MOST EFFICIENT DEEP MINES IN THE WORLD.

"WE ARE CREATING A NEW INDUSTRY OUT OF AN OLD ONE. IT WILL BE CAPABLE OF PROVIDING SECURE JOBS IN BETTER CONDITIONS.

"THE MEN WHO, AS A RESULT OF THE URGENT ACTION WE ARE HAVING TO TAKE TO BRING OUTPUT AND DEMAND INTO BALANCE, WILL BE LEAVING THE INDUSTRY, WILL MAINLY BE OLDER MEN. THEY MUST BE REPAID DECENTLY.

"IT IS THAT THIS WILL BE ONE OF THE RESULTS OF THE TALKS STARTING WITH THE GOVERNMENT TONIGHT

SECRET

File

HS

SUBJECT



cc Mr. Wolfson  
Mr. Ingham  
Mr. Hoskyns  
Mr. Walters

5

10 DOWNING STREET

From the Private Secretary

18 February 1981

Dear Tindal.

As you know, the Prime Minister held a meeting this morning with your Secretary of State, the Secretary of State for Employment, the Chief Secretary, Mr. John Moore, and senior officials to discuss the tripartite meeting on coal arranged for later today.

Mr. Howell said that the decision to hold the meeting today had been a correct one; nonetheless, the militants in the NUM now felt that substantial concessions were going to be available. They were therefore likely to put some blunt questions to him; and in particular, whether the Government were prepared to discuss the issue of imports, whether they were prepared to "rearrange the cash" (ie increase the EFL), and whether they were prepared to re-examine the pace of the closure programme. It was for consideration how far he should go on each of these points. If he were to say that the Government were prepared to discuss each of these issues at subsequent meetings, this would substantially reduce the risk of a national strike starting from next Monday. On the other hand, by indicating that the Government were willing to discuss these issues and especially the closure programme, he would in fact be opening the way to substantive concessions: these were likely to be costly and they would mean going back on the timetable for making the industry efficient and competitive under the plan for coal. He would much prefer not to have to make any substantive concessions at today's meeting; but it had to be recognised that in that case there would still be some residual risk of a national strike.

In discussion the following points were made:

- (i) It was essential to avert a national coal strike. Unless the unions were satisfied at this evening's meeting that the Government and the NCB were prepared to make concessions, a national strike would start as from next Monday.
- (ii) The concession which the NUM would be principally looking for was a willingness to discuss the timing of the closure programme. Unless the NCB were prepared to revise the dates of individual closures, there was a strong prospect that a national strike would go ahead.
- (iii) On the other hand, it was argued that this might be going unnecessarily far. If substantive concessions were made today, the demand for further concessions would escalate

/ rapidly.

SECRET

rapidly. The NCB's original closure proposals were already no longer feasible: to remove the dates from their present plans would all too easily give the impression that closures would never happen. It would be far better for the Government and the NCB at today's meeting to do no more than indicate that they were willing to discuss the various issues.

- (iv) Once the miners were back at work, it would then be possible to bring redundancy payments into play, and the unions might then be willing to accept a revised closure programme.
- (v) If concessions were to be made on the timing of closures, it would be better if the NCB were to put these forward rather than the Government. Even though these would have inevitable implications for the EFL, it would look like less of a surrender by Government if the NCB were to propose a revised plan.
- (vi) There seemed to have been considerable confusion about the facts. Originally, the NCB seemed to have been saying that they were looking for 50-60 closures; now they were proposing 23. It was essential to clear up any misunderstanding on this both at the tripartite meeting and with the public generally.
- (vii) It was also desirable to get over to the unions and to the public the price and unemployment consequences in other industries if the closures did not go ahead. If the NUM National Executive decided on a strike ballot, every effort would have to be made through the media to persuade their members to vote against strike action. On the other hand, it was pointed out that public opinion as such was unlikely to stop a national strike from happening.

Summing up, the Prime Minister said that the basic aim of this evening's and subsequent tripartite meetings must be to avoid a national strike. At this evening's meeting, Mr. Howell should make the minimum concessions necessary to avoid a national stoppage as from Monday: how far he went would be a matter for his own judgement, though he should take into account the points that had been made in discussion. To the extent that concessions had to be made at today's and subsequent meetings, as much of the responsibility as possible for them should be borne by the NCB. As regards attendance at today's meeting, junior Ministers from the Scottish and Welsh Offices should attend, but not the Chief Secretary or the Secretary of State for Employment.

I am sending a copy of this letter to Terry Mathews (Chief Secretary's Office), David Heyhoe (Chancellor of the Duchy's Office), Richard Dykes (Department of Employment) and David Wright (Cabinet Office).

Julian West, Esq.,  
Department of Energy.

*T. Laker*

*A*



SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE, SOUTH  
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Tel: 01 211 6402

The Rt Hon Nicholas Edwards Esq MP  
Secretary of State for Wales  
Gwyr House  
Whitehall  
London SW1A 2ER

18 February 1981

*See file*

PIT CLOSURES

Thank you for your letter of 10 February, recording your conversation with Mr Weekes.

Mr Weekes has an extremely difficult task to carry through (although not more difficult than that faced by his colleague in NCB's North Eastern Area) and I should regret anything which made it unnecessarily difficult. However, as you know I do not accept the suggestion that his problems are due to the timing of our discussion of coal strategy in E Committee. NCB officials have consistently told us that the Board intended to hold back promises of improved redundancy terms as late into discussions with the mining unions as possible, and certainly not even to raise the subject at initial meetings, either at national level or in the Areas. As for investment, as you know, NCB are planning little capital investment in South Wales. I doubt whether statements about continuing capital expenditure elsewhere would have mollified the Welsh miners. Both these things are matters of NCB, not Government, policy.

I am sending copies of this letter to the other recipients of yours.

*See file*

D A R HOWELL

*Daw*  
7



CONFIDENTIAL

file

ds

SUBJECT



10 DOWNING STREET

From the Private Secretary

17 February 1981

As you know, the Prime Minister held a meeting with your Secretary of State and senior officials this morning to discuss his draft statement on the coal industry. This letter is simply to record for the benefit of those Ministers who attended the meeting on 16 February, the basis of the decision to bring forward the tripartite meeting from next Monday to tomorrow.

It was reported to the meeting that, your Secretary of State being unavailable, Mr. Gormley had spoken on the telephone to the Secretary of State for Employment in the following terms. He had said that, after speaking to several Labour MPs, he would now prefer the tripartite meeting to be held tomorrow. He (Gormley) had come to the conclusion that, unless the meeting was held tomorrow, there was no chance of persuading the NUM National Executive from voting for a strike ballot. He also said that the union side would regard a meeting tomorrow as only a preliminary one in which they would state their case. It was also reported that Sir Derek Ezra was of the view that, if Mr. Gormley wanted an earlier meeting, the Government should agree to one.

In a brief discussion, it was argued that the decision to set up a meeting for next Monday was right as long as Mr. Gormley was content with that arrangement. But the situation had now completely changed. Even though it was debatable whether he could deliver the union side so as to avoid a strike, it was highly desirable to keep him as much as possible as an ally. Since the NCB were also in favour of an early meeting, it was accordingly decided to arrange it for tomorrow.

I am sending a copy of this letter to Terry Mathews (Chief Secretary's Office), David Heyhoe (Chancellor of the Duchy of Lancaster's Office), Richard Dykes (Department of Employment) and David Wright (Cabinet Office).

I. P. LANKESTER

Julian West, Esq.,  
Department of Energy.

CONFIDENTIAL

PERSONAL CONFIDENTIAL



*Prime Minister.*

*I suspect this may be  
a little too sanguine.*

Ref. A04280

MR. WHITMORE

*file*

*17:2*

I thought that you might like to see, on a personal basis, the attached copy of a minute which has been sent to me by Mr. Le Cheminant about the situation in the coal industry.

2. What Mr. Le Cheminant is saying is that, emotive though the issue of closures is, it is ground on which the miners will find it much harder to make their arguments stick, even with their own people, if the NCB (and the Government) can get their arguments across. I gather that the Secretary of State for Energy made a good start on this in the House of Commons this afternoon.

*RA*

ROBERT ARMSTRONG

17th February, 1981

PERSONAL CONFIDENTIAL

CONFIDENTIAL

P.0425

SIR ROBERT ARMSTRONG

cc: Mr Ibbs  
Mr Wade-Gery  
Mr Moore

COAL

For the best of Cabinet Office reasons I do not normally venture into the substance, as opposed to the handling, of policy issues. But I have some, if rather dated, experience of the coal industry which prompts the following thoughts.

2. If the miners are hellbent on a strike - as they appear to be - they are pursuing the wrong issue at the wrong time. It has always been on the cards that the present Government would not get through its term without one stand-up confrontation with the miners. But all rational expectation has been that the issue would be pay and the timing geared to the next election, ie a blow-up in the winter of 1982 or 1983. Although there were other factors at work the progressive creep-back of the mineworkers' pay settlement date to November (from March where it was two years ago) could be seen as part of the preparation for this. A coal strike in November - preceded by go-slows to pull down the level of stocks - is the best time for the NUM. Governments face the worry of getting through a long winter with diminished stocks, old ladies risk dying of cold, and the rest of it. A strike in March on the other hand comes as the better weather approaches, demand is falling, and this year coal stocks are very high.

3. Of course there are the added complications in the shape of the NUM's need to find a successor to Joe Gormley - in about a year's time - and the tide of frustration in the trade union movement at this Government's apparent imperviousness to traditional pressures. Moreover, the slump by filling the coal stocking yards to capacity - at enormous expense - coupled with tight control of cash for the NCB has forced the latter's hands on pit closures to

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an extent which would have previously been regarded as unthinkable. (For years received wisdom in the NCB - and Department of Energy - has been that closures happen best by stealth and that NUM acquiescence was to be obtained by avoiding rude words in front of the children. The NCB's present actions are a vast departure from precedent.)

4. In short the timing is off both in terms of the period of the year and the stage reached in the life of the Government.

5. As to the issue, closures, despite the emotion - synthetic or otherwise - which they can arouse, are a poor cause to fight for especially when the facts are on the table. It is one thing to say to the troops "Fight, and anything you lose in the short run you'll more than make up in the long". It is quite another to say "Fight, and accept the loss of pay, in order to prevent some other miner in some other pit getting his redundancy money". Miners can be altruistic but losing over £100 a week for no personal gain pushes altruism a bit far.

6. Again the pits to be fought over have, so far as I know, no real future anyway. The issue is not whether they close at all but whether they close now or in a few years' time. The NUM argument that the proposals threaten the long-term future of the industry stands reality on its head. It is the losses of the marginal pits which threaten investment (the Economist puts the losses due to the marginal 10 per cent capacity at £200m a year).

7. Of course the NUM will say that the closures are only the tip of the iceberg and will revive the spectre of 1967. They will also say that the British coal industry enjoys the smallest subsidies of any in Western Europe and if only the Government would pay up, miners' jobs could go on forever. But this argument, too, will not wash. It is perfectly true that Western European coal industries - and notably the German industry - receive very much higher subsidies than does the NCB. But these subsidies reflect real differences in costs (for example social security costs, which in this country are borne largely by the State, are borne in most European countries by the industries themselves) and, if memory serves, the post-subsidy cost of coal throughout Europe, including the UK, is much of a muchness and roughly equates to the cost of imported coal away from the ports.

8. It is a pity that Mr Howell has been manoeuvred into taking part in

CONFIDENTIAL

tripartite talks with both sides of the coal industry next week, though given that he was not ready in time with proposals for better redundancy pay etc, perhaps inevitable. The risk is that - given the identity of interest between the NCB and the NUM - the Government will be put straight in the firing line and the whole operation politicised. On the other hand the meeting will enable Mr Howell to spell out the facts of life - and if a later concession on redundancy pay, social costs etc looks like a retreat by Government, it will at least provide a face-saving way out for the NUM.

9. In short, if there has to be blood-letting in the mining industry the present timing and issue are the best the Government could have hoped for. Indeed if - which I don't believe for one moment - the whole thing had been stage-managed by the NCB, Machiavelli would have been proud of them!



P Le CHEMINANT

17 February 1981

THE COAL INDUSTRY

With permission, I should like to make a statement about recent events in the coal industry.

The National Coal Board saw the National Executives of the three mining unions last Tuesday 10 February. The Board explained that demand for coal has been falling so that the industry is not only facing its long standing problem of the need to close uneconomic pits, but a present and growing surplus of supply over demand, which has aggravated the problem. They told the unions that they aimed to meet these difficulties by maximising sales, increasing efficiency, maintaining a high level of investment in new and replacement capacity and bringing supply and demand into closer balance by diminishing capacity where realistic reserves are exhausted or where for geological or other reasons there can be no long-term contribution. The House will have read of the opposition that has since developed in some coalfields to pit closures. The South Wales coalfield has stopped work today and similar action has been taken, or is being considered, at other pits.

The action which the Board are taking is of course a matter for them. But I must emphasize that they have kept me throughout fully informed of their intentions and in particular told me well in advance what they intended to say at the meeting with the mining unions on 10 February.

Sir Derek Ezra has written to me on behalf of the Board and the three mining unions to suggest an early tripartite meeting of the Government, the Board and the unions. I was very glad to agree to this request and the tripartite has now been arranged for next

Monday, 23 February. Discussions are therefore continuing, and I am sure that all sides of the House will join me in hoping that no precipitate action will be taken while they are.

As for industrial action, I would like to make two points. The first is that the situation faced by the coal industry is not dissimilar to that faced by all other industries and, as with them, it needs to adapt its operations to bring supply capacity into line with the demand it faces. There is nothing novel or surprising about this and only a small proportion of the industry's total capacity is involved. Of course I recognize - and always have - the deep fears which many mineworkers have on this subject. But that leads on to my second point. The long-term future of the industry, if it can contain its costs and increase efficiency, is very bright. It is acknowledged all over the world that coal will have to meet an increasing proportion of our energy needs as supplies of other fossil fuels soar in price and extraction costs. The Government shares this view and we have continued to provide massive funds for investment in new and modern capacity. In 1980-81 the Board's investment programme will have totalled some £800m. But as I said the industry can grasp these opportunities only if it can contain costs and increase efficiency. Inevitably this means both bringing in the new capacity and phasing out the older high cost capacity nearing exhaustion. Indeed, it is only by such increases in efficiency that the long-term future of employment in the coal industry can be safeguarded. This policy is one designed to maximise job opportunities in the long run - because that is what investing in new capacity and closing down old uneconomic pits means. I hope - believe - that those employed in the industry will give full weight to this fact.

PRIME MINISTER

PA (Coal file)  
MS  
413

I faced an extremely hostile Lobby at 11 a.m. posing the following questions:

1. Public relations disaster - Tory M.P. worried about Government being brought down again by NUM.
2. Why wait for Monday? Why not before executive on Thursday?
3. Any chance of bringing forward tri-partite in view of Wales, Scotland and Kent strikes?
4. Why has this crept up on Government?
5. Is the Government refusing deliberately to dance to NUM tune?
6. Why did NCB allow estimates of closures to get out of hand? Why did it play it this way?
7. Will statement cover financial easement? Anything new?
8. Will Prime Minister attend tri-partite?
9. Is David Howell to see Gormley?
10. Is Prime Minister in touch with Ministers, Gormley, Ezra?

I took the following line.

My understanding was that this was the earliest a meeting could be called given that a large number of parties had to be brought together - NCB, NUM, NACODS, BACM, Ministers for Energy, Employment, Treasury and sometimes in Tri-partite meetings Scotland, Wales.

/This



This simply did not wash.

I said that they must, of course, ask the NUM whether they were dissatisfied with this timing; my impression was that some may not be. [D/Energy told me this morning some moderates happy with Monday].

I found it interesting, however, that the Lobby attacked the Government when a union had called what they described as a crucial executive before knowing that facts of any closure programme. Those facts would not be fully set out before tomorrow at the earliest.

I thought the Lobby were rather dancing to the NUM's tune.

So far as I knew, there was no intention to bring forward the meeting from Monday in view of the Wales strike action and threats of it in Scotland and Kent from Monday.

The situation had not crept up on Government and I found it ludicrous to suggest it had. My first chief reporter always told me to read my own paper and only those who had not read their own paper could be unaware of the February 10 meeting and its purpose - or indeed of the estimates of the closure programme which had been current in the press.

I repeatedly said that management of the coal industry was the responsibility of the NCB and the Lobby must realise that under this Government management really did rest there. I was not prepared to comment on whether we felt the NCB was handling the issue badly or well.

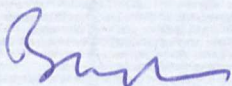
I said I doubted whether the statement would cover any financial matters. The position was that I did not know what the NCB was proposing or what the financial implications of its proposals would be. But I assumed that if there were financial implications they would then have to be discussed with the Government.

/There

There was no intention of the Prime Minister attending the tri-partite discussion and I knew of no plans for her to see Gormley or Ezra. Nor did I know of any plans for Mr. Howell to see Gormley.

I confirmed that the Prime Minister is keeping in touch with Ministers and in response to a direct question said she would see Mr. Howell before the statement this afternoon.

In between all this I sought to get over the Government's £800 million commitment to investment in coal's future; and the facts about imports and balancing exports (which was taken by one journalist to assume there was no room for manoeuvre there).



B. INGHAM

17 February, 1981

**SUBJECT**



cc- CSO  
CDLO  
EMP  
co

jfh

bc Mr Wolfson  
Mr Ingham  
Mr Hoskyns  
*Mr Dwyer*

10 DOWNING STREET

From the Private Secretary

16 February 1981

*CF 18.2.81 file*

As you know, the Prime Minister held a meeting at 1230 today to discuss the threat of industrial action in the coal industry. In addition to your Secretary of State, the Secretary of State for Employment, the Chancellor of the Duchy, the Chief Secretary and Mr. John Moore were present.

Mr. Howell said that the Government's objective must be to avoid an all-out national strike at minimum cost in terms of concessions to the unions. He proposed to agree to a tripartite meeting as requested by the NCB and the unions; this meeting would be set up next week after the planned discussion in E Committee on 24 February. In the meantime, greater efforts would have to be made by the NCB Board and by the Area Boards to get over the facts. At a national level, the unions were at present making most of the running: more had to be done to show that the proposed closures were relatively modest in relation, for example, to natural wastage and that the Government was committed to a prosperous and efficient coal industry. Unfortunately, the NUM National Executive were not in a rational mood; they appeared to be less interested in the positive aspects of the Plan for coal, and seemed intent on fighting on the issues of the proposed closures, imports and subsidies (which they wanted to be increased to German proportions). The position was made more difficult by the fact that, faced with the unions' apparent intransigence, the NCB Chairman was not taking as robust a line as he had earlier.

In the course of their short discussion, it was argued that the situation was turning sour very quickly. It would be desirable to hold the tripartite meeting as early next week as possible. From the Government's and the NCB's point of view, nothing productive was likely to come out of the meeting; the unions would almost certainly use it for their own purposes - and might even walk out. It was important in the circumstances that there should be a day or two between the meeting and the unions' ballot of their members on Thursday 26 February so that the NCB and the Government would have a chance to state their side of the case. The best tactic might be to consider a series of meetings; but in that case, it would be a mistake for the Government to play its full hand in terms of the concessions it would be prepared to offer at the first meeting. As for publicity, there were a number of positive facts which ought to be got over both to the miners and to the general public, particularly regarding investment

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/levels.

levels. But for the time being, this should be left to the NCB and the Area Boards, although background briefing could also be usefully provided to the Lobby.

The Prime Minister summed up as follows:

- (i) Mr. Howell should announce this afternoon that he was prepared to hold a tripartite meeting on the afternoon of Monday 23 February. In making the announcement he should take the opportunity of pointing out briefly that there had been some misunderstandings about the future of the industry and that one purpose of the meeting was to dispel those misunderstandings.
- (ii) The Department of Energy should ask the NCB Board - and in particular Sir Derek Ezra, Mr. Cowan and Mr. Siddall - to play a more positive role with the media in setting out the facts of the current situation and the prospects for the industry.
- (iii) The No. 10 Press Office and your Department's Press Office (in consultation with each other) would provide background briefing.
- (iv) Ministers, apart from Mr. Howell's announcement of the tripartite meeting today, would not provide any comment or briefing for the media for the time being.
- (v) Mr. Howell should put a paper to E Committee on Thursday 19 February; and if necessary, his proposals could be considered by a further E meeting on the morning of Monday 23 February.

I am sending a copy of this letter to Terry Mathews (Chief Secretary's Office), David Heyhoe (Chancellor of the Duchy of Lancaster's Office), Richard Dykes (Department of Employment) and David Wright (Cabinet Office).

TPL



10 DOWNING STREET

MR. WHITMORE ✓  

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c.c.  
Duty Clerks

The Secretaries of State  
for Energy and Employment  
are coming to see the Prime  
Minister at 1230 today to  
discuss coal.

*Heading Hse  
Chy Secretary  
7- John Moore*

16 February 1981

16/2/81

URGENT  
MINERS' LEADERS IN SOUTH WALES HAVE CALLED A STRIKE IN THE AREA FROM 6 AM TOMORROW.

4439  
CORRECTED REPETITION

834 x 1800 up.  
600. *with*  
*Pl for lead*  
*many today.*

34 → 11 (5)  
20,000 up  
23 pits

AERO-SPACE IN LIMELIGHT  
LONDON STOCK MARKETS WERE SUBSIDED TODAY BY THE MINERS STRIKE THREAT, AND AN ADVERSE ECONOMIC REVIEW. THE ALLOTMENT OF THE BIG BRITISH AERO-SPACE ISSUE TOOK MUCH OF THE EARLY LIMELIGHT, WITH THE SMALL INVESTOR WELL FAVOURED, AND MARKET MEN LOOKED FOR A PREMIUM OF AROUND 15P WHEN DEALINGS COMMENCE ON FRIDAY.  
GILTS SHED 1-4, STILL OVERSHADOWED BY THE UNSOLD TITANIUM STOCKS.  
AMONG TOP INDUSTRIALS, ICI 299P, ROYALTY 191P, REECHAM 192P, GIBB VEEV 149P HAWKER 269P AND METAL BOX 199P SHED 2P TO 4P AND IN ELECTRICALS, GEC 636P CAME BACK 10P, AND PLESSEY 5P TO 299P, HOWEVER, REDUCUSTON WERE 5P UP AT 129P FOLLOWING THEIR 59.7 MILLION HONG KONG DISPOSAL, WATLE SOUND DEFENSTON 90P, ADDED 4P ON PRESS MENTION.  
IN FRONT OF WEDNESDAY'S FIGURES, BOC 119P, EASED 2P, STORES HAD BUS 119P 199P, AND BOOTS 249P, OFF ABOUT 3P, AND IN TEXTILES, CARRINGTON WIVELLA 116, LOST 2P AFTER ADVERSE COMMENT.  
IN MOTORS, THOMSON T-LINE 67P, WERE SUSPENDED AT THE OUTSET FOLLOWING A BID APPROACH.  
GAINS OF 12P IN ROBERTY DAVIS 176P AND 3P IN HENLUS 79P, STEMMED FROM NEWSPAPER MENTION.  
GILE GAVE UP 2P TO 4P.  
IN PLANTATIONS, LONDON SUMATRA 369P, ADDED 5P MORE ON THE BID FROM HARRISONS AND CROSSFIELD, 1-4 BETTER AT 89.  
LOSSES OF TEN CENTS TO A DOLLAR IN VACCINES REFLECTED THE LOWER GOLD PRICE.  
BANKS LOST SEVERAL PENCE, INCLUDING LLOYDS 6P TO 399P, AHEAD OF FRIDAY'S RESULTS.

URGENT  
WATER WORKERS IN THE NORTH OF ENGLAND TODAY WORKING-TO-RULE AFTER REJECTING TEN PER CENT PAY OFFER AND CALLING FOR A STRIKE.

PORTUGAL HIT BY DROUGHT  
LISBON, MONDAY - DROUGHT HAS VIRTUALLY WIPED OUT PORTUGAL'S RICE CROP THIS YEAR AND THE COUNTRY WILL HAVE TO RESORT TO MASSIVE IMPORTS TO SATISFY INTERNAL DEMAND, AGRICULTURE MINISTER ANTONIO CARDOSO E CUNHA SAID TODAY.  
THE MINISTER SAID THAT THE GOVERNMENT WOULD PROBABLY HAVE TO APPEAL FOR INTERNATIONAL AID.  
TRADE SOURCES PUT THE COUNTRY'S ANNUAL RICE CONSUMPTION AT ABOUT 200,000 TONNES.

TM  
SKIPPER'S PICKET FISH IMPORTS  
INCLUDING SQUAD!! OF FISHING SKIPPER'S TODAY PICKETED LORRIES WHICH ARRIVED AT ABERDEEN LOADED WITH FOREIGN-CAUGHT FISH. THEY MANAGED TO STOP FISH GOING INTO THE PREMISES OF A NUMBER OF LAURE PROCESSORS, ALTHOUGH SOME MERCHANTS HAD ARRANGED FOR FISH TO BE UNLOADED DURING THE NIGHT.  
POLICE WERE CALLED IN WHEN THE PICKETS MOVED IN ON A CONTAINER LORRY AT ONE PROCESSORS. THE SKIPPER'S ONLY ALLOWED THE CONSIGNMENT TO BE MOVED AFTER THE OWNERS ASSURED THEM THEY WOULD NOT DO IT AGAIN.  
MR JIM McLEAN, CHAIRMAN OF THE ABERDEEN SKIPPER'S ACTION COMMITTEE, SAID THAT MORE THAN 250 SKIPPER'S FROM THE NORTH-EAST COAST OF SCOTLAND HAD JOINED FORCES FOR THE PICKET.

SOUTH WALES MINERS LEADER CALL ALL-OUT STRIKE  
MINERS' LEADERS IN SOUTH WALES HAVE CALLED FOR A STRIKE IN THE AREA FROM 6 AM TOMORROW.  
THE SOUTH WALES MINERS PRESIDENT, MR EMILYN WILLIAMS, SAID THE STOPPAGE WOULD BE ALL-OUT AND THE FIRST TARGET WOULD BE TO STOP ALL MOVEMENT OF COAL.  
THE STRIKE CALL WAS ISSUED AFTER A 20-MINUTE MEETING IN BRIDGEND OF DELEGATES REPRESENTING 26,000 SOUTH WALES MINERS.

Extract from letter Emp to TL of 16/2/87.

original filed on:-  
Nac Ind: Steel: P 8.

## PUBLIC SECTOR REDUNDANCY PAYMENTS

The schemes for National Coal Board and British Steel Corporation employees are summarised below. These are in addition to the statutory payment. A table comparing maximum possible payments at different ages is attached. The maximum payment under the existing NCB scheme is £24,000; the proposed improvements would raise this to £35,000. The maximum payment under the BSC scheme is £20,000. Average payments are, of course, very much smaller.

### A National Coal Board

1 The existing scheme gives mineworkers aged over 55 with ten years' service 95% of previous take home pay for 3 years, then weekly payments equal to unemployment benefit until age 65. In addition pension is paid early. Miners under 55 get a lump sum based on a sliding scale, equal, roughly, to half a week's salary for each year of service up to age 35, 1 week/year 35-45, and 1½ weeks/age 45 to 55.

2 The proposed scheme improves benefits for all age groups. All those under 60 get an additional lump sum, on a sliding scale which varies from £1,000 for those under 39, to double the statutory payment for those aged 50-55. Those aged 50-60 get an enhanced pension, and for those over 55 the period for which 95% of previous take home pay is payable is increased to 5 years.

### B British Steel Corporation

3 The BSC scheme has three possible elements:

- (i) a supplement of some 50% of the statutory payment
- (ii) payments under the Iron and Steel Employees Readaptation Benefits Scheme (ISERBS) of 6 months earnings-related supplement to workers under 55 who remain unemployed. For unemployed workers over 55, 90% of pre-redundancy earnings for 1 year, followed by 80% for 6 months. For workers in new employment, earnings are made up to 90% of previous steel earnings for 1½-2½ years depending on age. There is also a training allowance equal to previous take-home pay for up to 1 year, and an early pension option for over 55s. The scheme is jointly funded with the ECSC and applies to most BSC employees and some private sector steelworkers

CONFIDENTIAL

PRIME MINISTER

Miners

1. I feel I must put in a note before events go much further on the miners' threat of a national strike against a closure programme. I would like to make the following points against the background of some quiet canvassing of opinion.

- i. There is a tendency in Government to underplay the seriousness of the threat and to believe we can play it long. This may be naive. The NUM has set a 7-day deadline before moving to a strike ballot which Yorkshire, the largest coalfield, has to all intents and purposes already conducted. It will be kept to it, unless there is a very persuasive move, not simply by pride and industrial machismo; it will be kept to it, in view of the NUM executive's unanimity against a closure programme, by those who have other (political) fish to fry than pits and jobs.
- ii. Against this, my contacts in the NCB are more relaxed; they say that the closure programme, as it is now officially emerging in the coalfields, is much less horrendous than it has hitherto been portrayed. Moreover, they believe that, if the Government can provide more money for redundancies and for investment in conversion from oil to coal, ? they can get their way once they start making their case.
- iii. On the basis of the plans so far revealed, there is nonetheless a view outside Government, in spite of the general distaste for Scargill and

/McGahey,

CONFIDENTIAL



CONFIDENTIAL

-2-

McGahey, that the NCB (with the Government behind it) is trying to achieve too much too quickly.

- iv. Joe Gormley is ranged against us if only tactically to protect his flank against Scargill and has put himself into a box.
- v. We start with some of the press against us (see today's Express); this is in part the consequence not so much of being embroiled with miners who always attract some sympathy but of standing aloof from industry. If the policy is to stand aloof, we have to be seen to be so doing and that inhibits briefing and conditioning. A good current example of this is water.
- vi. I am far from convinced that miners are as corruptible as the next man and that better redundancy terms could do the trick. In some ways they are more resistant to blandishments because they are the most cohesive industrial force in Britain who are prepared to defend the basis of their livelihood - i.e. pits. The fact that they have been "moderate" in their pay demand this year is not necessarily a guide to their attitude to pit closures.
- vii. Defending one's livelihood has a certain appeal not merely to those directly concerned but also to the public; it provides excellent cover for those like Scargill who have ulterior motives - in his case, the smashing, among other things, of the Employment Act's picketing provisions.

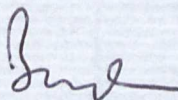
/viii. There

CONFIDENTIAL

CONFIDENTIAL

viii. There are many in our society now who are not Parliamentary democrats who will egg on the miners in the hope of bringing down the Government; equally, there are other trade unionists who, not gifted with insight into the implications, would not be averse to the Government getting a bloody nose.

2. I am frankly concerned at the apparently relaxed approach of the Government to the threat. Publicly, I am sure we should not get involved at this stage and should avoid any sign of panic, undue concern or weakness. But behind the scenes we need a much more extensive and rigorous examination of the situation than is implied by an E Committee discussion of coal industry redundancy terms. The Government will inevitably become involved when the tri-partite machinery is put in motion by the Department of Energy which has today been asked to set up a meeting by the NCB and the NUM and the other coal unions. But can it realistically hope to delay that meeting until after E on February 24, given the NUM's 7-day deadline? There will be those in the NUM who will seek to apply the tightest interpretation of this timetable.



B. INGHAM

13 February, 1981

CONFIDENTIAL

Prime Minister ✓  
Mr Hough seems relatively relaxed. But see Bernard Lyban's minute attached.

~~M. Hough  
C. Lyban  
M. Lyban~~

PRIME MINISTER  
COAL INDUSTRY REVIEW

-IPM'd

12  
12/2

Further to my minute of 11 February the NUM National Executive unanimously decided at their meeting yesterday to recommend industrial action to a ballot of members if the NCB does not withdraw its 'plans for closures'.

However, a ballot will not be held immediately. Over the next week, the Board will be holding discussions with the unions at Area level. It is at these discussions that details of the Board's proposals will emerge. The Board have deliberately adopted this procedure because the impact of these details Area by Area will be less than the rank and file mineworkers have been led to expect by the statements of their leaders at national level. The NUM National Executive will meet again next Thursday to consider what they have been told at Area level.

I have also received letters from both Mr Gormley and the NCB in conjunction with all the mining unions requesting a Tripartite meeting. I think it will be necessary to let it be known before the Executive meets next Thursday that we are prepared to hold such a meeting (which would be to discuss Plan for Coal, the financial strategy, imports and support parity with other Community coal industries.) I will of course aim to avoid having any such meeting before the E Committee discussion of coal strategy on 24 February.

I am copying this minute to Cabinet colleagues and Sir Robert Armstrong.

I think it will have to be held before that meeting.  
I rather agree with Bernard's point.  
Secretary of State for Energy

D4  
2

13 February 1981

Note: The point is that high price of coal = high price electricity = job losses elsewhere.

TKL  
13/12



Mr Walters  
cc Mr Duguid.

Am - Amroth

2

PRIME MINISTER

COAL INDUSTRY REVIEW

mk

R

11/2

As foreshadowed in my minute of 27 January, the National Coal Board met the national executives of the mining union yesterday. The Board explained the effects on the coal industry of the recession and the need to reduce capacity. Sir Derek Ezra described the meeting as a very difficult one.

The Board resisted heavy pressure from the unions for a list to be revealed of the pits which it was proposed should close. They said only that 20-30 pits might be exhausted in the next 5 years or so and that a smaller number faced severe geological difficulties. The Board stressed that this was not an announcement that 50 pits would close. The unions were told that details would be discussed at Area level, but some union representatives wanted first to approach the Government.

The unions also pressed hard on the level of coal imports. Ezra undertook to join them in an approach to us on this, as well as on the need to maintain investment and on the comparative level of subsidies to the coal industry in this country and overseas. Many of the usually 'moderate' NUM representatives spoke out strongly on these points.

He didn't sound  
'constructive'  
on the radio  
R

I understand that Mr Joe Gormley played a constructive role, taking the line that some redundancies were inevitable and that the unions should seek the best possible terms. The Board did not mention its ideas, which as you know they have floated with us, for improved redundancy and transfer terms.

The NUM's national executive meets tomorrow morning to decide whether to participate in Area discussions or to move towards taking nationally co-ordinated industrial action.

I am copying this to Cabinet colleagues and Sir Robert Armstrong.

SECRETARY OF STATE FOR ENERGY

11 FEBRUARY 1980

DH-

cc Walters  
Bryd

Not Incl



Y SWYDDFA GYMREIG  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switsfwrdd)  
01-233 6106 (Llinell Union)

WELSH OFFICE  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switchboard)  
01-233 6106 (Direct Line)

*Oddi wrth Ysgrifennydd Gwladol Cymru*

The Rt Hon Nicholas Edwards MP

*From The Secretary of State for Wales*

10 February 1981

*De David*

*WJ*

Thank you for your letter of 6 February about the National Coal Board's closure plans.

I have now discussed the position in Wales with the Area Director. He will, on present plans, be telling the unions of his closure plans - starting with some five collieries in the next six months - on Friday 13 February and his assessment is that the unions could respond with strike action or threats. In talking with the Unions he will not be able to bring into the argument any firm commitments on redundancy payments or investment which could help to soften the union's reaction. These we have yet to discuss and we are not likely to be able to make announcements on them until later in the month. There is a real danger therefore in the present timetable that in the absence of any agreement to redundancy payments for example, announcements of the kind Mr Weekes has in mind will result in unhelpful reactions by the unions and our eventual decisions on support for the industry will then be seen in the context of a strike or threat of it and so misinterpreted.

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

*J am*

*Nic*

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

A



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

01 211 6402

The Rt Hon Nicholas Edwards MP  
Secretary of State for Wales  
Gwydyr House  
Whitehall  
LONDON  
SW1A 2ER

*See the minutes (Co.)*

6 February 1981

*Dear Nick*

You sent me a copy of your minute of 2 February to the Prime Minister about the announcement of the National Coal Board's closure plans.

The Board do not intend, at their meeting with the unions, to tell them what total national level of closures they have in mind. Detailed questions, for example about closures in particular Areas, will be left for the subsequent meetings between the Area Directors and the unions locally. The information to be given by each Director will depend on his own judgement about the circumstances of his Area and the atmosphere at the meeting. There will be no attempt to impose uniformity on the presentations by the Area Directors.

I do not think therefore that we need fear that the Board will commit us as to the total national level of closures. As to the level inside each Area, I believe that there are strong arguments against any attempt to influence the Board's judgement. I can understand however the difficulty of your position in South Wales, and the Board have agreed that the Area Director there will keep your officials informed about the line he will take with the unions. I hope that this will help.

I am sending the Prime Minister a copy of this letter and to the other members of the E Committee.

*Yours as*

*James  
2*

D A R HOWELL

Copy to David Wright (C.O.)

Prime Minister

2



Mr. Hand's letter at  
Erag A should allow

Mr. Edwards' concern.

CONFIDENTIAL

PRIME MINISTER

MT

COAL

P.

I have seen a copy of David Howell's minute to you of 27 January.

5/2

I must say that I am very perturbed by the indication that shortly after 10 February the NCB's Area Directors will be giving the unions details of the pits the NCB have decided to close. I do not believe that it is right that this should be done before the Government has this information and before we have had an opportunity to consider and discuss the implications.

/ I am sending copies of this minute to E Committee members.

R.

RNE  
2 February 1981

CONFIDENTIAL

SUBJECT  
cc Master

File



cc: Mr. Walter  
Mr. Worsan  
Mr. Hoskyns

289

10 DOWNING STREET

From the Private Secretary

29 January 1981

Nat Ind

As you know, your Secretary of State called on the Prime Minister yesterday evening with Sir Derek Ezra and Sir John King. The meeting largely took the form of Sir Derek expressing his views on the coal industry. Most of this will doubtless be familiar to you, but I thought you might still be interested in having a record.

Sir Derek said that productivity in the industry was improving; absenteeism was the lowest in 25 years; new investment was paying off, which justified the decision to invest on a large scale a few years ago; and the NCB had established an excellent relationship with its suppliers. 98% of the NCB procurement was from domestic sources, yet on competitive terms. The NCB helped its suppliers with their R & D, and they had helped to generate mining equipment exports. The NCB's costs were lower than in France and in Belgium, and where geological conditions were comparable or where there was open cast mining, they were competitive with the USA. Their real problem was with the old pits, which - for geological reasons - could not be economic. The NCB had agreed a programme of closures with the Department of Energy. Last year ten pits and two coke ovens had been closed without any trouble from the unions; although this was partly because only a few thousand had been made redundant. But the NCB's financial situation had now deteriorated so that it was necessary to double or treble the rate of closure. The only alternative to faster closure was cutting back production across the board, which would be disastrous. They intended to inform the unions in early February. This would inevitably mean higher costs in the short run because of redundancy payments - and it might be necessary to improve the redundancy terms to some extent. They now had to think of closing up ~~the~~ 6 million tonnes of capacity a year, and this would be concentrated in Wales, Scotland and the North East. There would almost certainly be trouble from the unions, but the Board saw no alternative. In total, some 20 million tonnes of uneconomic capacity needed to be got out of the system; and this could involve 40,000-50,000 jobs. Once this was achieved, Britain would have a highly efficient coal industry. Unlike other industries, they had very few demarcation problems, they were able to get rid of unsatisfactory employees without too much argument from the unions, they had substantially overcome

/ accident

CONFIDENTIAL

VS



- 2 -  
CONFIDENTIAL

accident and pneumoconiosis problems, and they were putting in the best investment and technology available. One example of the latter was the application of advanced control technology to reduce the amount of down time of highly expensive equipment. Also, British mining engineers were as good as any in the world; many of them were working abroad and this helped generate mining equipment exports from the UK. The investment programme in new equipment and new pits - Sir Derek mentioned Selby - was going well. But because of their tight financial situation, they were now having to consider whether investment should be reined back.

On the question of prices, Sir Derek said that the NCB's agreement with the CEGB had been freely and fairly negotiated - though it could be argued that the NCB were fortunate in their timing of the negotiation. In other areas, their prices were under pressure: for example, they had dropped their prices to BSC in order to stay competitive with imports. (Sir Derek pointed out that the NCB had substantially increased their exports and would be doing even better if it were not for the seamen's strike). Compared with the landed price of fuel oil, NCB coal was still some 30% cheaper. He was convinced that import prices would rise. There were continuing problems in the US ports and in South Africa; New South Wales was susceptible to strikes; and more coal-fired capacity was coming on stream worldwide.

The Prime Minister said that she agreed that the NCB seemed to have no alternative but to speed up the closure of the uneconomic pits. She was glad that productivity was improving, but she remained very concerned about the continuing increase in coal prices and the very substantial NCB financing requirement, including the subsidy against loss making. Previous governments had made a commitment to build coal-fired power stations when they could have moved faster on nuclear as the French had done. It seemed likely that electricity prices would now be cheaper if the bias had been more in favour of nuclear. She hoped that the NCB would begin to repay the commitment which successive governments had made by maximum efficiency and by more moderate price increases in future.

I. P. LANKESTER

Julian West, Esq.,  
Department of Energy.

CONFIDENTIAL



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

Tel: 211 6402

M Pattison Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
London SW1

27 January 1981

*Dear Mike,*

I enclose a short brief for the Prime Minister's use when, in company with my Secretary of State, she sees Sir Derek Ezra tomorrow.

We understand that the meeting is ostensibly a social one. However, it is too much to expect Sir Derek will not want to touch on his Board's current problems and to enlist the Prime Minister's sympathy for their proposed new approach. The Board's attitude has undoubtedly turned round - thanks to the pressure of our strategy on them - and is now very much along the lines we wish to see. For all that however, the Prime Minister will not, at this stage, wish to give a final view on the Board's proposals.

Sir Derek is also this year's Chairman of the Nationalised Industries Chairmen's Group. We have not, however, included material on current general nationalised industry problems for the sake of brevity. Should they be raised, the Prime Minister could refer to the continuing discussions between the Chancellor and the NICG.

*Yours ever,*

*Geoff Darts*

G S DART  
Private Secretary



MEETING WITH SIR DEREK EZRA: 28 JANUARY 1981

Brief for Prime Minister's use

Background

1. We understand that this meeting has been arranged at Ezra's request, and is primarily a courtesy call. However, it is likely that he may wish to touch on problems of coal policy, which are preoccupying the National Coal Board at the moment.

2. In Autumn 1979, Ministers agreed a financial strategy for the Coal Industry with three main parts:-

i. NCB should achieve break-even, without operating grants from 1983-84 onwards;

ii. over the period to 1982-83, operating grants would taper off. Upper limits on grants and EFLs for NCB were set as follows:-

	<u>£m 1978-79 Prices</u>			
	<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>
Total grants	192	166	85	57
EFL (including grants)	613	570	480	375

iii. social grants (basically assistance to men who lose their jobs when high-cost capacity is closed) to continue.

This strategy was based upon aims for productivity (OMS to increase 2% pa) and pit closures (1.5mt pa).

3. NCB have kept within their EFL for 1979-80 and hope to do so in 1980-81. Physically, the coal industry has performed well; absenteeism is at a record low level (12.3%); OMS has risen by about 1.5% pa (less than expected); high cost capacity has been eliminated at a rate in line with the Financial Strategy, and faster in 1980-81 (up to 3mt capacity).

Production is up (colliery output in 1980-81 is likely to be some 5mt higher than in 1978-79). However, because of the recession, coal demand has fallen sharply, and, for that reason, and because of high production, NCB expect to put 5mt more to stock this year than they had expected.



4. Looking ahead, NCB see no prospect of improvement in coal demand. They believe that it is now impossible for them to achieve break-even in 1983-84, or to keep within the EFLs which have been laid down. (They argue that cuts in capital expenditure, as well as endangering the longer-term future of the industry, would lead to short-term cancellation charges, and that drastic closures cannot be achieved without a substantial improvement in redundancy terms which they cannot finance from the money available to them.)

5. NCB therefore propose a new approach. They wish to eliminate their present "tail" of high-cost capacity as quickly as possible. In their judgement, they cannot go faster than eliminating 17-18mt of high-cost capacity by 1985-86, and to do so they will need a substantial improvement in redundancy terms. Even so, the risk of industrial relations trouble is obvious. In addition, the Board plan to achieve continuing increases in output and productivity at long-life collieries, and to maintain tight financial control, so that unit operating costs increase by no more than general inflation. (This will involve, inter alia, keeping labour costs, at worst, constant in real terms).

6. At the same time, the Board want to maintain capital investment at a level which would allow continued creation of low-cost capacity. (They argue that not only will this output be needed in the longer-term, but that continued investment will make it easier for the miners to accept closures).

7. To achieve these aims the Board seek Government help in:-

i. covering the additional "social costs" of pit closures;

ii. safeguarding sales of 120mt pa of coal over the period to 1985-86. (This would mean phasing out present coal imports, except where needed on quality grounds, and some financial assistance to encourage industry to convert from oil-fired to coal-fired boilers);

iii. devising financial arrangements to assist the Board to bear the cost of holding substantial cost of coal;

iv. an increase in the proportion of grants within the EFL to give the Board a prospect of breaking even each year.

On this basis, the Board argue that they will be able to bring a capacity into line with demand by 1985-86. The Board should then be financially viable.



8. The Board are to meet the National Executives of the three mining unions on 10 February, to explain the Board's plans for dealing with the industry's financial problem. These centre on increased closures. The Secretary of State has told Ezra that the Government cannot reach a final decision by 10 February. Ezra accepts this.

9. So far neither the Secretary of State for Energy nor Ministers collectively have considered the Board's proposals. The Secretary of State has, however, told Ezra that it must remain the Board's responsibility to keep a proper balance between supply and demand and that the Government is unlikely to agree to take action to maintain demand at artificially high levels, and that he agrees with the need for substantial closures of uneconomic capacity. He believes that there is a strong case, as the Board suggest, for improved redundancy terms and for helping the Board to finance the other additional costs imposed by a higher rate of closure. The Secretary of State intends to put his proposals to colleagues in due course.

10. Ezra has also repeatedly pressed the idea of some sort of presentation by the Board to the Secretary of State and his colleagues. The Secretary of State has not yet accepted this idea and would, in any case, wish to consider its timing.

#### Suggested Line

11. The Prime Minister will not wish to initiate a discussion of the Board's proposals, unless Ezra raises the subject.

12. If he does so, she might make some or all of the following points:-

i. she recognises the efforts which the Board have made to keep within the present Financial Strategy;

ii. she recognises too the courage that is involved in grasping the nettle of closures.

iii. she has not yet, however, discussed policy for the coal industry with the Secretary of State and her other colleagues, and would not want to discuss the substance with Sir Derek until she has done so;

iv. she does not believe that it will be possible to give any firm Government view before 10 February.

cc Mr Duguid



Amie Amie Nat 2  
 first A/warning of the NCB's  
 closure plans: bin will  
 come to collapse soon.

PRIME MINISTER

The National Coal Board have put to me their plans for the coal industry for the period to 1985/6. This minute is to give you a preliminary indication of the position they face, pending an opportunity for colleagues to consider the prospects in detail. 27/1

The market for coal has been reduced by the economic recession and the Board are faced with a surplus of supply over demand. Their main conclusion is that substantial closures of uneconomic capacity are necessary, perhaps totalling 17m tonnes over the period. Carrying this programme through will entail improved redundancy terms for mineworkers and impose other short term costs which initially outweigh the savings accruing from closures; and the Board have asked for Government help to finance these and for some Government action to sustain demand.

The Board will see the National Executive Committees of the mining unions on 10 February to explain the problems facing them and the need to reduce capacity. At further meetings in the following days the Board's Area Directors will give the unions locally details of the pits the Board have decided to close. The policy of the National Union of Mineworkers is to oppose all economic closures and we cannot rule out the possibility of a collision between the Board and the union.

I have told Sir Derek Ezra that there is no prospect of a final decision by 10 February on the Board's financial proposals, which raise major questions for the Government. He has accepted this. I have also told him that the Government is unlikely to agree to take action to sustain coal demand. I am sure that it must remain the Board's own responsibility to keep a proper balance between supply and demand.

I agree with the Board however that substantial closures of uneconomic capacity are needed. They are essential to get the industry into competitive shape and put the Board's finances right: last year the pits the Board intend to close lost £150m and were



they to remain open these losses would increase. It has taken the Board themselves some time to realise the need to accelerate closures, and the pressure of the financial strategy we set for them in 1979 has played a big part in bringing them to do so. Now that they do see the need, we should support them in achieving the necessary closures. In particular, there is a strong case, as they suggest, for improved redundancy terms and for helping the Board to finance other extra costs imposed by accelerating closures. Such help would make the ordinary miners much less likely to support NUM opposition to the Board's plans. I shall, however, bring detailed proposals on this and other parts of the Board's plans before my colleagues in the normal way.

I am sending copies of this minute to the other members of the E Committee.

J.A.  
→

SECRETARY OF STATE FOR ENERGY  
27 January 1981



10 DOWNING STREET

22 January 1981

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

John Hoskyns

Quite so! I  
should have spotted  
this myself. R

LOCATION OF NCB HEADQUARTERS

On 12 January, Geoffrey Dart wrote to Tim Lankester giving the reasons why NCB should be allowed to retain their headquarters at Hobart House.

I found the arithmetic in the letter rather puzzling and could not see how NCB made its case. Not being a property expert, I wrote to David Young, enclosing a copy of the letter (correspondence attached).

As you will see, David Young finds the NCB argument, on the face of it, unconvincing and you may feel that someone should put it under the microscope. Of course, my reactions and David's comments are not based on full information, but NCB's case does look a bit peculiar.

JOHN HOSKYNs





Department of Industry  
Ashdown House  
123 Victoria Street  
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Telephone: Direct Line 01-212 0440  
Switchboard 01-212 7676

David Young  
Special Adviser

19th January, 1981

John Hoskyns, Esq.,  
10 Downing Street,  
London, S.W.1.

*Dear John,*

NCB HEADQUARTERS ACCOMMODATION

Thank you for your letter of 16th January enclosing Mr. Dart's letter of 12th January. I am afraid that I am more than puzzled at the explanation tendered for the refusal of the NCB to move from Hobart House.

1. The lease has a very high capital value. On the assumption that the nett lettable area is of the order of 100,000 sq. ft., it would command today a market rental of £2 million per annum and a capital value in the order of £17 - £23 million: quite apart from any "marriage value" deal with the freeholders. This could be scaled up or down if the nett lettable area differs.
2. On the assumption that there are 500 employees at present in the Head Office, relocation costs are in the order of £40,000 per head! As there is no need to move Secretarial or Clerical staff, since they will be absorbed quickly on the London office market, I cannot imagine that there could be more than 100 or so Executives who would actually have to move and therefore I believe that we should ask for a detailed breakdown of the £20 million.
3. BSC, who are next door, have already announced their intention to move. If Mr. MacGregor cannot justify his view of Buck House, I cannot see how Sir Derek Ezra can. What could be better in today's difficult times than to persuade the NCB to move their Head Office to the North East or North West for the Assisted Areas would greatly benefit from the employment potential.

*Yours ever,  
David*



10 DOWNING STREET

16 January 1981

David Young Esq  
Special Adviser  
Department of Industry  
Ashdown House  
123 Victoria Street  
LONDON SW1

THE NCB HEADQUARTERS ACCOMMODATION

You probably haven't seen the attached letter, and I just pass it to you as it may be of interest. I find the third paragraph rather puzzling. If removal costs, redundancy etc, could amount to £20m, then presumably the number of people at Hobart House must be quite substantial. And yet they reckon that they could only save £1m a year by re-subletting Hobart House (which they rent for less than £1 per square foot till the year 2030 - from whom? Who is the landlord?) at a profit rental to another tenant.

You've got other things to do, but I thought I would show this to you in case you happen to know anything about the situation.

JOHN HOSKYNS

Tom



SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ

in the ...  
in the ...

Prime Minister  
Because of the government  
terms of the NCB lease  
at Hobart House,

T Lankester Esq  
10 Downing Street  
London SW1

the House does not  
think it necessary  
to press them to  
12 January 1981

Dear Tom,

move out. I think  
he makes a fair  
case.  
B.

LOCATION OF NCB HEADQUARTERS

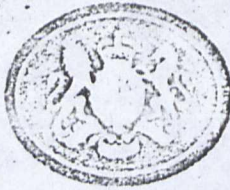
When my Secretary of State met the Prime Minister on 22 December, he promised to look into the continuing need for the National Coal Board to retain their headquarters at Hobart House.

To put the question in perspective, the Board have told us that they have, over the years, reduced the proportion of their Headquarters staff who work in London. Over the years, successive groups of staff have been moved out of London (most recently the headquarters of their subsidiary NCB (Coal Products) Limited, involving some 200 jobs), and now only one fifth of their Headquarters staff are in London. The Board will continue to look for specific groups of staff who can be moved out and, further, as part of their major cost savings campaign, are already implementing plans to reduce their headquarters staff by some 5% before the end of March next year.

The Board tell us that they examine periodically the need for the Board to retain some or all of their headquarters in London - as well as their regular consideration of whether specific groups of staff can be moved out. The main elements in this review are, of course, cost and efficiency. As far as cost goes, their existing lease of Hobart House is on extremely favourable terms. The rental is less than £1 per square foot and will remain unchanged until the year 2030. The Board could, of course, hope to secure a much higher sub-rental if they sub-let the building in the right market conditions and could find a tenant acceptable to the landlord. They believe that they could get alternative accommodation elsewhere, at a cost which could show a net saving of some £1m pa. This saving, however, would be completely overshadowed by the costs of the move. After taking account of redundancy payments to staff unwilling to move and financial assistance to others, the Board estimate that these costs could come to some £20m. This figure takes no account of the inevitable penalties in terms of disruption and loss of efficiency which a move of Headquarters would involve.

My Secretary of State finds these arguments reasonable, and would not wish to press the Board further. From the Government's point of view, the essential thing is that the NCB should reduce their

Whos  
landlord?  
give rent  
to be being  
you  
more



costs and improve their efficiency. He is pressing them very hard to do so, but the choice of means should be left to them. He would not therefore wish to press them to make savings by moving their Headquarters in preference to other means which seemed better to them, especially if the result would in all probability be a diversion of management effort and a reduction of management efficiency in a crucial period for the coal industry.

I am sending copies of this letter to John Wiggins (Treasury), Ian Ellison (Department of Industry), Sir Robert Armstrong and Mr Ibbs who all received copies of your note of the meeting.

*Yours sincerely,*

*Geoff Dart*

G S DART  
Private Secretary



10 DOWNING STREET

Princess Diana

On the whole, I  
think Mr Howell ought  
to be invited to  
this as well. Agree?

Yes Mr.  
R.

14/1  
S/Energy coming  
e.g. stories  
being sent.  
e.g. 15/1



Airanged for Wednesday  
28 January at 1700.  
Every sending a  
freq. £1.14/11

PRIME MINISTER

1. JOHN KING ASKED THIS AFTERNOON.
2. HE SAYS THAT DEEK EZRA FEELS  
THAT HE DOES NOT KNOW YOU.
3. ACCORDING TO JOHN, EZRA WOULD BE  
HAPPYIZED IF HE WAS TO SEE YOU.
4. JOHN ASKS IF HE MIGHT BRING EZRA  
OVER TO DOWNING STREET OR TO THE  
HOUSE FOR A DRINK ONE EVENING.

Tell David Howell

✓  
✓

13/1/1961

Ref. A03981

PRIME MINISTER

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E: Presentation of Mineworkers' Pay Settlement

BACKGROUND

You will recall that although the miners' pay settlement increased the NCB's total pay bill for miners by 9.7 per cent this was publicly presented by Mr. Gormley and by the Press and television as a settlement amounting to 13 per cent. The details were set out in a note by the Secretary of State for Energy attached to his Private Secretary's letter of 16th December to the Chancellor of the Exchequer's office. In that note the Secretary of State advised strongly against any Government intervention to comment on the presentation of the figures. He thought that it was too late to do so, and that if the NCB and the NUM leaders were made to look foolish this could create a bad atmosphere both for closures and for the autumn negotiations leading up to the November 1981 settlement.

2. The Chancellor of the Exchequer has now asked for this question to be discussed at E. He will wish to question whether there would be advantage in clarifying the figures on the miners' settlement in the interests of influencing employee groups involved in current pay negotiations.

3. A further development is that there have been some reports that the miners' settlement was worth more than 13 per cent. The Economist (page 47 of the current issue) says "the public sector is temporarily stuck with a going pay rate in the form of the miners' 13 per cent pay settlement over 10 months or 15-17 per cent over a year. Unions in the nationalised industries have seized upon this as a goal they must attempt to achieve for their members. Hence the threat of a national water strike".

4. Mr. Ibbs's minute of today to Mr. Lankester points out that there is a respectable case for interpreting the settlement as in the order of 13 per cent and proposing that the figures should now be clarified, by unattributable Press briefing, in the interests of killing the notion that the settlement was worth as much as 17 per cent.



HANDLING

5. As the Chancellor of the Exchequer has asked for this item to be on the agenda, you will wish to invite him to speak first and the Secretary of State for Energy to comment. The Committee will wish to hear the views of the Secretaries of State for Employment and for the Environment on the relevance of these figures to other current negotiations.

6. The Committee may well think that it is too late now to make a play of the 9.7 per cent:

- (i) It would be very odd for the Government to comment after this length of time.
- (ii) It would backfire if, as the CPRS point out, there are respectable different interpretations of the arithmetic and a basis for referring to 13 per cent.
- (iii) It is very important not to sour the atmosphere for mine closures or to prejudice the negotiations on the next miners' settlement towards the end of this year.

7. It is however a different matter, if figures higher than 13 per cent are gaining currency. The Committee will wish to consider whether in response to this either the NCB should be persuaded to clarify the position or, as the CPRS have suggested, there should be unattributable Press briefing.

CONCLUSIONS

8. If the Committee decides that any initiative should be taken to clarify the miners' settlement they will wish to decide whether the Secretary of State for Energy should be asked to invite the NCB to do this or whether it should be done by unattributable briefing. If the latter, it might be appropriate for the Treasury to take responsibility, since the aim is to influence pay settlements generally rather than those for which the Secretary of State for Energy in particular is responsible.

9. If it is to be done through the Treasury the Committee will wish to invite the Chancellor of the Exchequer to arrange for this in consultation with the Secretary of State for Energy who will probably wish to consult the NCB first.

RA

ROBERT ARMSTRONG

13th January, 1981



Not Under

copied to PM



CONFIDENTIAL

Qa 05218

To: MR LANKESTER

From: J R IBBS

Presentation of Mineworkers' Pay Settlement

1. This item is to be raised orally at E Committee tomorrow. Reference will be made to a note dated 16 December 1980 from the Secretary of State for Energy's Office.
2. There is a great deal of confusion over the effective value of the settlement. Mr. Gormley and the NUM have said it is worth around 13 per cent. The Economist last week said 15-17 per cent. Other unions, for example the waterworkers, also claim it is worth 15-17 per cent. The Department of Energy argues it is really worth only 9.7 per cent.
3. The confusion arises in part because both the present and the previous settlements were for 10 month periods.
4. The effective value of the latest settlement depends both on whether annualisation is taken into account and over which periods the annualisation is calculated. Calculations show:
  - (i) the Department of Energy's 9.7 per cent is correct in the sense that average weekly earnings immediately after the settlement should be roughly 9.7 per cent up on those immediately before.
  - (ii) However, average earnings for the year to 1 November 1981 will be around 13 per cent up on those for the year to 1 November 1980 (see Annex). This may be the origin of Mr Gormley's 13 per cent.



CONFIDENTIAL

(iii) Alternatively, average earnings for calendar year 1981 will be around 12½ per cent up on 1980 on the assumption that mineworkers settle for only 6 per cent this coming November (see Annex).

5. The CPRS is concerned lest, on the basis of the Department of Energy's note, Ministers choose to present the settlement as one of 9.7 per cent. As the note points out this might well embarrass moderate factions in the NUM. However, because higher figures emerge after adjustment to an annual basis, concentration of attention on the figure of 9.7 per cent may merely have the effect of increasing the credibility of much higher figures as the 9.7 per cent could not be sustained as a fair basis of comparison for other annual settlements.

6. Because the figures of 15-17 per cent are beginning to gain currency, it is important that the true value of the settlement becomes known before remaining public sector pay negotiations are endangered by ill-informed beliefs.

7. The CPRS suggests that a good way of doing this would be for relevant facts to be released to selected journalists on an unattributable basis so that the true value of the settlement can be fairly calculated.

8. I am sending a copy of this minute to the Private Secretaries to the members of E Committee and other Ministers invited to attend, and to Sir Robert Armstrong.

13 January 1981

2

CONFIDENTIAL

ANNEX

Alternative Values of the Miners' Pay Settlement

1. Taking as a base of 100 the average weekly earnings in the ten months to 31 December 1980, average weekly earnings since November 1979 are roughly:

November 1979 to December 1979	83
January 1980 to February 1980	91
March 1980 to December 1980	100
January 1981 to October 1981	109.7

2. Value over years ending 31 October. For the twelve months to 31 October 1981, average earnings will be about 13% up on the twelve months to 31 October 1980.

3. Value over calendar years. In order to calculate the rise for calendar year 1981, there must be an assumption about the settlement that will be reached this November. If the settlement is for 6% say, average earnings would be 116.3 in the last two months of 1981. On that basis, average earnings over 1981 as a whole would be 12½% up on those for 1980.

[Note: These figures have been checked with Department of Energy officials, but not with the National Coal Board.]

~~CONFIDENTIAL~~  
Original returned to W.

cc Mr. Walters  
Mr. Duguid  
Mr. Ingham

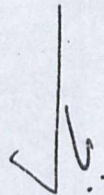
PRIME MINISTER

E, 14 JANUARY: PRESENTATION OF THE MINERS' SETTLEMENT

In his note of 16 December Mr. Howell opposes any initiative to publish the true percentage figures for the miners' settlement, for fear of adverse effects in the mining industry.

What the true figures are is in itself a disputable issue: by the usual yardstick of increase in the total pay bill it was a 9.7% settlement, but lasting for only 10 months. It is possible (but I would judge rather unlikely) that some of the miners think of it as 13% because of the way it was presented. The Economist this week talks of a 15-17% increase: you may want to probe Mr. Howell on the facts.

Provided it would not be open to contradiction, the balance of advantage has now shifted towards presenting it as a single figure settlement, because of the difficulties employers in three other nationalised industries - water, gas and electricity - face in negotiating settlements which are perceived to be several percentage points below what the miners got. The water workers have rejected 7.9%, the gas workers have rejected 9%, and the electricity workers have made it clear they will accept no less than the miners. The importance of lowering expectations of these groups in the current pay round now outweighs the hypothetical difficulty that might be created in the mining industry: Ministers should start to refer publicly to the need for responsible pay bargaining in the public sector monopolies, and the fact that even the miners only got 9.7%. But to draw parallels with the miners, and then to find there was a respectable case for saying they got 13% or more, would be to get the worst of both worlds.



J.M.M. Vereker

13 January 1981

~~CONFIDENTIAL~~



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

to Mr. [unclear]  
Mr. [unclear]

T Lankester Esq  
10 Downing Street  
London SW1

Dear Tim,

LOCATION OF NCB HEADQUARTERS

When my Secretary of State met the Prime Minister on 22 December, he promised to look into the continuing need for the National Coal Board to retain their headquarters at Hobart House.

To put the question in perspective, the Board have told us that they have, over the years, reduced the proportion of their Headquarters staff who work in London. Over the years, successive groups of staff have been moved out of London (most recently the headquarters of their subsidiary NCB (Coal Products) Limited, involving some 200 jobs), and now only one fifth of their Headquarters staff are in London. The Board will continue to look for specific groups of staff who can be moved out and, further, as part of their major cost savings campaign, are already implementing plans to reduce their headquarters staff by some 5% before the end of March next year.

The Board tell us that they examine periodically the need for the Board to retain some or all of their headquarters in London - as well as their regular consideration of whether specific groups of staff can be moved out. The main elements in this review are, of course, cost and efficiency. As far as cost goes, their existing lease of Hobart House is on extremely favourable terms. The rental is less than £1 per square foot and will remain unchanged until the year 2030. The Board could, of course, hope to secure a much higher sub-rental if they sub-let the building in the right market conditions and could find a tenant acceptable to the landlord. They believe that they could get alternative accommodation elsewhere, at a cost which could show a net saving of some £1m pa. This saving, however, would be completely overshadowed by the costs of the move. After taking account of redundancy payments to staff unwilling to move and financial assistance to others, the Board estimate that these costs could come to some £20m. This figure takes no account of the inevitable penalties in terms of disruption and loss of efficiency which a move of Headquarters would involve.

My Secretary of State finds these arguments reasonable, and would not wish to press the Board further. From the Government's point of view, the essential thing is that the NCB should reduce their

Amish

2

Because of the good  
terms of the NCB lease  
at Hobart House,

the House does not

think it necessary  
to press them to

12 January 1981

move out. I think

he makes a fair

case.

B.

ny,



costs and improve their efficiency. He is pressing them very hard to do so, but the choice of means should be left to them. He would not therefore wish to press them to make savings by moving their Headquarters in preference to other means which seemed better to them, especially if the result would in all probability be a diversion of management effort and a reduction of management efficiency in a crucial period for the coal industry.

I am sending copies of this letter to John Wiggins (Treasury), Ian Ellison (Department of Industry), Sir Robert Armstrong and Mr Ibbs who all received copies of your note of the meeting.

*Yours sincerely,*

*Geoff Dart*

G S DART  
Private Secretary

Original in Greece  
Sept. 80 Power Sta.  
Project.

Nat Ind



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

(2)

01 211 6402

Prime Minister

Tim Lankester Esq  
10 Downing Street  
LONDON  
SW1

Handwritten initials

23 December 1980

Sec 82 (circled in red)

Handwritten initials

Dear Tim,

I understand from Sir Donald Maitland that at yesterday's meeting the Prime Minister raised the question of the offer to sell a coal-fired power station to Greece. As you know the Greeks have chosen to attribute - in public at least - their rejection of the UK offer to the proposals on coal.

In our view the Greek position does not stand up to examination. The coal offer, arranged with involvement by the private sector in the form of Shell Coal, was in the view of both the NCB and Shell fully competitive on both price and security. The Greeks appear to have used it as a pretext for not accepting the total package, whereas in reality internal political reasons lay behind the rejection. Significantly, when explaining the decision to our Ambassador the Greek Prime Minister said that our Prime Minister would understand his political difficulties.

Not necessarily opencast

I believe that the Prime Minister has asked in particular about the possibility that the cheap output from an NCB opencast site could be dedicated to the Greek project. It had in fact been recognised immediately the Greeks asked for a mine to be dedicated that it would have to be in a third country because of the practical difficulties with UK opencast sites. In the first place our opencast operations are necessarily very small and short-lived by world standards and, in order to meet the Greek requirement, a constant and rapid turnover of sites would be needed - on average about one new site a year over 25 years. This would pose serious problems both for supplying the coal - it is unlikely that the sites would all be in one area - and for the planning procedure - opposition to opencast working on environmental grounds, often supported by local authorities, has increased in recent years and would be stronger if the coal were not for use in the UK. The Board would also almost certainly be accused of contravening the ECSC Treaty if it cut its prices to the Greeks on a flagrantly discriminatory basis. Most seriously, the dedication of part of our cheapest capacity to the Greeks at cost-related prices at a time when all expectations are that world prices are on a long rising trend would amount to giving the Greeks a blank cheque. I should add that Shell had been working very hard on identifying a mine for dedication to the project and the Greeks were



well aware of this. We understand that in fact a suitable mine had been acquired in the USA just before the Greeks rejected our offer. This would have been very much bigger than anything we have and would have provided cheaper coal for the Greeks than NCB sites (because of favourable geology), while avoiding the disadvantages to the UK.

The rejection of the UK package has caused the NCB and Shell particular disappointment since they put together their very favourable joint package at no little expense in time and money. But we expect other opportunities for our UK-based international coal suppliers - Shell Coal, BP Coal and the NCB - to participate in major UK energy packages and we feel that it is important at this stage in the development of a new type of export deal for the UK, that we do not discourage our coal suppliers and that we do take account of the problems they face. Unfortunately in this instance the Greeks appear to have chosen for their own purposes to create a false impression of the nature of the coal offer.

On another subject, I understand that the Prime Minister also raised yesterday the question of the size of the miners' pay settlement. This is to confirm what my Secretary of State said then, namely that the settlement will increase the total pay bill for mineworkers by 9.7%. You will find the details in paragraph 1 of the note attached to my letter of 16 December to John Wiggins, which was copied to you.

I am copying this letter to John Wiggins, Ian Ellison, Robin Ibbson and David Wright.

Yours ever,

*J D West*

J D WEST  
Private Secretary





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CONFIDENTIAL

Extract from TL to HMT ( meeting record PM (ch of ex) , 22.12.80.

Other points.

The following further points were raised:

(i) Sir Keith Joseph said that BSC's Corporate Plan was optimistic about the Corporation's market prospects. It did not include the "lower case" option, which would involve closing Llanwern and Port Talbot. Although more expensive in the short term, it was possible that the "lower case" would be more likely to make BSC competitive again; and his Department would be looking at this closely.

(ii) The Prime Minister questioned the need for the NCB to use Hobart House as their headquarters: wasn't there a strong case on employment and other grounds for having their headquarters outside London? Mr. Howell said that their present lease was on favourable terms, but he would look into the matter and let the Prime Minister have a report.

(iii) The Prime Minister said that she was concerned that more progress had not been made by British Shipbuilders in selling off the ship repair companies. She had been impressed by the arguments put forward by Mr. Christopher Bailey on this matter; she would like a report from Sir Keith Joseph as soon as possible.

I am sending copies of this letter to Ian Ellison (Department of Industry), Julian West (Department of Energy), Sir Robert Armstrong and Robin Ibbs.

*u u*

*Tim Laker*

A.J. Wiggins, Esq.,  
HM Treasury.

CONFIDENTIAL

Original returned to JV

CONFIDENTIAL

Amorhust

Nat Ind. 1

I am but only ought to  
be discussed briefly when E  
c. Mr. Ingham  
Mr. Duguid next meeting

MR. LANKESTER

I see no point  
in discussing it in E.

MINERS' PAY SETTLEMENT

Content?

You asked for my comments on the correspondence about the miners' pay settlement culminating in a note by the Secretary of State for Energy circulated to Members of E Committee.

R  
K/12

In two respects Mr. Howell actually understates the case against wide public presentation of the miners' pay settlement as being in single figures. First, I am not convinced that the NCB did in fact achieve a single figure settlement. The facts are that the top face rate has increased from £101.95 plus £26.50 bonus to £111.95 plus £30 bonus, an increase of 10.5%; that is for a ten month settlement, and is equivalent to 12.6% on a <sup>an annualised</sup> ~~nationalised~~ basis (that is probably the foundation for Mr. Gormley's assertion that the miners received a 13% settlement). Second, although I would think it desirable for the miners not to be allowed to continue to think of themselves as entitled to special case treatment each year, it is very probably the case that if they do think they had a 13% increase and are now told they had a 9.7% increase, they would attempt to recoup the difference on top of their normal claim next year.

As against this, however, there is a very strong argument that employees in the other national<sup>(s)</sup> industries would lower their expectations if they realised that the miners only got a single figure settlement; and I do not think that effect would be achieved by briefing of nationalised industry chairmen. I think therefore this is clearly an issue which is suitable for discussion in E - it is not suitable for the new Ministerial Committee E(PSP) because that Committee concentrates on public service pay issues - and if the Prime Minister agrees I think you might want to write accordingly on a Private Secretary level. The Treasury take the same view.

J.V.

17 December 1980

CONFIDENTIAL

*cc Mr Ingham  
Mr Vercher*



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

01-211-6402

J Wiggins Esq  
Private Secretary to the  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
London SW1

16 December 1980

*Dear John,*

MINERS PAY SETTLEMENT

In his letter of 8 December to my Secretary of State the Chancellor said that it would help the general climate for pay negotiations if the true cost of the miners' settlement became known. He asked Mr Howell to circulate a note to colleagues in E.

I now attach such a note, copies of which go to the private secretaries of other members of E, and to David Wright.

*Yours ever,*

J D WEST  
Private Secretary

## PRESENTATION OF MINeworkERS' PAY SETTLEMENT

Note by the Secretary of State for Energy

1. The settlement reached between the NCB and the NUM, now endorsed by the NUM membership, will increase the total pay bill for mineworkers by 9.7%. There was a 9.8% increase in basic rates and related payments and a 13.2% increase in the productivity bonus payments, but no increases in other cash allowances. The settlement takes effect on 1 January 1981; the next one will date from 1 November.

But  
it's  
a  
10  
month  
deal.

2. In the negotiations the NCB gave percentages only for the increase in the basic rates and in explaining their offer to the men avoided all mention of percentages and concentrated on the cash increase offered. The press and television, however, described the settlement as amounting to 13%. They may have done so because of remarks made by Mr Gormley in interviews immediately after the National Executive of the union decided to recommend acceptance. This presentation of the offer as 13% was probably important in securing its acceptance in the ballot.

3. The mineworkers' settlement will obviously have a significant influence on some other wage negotiations and it would be advantageous for other public sector employers to be aware of the facts. Sir Derek Ezra has therefore briefed his fellow Nationalised Industry Chairmen on the actual percentages involved in the offer and the Board have also given further guidance at official level. So the other nationalised industries all have the true picture and, though they have been asked to observe great discretion in the use of the percentages, we can expect the message to come through as negotiations in these industries progress.

4. However, I believe that there would be a risk that the mineworkers would feel that they had been misled if the Government or the NCB, after keeping silent on the matter, now said in public that the press - and the moderate leaders in the union - were wrong and that the settlement was not 13% but really only 9.7%.

5. I am anxious not to exacerbate feelings amongst the mineworkers at present because there are difficult and contentious decisions for the NCB in the months ahead, in particular in the field of closures. So far this year the Board have made good progress in this field, but NUM sources have always maintained that industrial action is more likely over closures than over pay this winter, and the situation is tense - particularly of course in South Wales but also in Yorkshire. Any statement which caused the miners to feel they had been tricked, could be damaging for the coal strategy and seriously weaken the position of Mr Gormley and the other moderates in the NUM. It could create a bad atmosphere when the next wage negotiations start in September. Finally, it could complicate still further the handling of the cuts in BSC.

6. For these reasons I would be opposed to the NCB, or the Government, taking any initiative to publish the true percentage figures for the mineworkers' settlement. Other public sector employers should continue to be referred to the NCB for advice about the size of the settlement and how best to make use of it in their own negotiations. In this way we shall get most of the benefits of disclosure without running undue risks.

D A R HOWELL

16 December 1980



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

*Nathid*

01 211 6402

CONFIDENTIAL

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

*g. m. baron*

*R. 10/12*

15 December 1980

*John Sumner*

MINEWORKERS' PAY SETTLEMENT

*December*

Thank you for your letter of 8 ~~November~~.

As you point out, the figures given in public as to the actual money increases the men will receive are entirely correct. I do not know how they came to be interpreted as a 13% increase; the NCB were careful not to use percentages. Nonetheless, I believe there might have been a different result - especially bearing in mind the erosion of support that appeared to be occurring in the week of the ballot - if the true percentages had been quoted.

I can see that the general climate might benefit if the true percentage value of the settlement were now given wider publicity. On the other hand, as you accept, there are counter-arguments and problems of presentation that need careful consideration before we contemplate taking any initiative in this area. I am therefore having a paper prepared as you suggest which will set out the issues and I hope to circulate this early next week. I will also take the opportunity to discuss the matter further with Sir Derek Ezra who has requested an early meeting to prepare the way for consideration of the MTDP.

I am sending copies of this letter to the Prime Minister and to the Secretary of State for Employment.

D A R HOWELL

*John Sumner*

*David*

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

8 December 1980

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

*R*  
*12/12*

*Dear Secretary of State,*

MINERS' PAY SETTLEMENT

Now that we have a pay settlement, I think we need to look again at the presentation of its size. The figures were set out clearly in your letter to me on 14 November, but nonetheless, the spurious 13 per cent has been commonly accepted. However, the true cost of the settlement is known to other nationalised industries, and is, I understand, deducible from the information that the NCB put out in the miners before the ballot.

I am sure it will be most helpful to the general climate if the true cost of the settlement could become known. However, I am aware that there are counter-arguments. We also need to consider whether more damage would be done if the figure were directly revealed by Ministers: it might be better for it to "emerge", so that we could then pick it up in public.

I suspect this is something we shall need to consider collectively, probably at E Committee. But I suggest the first stage should be a short note setting out the issues. I hope you will be prepared to produce such a note, which might be circulated to colleagues in E Committee fairly quickly, initially in correspondence.

I am sending copies of this letter to the Prime Minister, and to the Secretary of State for Employment.

*yours sincerely*

*G. Howe*

(*for*) GEOFFREY HOWE

*(approved by the Chancellor & signed  
in his absence)*

CONFIDENTIAL





*cyh vran*

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

01 211 6402

*Pinthrust Nat Ind*

*he will let you  
have the result as  
soon as it comes  
through or Sunday -  
doesn't look too  
good.*

CONFIDENTIAL

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

*Mi*

28 November 1980

*Dear Tim,*

*R  
28/11*

MINERS PAY

My Secretary of State has asked me to inform you that Sir Derek Ezra telephoned at lunchtime today to give him the latest information available to the National Coal Board on the likely outcome of the Miners Pay Ballot. Indications from the various Areas were that, contrary to earlier expectations the result was going to be a "very close-run thing". Sir Derek's best guess was that the voting could be split about 48-52%, with the result going either way.

This change of heart was, Sir Derek said, directly attributable to the Chancellor's statement on Monday and associated developments on this front during the week. The feeling amongst the men, encouraged by those elements opposed to a successful early conclusion of the negotiations, was that the Government's latest economic measures, (in particular the increase in employee's national insurance contributions and the increase in council house rents,) had completely changed the situation which had led the NUM negotiators to agree on the 9.8% figure. Effectively, it was being said, the offer had been reduced by 50% in terms of the net effect on miners' wage packets. The deal should thus be re-negotiated. Sir Derek emphasised that the outcome was delicately balanced and that nothing could or should be done for the present. If the vote was no (and a simple majority of those voting was all that was needed either way) the NUM would come back to the Board for more money. The Board were clear that they would have to turn this request down: there was no extra money, and in any case any other answer would completely undermine the credibility of both the NUM Executive and the NCB negotiators. It was not clear what would then follow. There could be sporadic disruptive action, eg an overtime ban in the Yorkshire Area. Eventually there would be pressure for a ballot on strike action.

The Secretary of State thanked Sir Derek for passing on this information and agreed that there was nothing anyone could do at the present. They agreed to keep in touch.

2.

CONFIDENTIAL



The result of the ballot will be formally available on Monday, although Sir Derek said that he would probably have a clearer idea of the outcome on Sunday. He will keep in touch with the Secretary of State and we will pass on any further information as it becomes available.

I am copying this letter to John Wiggins and Richard Dykes.

*Yours sincerely,*

*G S Dart*

G S DART  
Private Secretary

conqueror

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Amthorist

Details of mine's  
provisional settlement  
TL

~~cc to high~~

~~to be done~~

01-211-6402

19/11

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

14 November 1980

*ms*

*See Summary*

The agreement reached between the NCB and the NUM yesterday will add 9.7% to the mineworkers' total earnings bill of £1296m.

The Board rested on their earlier proposals for increases in the basic rates and confined the improvements to the productivity incentive scheme. As a result a faceworker earning the present average bonus will get £14.40 per week extra; a surface worker £9.00.

In detail the increases are:-

Basic rates

	<u>Present rate</u>	<u>Increase</u>	<u>New rate</u>
	£	£	£
U1 (top face rate)	101.95	10	<u>111.95</u>
S6 (bottom surface rate)	73.65	7.20	<u>80.85</u>

with proportional increases for other grades.

Bonus for achievement of 100% standard task

Faceworkers £26.50 increased to £30.00

(Other workers get a percentage of this; faceworkers not team members get 65% of the faceworkers' bonus; elsewhere below ground 50%; surface workers 40%).

The NUM were represented by the full National Executive Committee (NEC) who voted 14:11 in favour of acceptance. At their monthly meeting this morning the NEC arranged to hold a ballot of the membership, with

a recommendation to accept, over Wednesday/Thursday 26/27 November. The result should be available about Tuesday 2 December.

The Board and the union have agreed to talk only in cash terms and not percentages but in fact the basic rate increases are equivalent to 9.8% on rates.

The result is much better than we might have hoped for a few week's ago and I think reflects well on the tight financial discipline to which we have been subjecting the Board and our recent strengthening of the Board membership. At the same time a successful outcome is still wholly dependent on the ballot and I would strongly advise my colleagues to say as little as possible on the matter and, above all, in no circumstances to disclose the percentage figures.

I am copying this letter to the Prime Minister and the Secretary of State for Employment.

*Yours  
David*

D A R HOWELL

CONFIDENTIAL



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

*Neil Tucker*  
*Prime Minister*

*Chairman*

*A report on*  
*yesterday's meeting*  
*may negotiations.*

Rt Hon Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
London W1

*in Mr. [unclear]*  
*Mr. [unclear]*  
*Mr. [unclear]*  
✓

7 November 1980

*R*  
*7/11*

*MB*

Dear Chancellor,

As was expected the negotiating meeting yesterday between the NCB and the NUM broke up at lunch time without reaching a settlement. There was some hard talking on both sides but no hostility and a further meeting is to be held on Wednesday 12 November (not Tuesday as was earlier thought likely) at which there seems to be a determination on both sides to finalise the negotiations.

At yesterday's meeting Cowan the Board member for industrial relations judged, as the discussion progressed, that it would achieve nothing to make any increase at that stage in the total amount on offer. He did not translate that into percentages but offered some examples of how it might be distributed in cash terms. He concentrated particularly on the difficulty of the financial and marketing outlook and the dire consequences that would flow from an excessive settlement. There appears to be some sign that this message is beginning to get across and further effort to put it over will continue to be made, behind the scenes, before next week's meeting.

At that meeting the NCB will pursue the strategy outlined in my letter of 31 October. They will be prepared to settle down to what will probably be a long and hard negotiation leading to a final offer within the limits they have set themselves which will have a real prospect of acceptance by the union membership.

Assuming that the negotiations can be finalised next Wednesday then the results can be debated at the meeting of the unions' National Executive Committee the following day. What will follow that cannot be predicted but the Board's assessment is that yesterday's meeting represented a constructive step forward, establishing a fair negotiating position for the next meeting and offering at least some hope of a successful outcome.

CONFIDENTIAL



2

I am sending a copy of this letter to the Prime Minister and the Secretary of State for Employment.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'D. A. R. Howell', with a long, sweeping underline.

pp D A R HOWELL

(Approved by the Secretary of State but signed in his absence)



10 DOWNING STREET

1. ~~Mr Hoskyns~~ — away today.
2. ~~Mr Verelstee~~ seen by 4/11
2. Mr Hoskyns 4/11

To see and

return pls

TL

2  
4

~~to the Secretary~~

Prime Minister  
Next Ind.

01 211 6402

TOP SECRET

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

TL  
31/10

31 October 1980

Dear Sir,

ms

I am writing to let you know about the latest developments in the coal pay negotiations.

As you know from the timetable given in my minute of 14 October to the Prime Minister, the National Coal Board will make a formal offer to the NUM next Thursday, 6 November. Their exact tactics at this meeting will depend on informal discussions with members of the union executive between now and then and on the atmosphere at the meeting itself. They are negotiating and must be ready to respond to developments in the negotiation. They intend however to open with an offer of around 10½% on basic rates. Depending on the course of the meeting, they would be prepared to increase the offer within a maximum of around 12½% on basic rates. I must emphasize that basic rates, and payments related to them, account for only about 80% of the mineworkers' pay bill. The ceiling of around 12½% on basic rates, if reached, would therefore represent an increase of around 10% in the pay bill, and in mineworkers' average wages.

I am sure that we must continue, as agreed at the Prime Minister's meeting last week, to leave the negotiations to the Board within their EFL. I shall of course keep my colleagues informed of developments. It is however of the utmost importance that this information about the Board's tactics should be kept completely secret.

I am sending copies of this letter to the Prime Minister and the Secretary of State for Employment only.

Yours  
David



MC

CONFIDENTIAL

Nat (ud)



Caxton House Tothill Street London SW1H 9NA  
Telephone Direct Line 01-213 6400  
Switchboard 01-213 3000  
GTN 213

R

M

Rt Hon John Biffen MP  
Chief Secretary  
Treasury  
Great George Street  
LONDON SW1P 3AG

31 October 1980

*Dear John*

*Not Copied to No. 10.*

PERFORMANCE AIMS AND THE NATIONAL COAL BOARD

I have seen your letter of 16 October to David Howell and his reply of 22 October. Whilst I agree with the main point you make, that the performance aim regime should apply to the NCB as to other nationalised industries, I think that the timetable for setting the aim for the coal industry is crucial. Now that formal pay negotiations for this round have started between the Board and the NUM, I believe it would be best not to set a performance aim for the industry until a settlement has been reached. Setting an aim whilst negotiations are in progress would, as likely as not, be counter-productive.

Copies of this letter to David Howell and the other recipients of your letter.

*[Handwritten signature]*

CONFIDENTIAL

Walt Inds.

MR. LANKESTER

M. 27/w

p-a.

Nationalised industry pay negotiations

You may like to be brought up-to-date on developments since your minute to me of 22 October concerning the need for an agreed brief for Ministers on the NCB negotiations with the miners.

The Chancellor requested that his officials should prepare a separate brief for the general use of Ministers on the negotiations with the miners. Treasury officials were inclined to play this down, particularly in view of the rather favourable way it has come across this morning. I have now suggested they put to the Chancellor my general brief together with a defensive note on the miners - the two can be amalgamated; and I said that we would want to consult the Paymaster General and possibly the Prime Minister before anything went out.

J.V.

John Vereker

24 October 1980

CONFIDENTIAL

SECRET

cc HMT  
EMP  
PGO  
CO

jfh 3

Nat Indus



Bc Mr. Wolfson  
Mr Ingham  
Mr Hoskyns  
Mr Vereker

10 DOWNING STREET

*From the Private Secretary*

22 October 1980

As you know, the Prime Minister held a short meeting yesterday evening with your Secretary of State, the Secretary of State for Employment, the Chancellor of the Exchequer, the Paymaster General and Mr. Moore to discuss miners pay. They had before them Mr. Howell's minute of 14 October.

The Prime Minister questioned the statement which the NCB intended to put out on their financial position in 1981/82 (Table C attached to Mr. Howell's minute). The figures showed only too clearly that the amount which they said was available for pay increases could not be justified on any economic rationale. Insofar as the Department of Energy had already apparently managed to talk the Board down on their proposed offer, she wondered whether the offer could not be reduced to below 10 per cent. A final settlement of 10 per cent might not be too bad; but to offer 10 per cent initially would almost certainly lead to a final settlement somewhat higher than this. The Chancellor said that he too was unhappy about the starting figure. The NCB ought to be under just as much pressure from the point of view of their pay negotiations as, for example, BL; yet they were starting considerably higher.

In response, it was pointed out that the figures in Table C - and in particular, the figure for Government grants - had to be seen as part of the four year strategy to turn the NCB round and to reduce its burden on the taxpayer. To reopen the Government's decisions on the figures would put at risk the whole strategy. But in any case, the amount which the NCB had decided to make available for pay increases was not a matter of economic logic: it represented their judgement of what they could get away with without a strike. Only they could reach this judgement, and for the Government to intervene now would very likely cause an immediate breakdown of negotiations and lead to industrial action. The offer in fact represented only 8 per cent on the pay bill because there was a 2 per cent productivity element.

The Prime Minister said that she still felt it was a pity that the NCB were not starting at a lower figure; but she was prepared to go along with the judgement that Ministers must for the time being leave the Board to pursue their chosen tactics.

/I am

SECRET

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SECRET

- 2 -

I am sending a copy of this letter to John Wiggins (HM Treasury), Richard Dykes (Department of Employment), Richard Prescott (Paymaster General's Office) and David Wright (Cabinet Office).

J. P. LANKESTER

Julian West, Esq.,  
Department of Energy.

SECRET

12

cf Mr Lyham  
Mr Hodgson

Nat Ind.

01 211 6402

CONFIDENTIAL

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

Mr Boddy

Seen by Mr P.M.

20 October 1980

ALL  
21x.

De Selby

R.M.

MINERS' PAY

I undertook at your meeting on Monday to suggest a line which my colleagues might take in response to questions about our attitude to the miners' pay claim, bearing in mind the difficulty, under question, of saying nothing. We need to see how the negotiations go before we can sensibly decide our line after that; and I think we shall need to be careful to avoid any public comment while the negotiations are actually in progress. It is indeed of high importance that we do not at any time say anything to suggest that Ministers are directing the course of negotiations rather than the National Coal Board. The Board must be seen to be in the driving seat and fully responsible.

Against this background, I am on reflection convinced that much the wisest course would be for colleagues to spread their comments more generally to the importance of reaching sensible pay settlements and to avoid any reference to the miners. The Board are themselves planning to ensure that the men in the coal-fields, on whose votes the acceptability of their final offer will ultimately depend, are made fully aware of the financial and market position of the coal industry and the limitations it imposes on what pay increases can be afforded. It is best for us to leave this task to them, and for our comments to be directed primarily to the wider climate of public opinion within which the miners' own attitudes will evolve. Anything which can be construed as a Ministerial attack on the miners or the coal industry - or even on the NUM - could be counter-productive, because of the intense loyalty of the miners to the Union and the industry. We must give the Union militants no pretext for elevating matters from an NCB/NUM negotiation into a political confrontation with the Government.

I will of course be very happy to continue giving oral briefings on the progress of the miners' pay negotiations both at further meetings of your Group on Nationalised Industry Pay and at Cabinet. But I do think that this is the most sensible way to proceed.

CONFIDENTIAL

(2)

I am copying this letter to the Prime Minister and to colleagues who were at Monday's meeting.

*Yours ever*

D A R HOWELL

*Jan*

SECRET

17 October 1980

Policy Unit

2

PRIME MINISTER

MINERS' PAY

I found David Howell's minute of 14 October almost unbelievable (except that there has been no "gamesmanship" thinking about the miners by anyone in Government except the Policy Unit). In the hope that it's not too late for a little commonsense:

1. TIMING

1.1 We question whether the Board are right to accept the deadline which Mr Gormley is attempting to impose upon them by his disappearance to Australia in mid-November. Apparently he agreed in the summer to go to the founding meeting of an international miners peace movement. It is not clear how long he will be away. Mr McGahey would deputise in his absence. The NUM have been trying to advance the date of their pay negotiations for several years. This year, by agreement, the date is 1 January. Originally it was 1 March (which bears some relation to the fiscal year); next year it is to be 1 November. Gormley is trying to ensure they have an earlier date than agreed this year.

1.2 Of course, the NUM believe that November negotiations strengthen their bargaining position because the peak winter demand for coal brings the stock margin down to a seasonal low - thus making the power supply system more vulnerable to strike action. We are not sure why NCB management ever agreed to move the date, but this may have been simply a reflection of belief that it is always "provocative" not to give the miners what they want.

1.3 There are several reasons why it would be in the Board's interest, and the Government's, for the negotiations to be drawn out over a longer period:

(a) The NUM's bargaining power begins to diminish as the winter wears on (high stocks, referred to in our earlier papers on NUM and CEGB stocks, at present have raised the endurance level to a point where the bargaining balance should start to shift against the NUM quite early in the winter).

(b) The miners are likely to provide a damaging comparator to the rest of the public sector. The longer it takes before their settlement is known, the less damage it will do.

# SECRET

(c) As the private sector produces more moderate settlements during the wage round, and less militant parts of the public sector do the same, the miners' demands might begin to look increasingly unreasonable.

(c) A short negotiation period of two or three weeks allows very little public debating time, including the heavy cost of any strike action to the unions themselves, with their high bonuses.

1.4 We suggest that the Board should be invited to consider using Mr Gormley's absence as a reason for delay rather than acceleration. Are the NUM really likely to react by proceeding straight to a ballot without even waiting to hear the final offer? Imagine the media treatment; the agreement on 1 January cynically manipulated; Gormley off on a "peace jaunt" in Australia; gentle Mick in charge. None of the above thinking is particularly clever - just elementary bargaining "nous". Is Ezra a fool? Or has he been instructed to play the fool?

## 2. INITIAL OFFERS

2.1 It is obvious from David Howell's note that the Board's circumstances could justify a much lower initial offer than 10%. We believe the main factor which has influenced the Board in choosing such a high figure is, as he implies, a wish not to "provoke" the miners.

2.2 We think the initial offer should be justifiable in the sort of terms in which other NI's will be justifying theirs. Since the NCB are already saying that their EFL is inadequate, there is a case for arguing that there should be no general increase - just the continued opportunity to earn more under the productivity scheme. Of course this would be taken as provocative to this group (although it was thought right for steel workers last year) and we are not suggesting it. But the financial and market position of the NCB points more clearly to a single figure offer than to 10%. (But we recognise that the precise number is a matter of very fine judgment.)

2.3 We shall probably find that the miners' bargaining strength is too strong for even 10% to be accepted, but there is an important distinction between the initial offer - which can be justified - and the eventual negotiated settlement which we may want to describe



# SECRET

frankly to the public as the result of the ruthless use of monopoly power. (Others may argue that the Government should avoid commenting on either the offer or the settlement. But the evidence is that the public do not make the sharp distinction between the Government and the NCB that we might like to see.)

## 3. PRESENTATION

3.1 We don't think the Board's financial tables (attached to David's minute) bring out the trade-off for miners themselves between more pay on the one hand and less investment or more closures on the other. We may not be able to stop miners helping themselves to more, but it should be very clear that in doing so, they will damage not just the rest of the community (through higher prices) but also themselves through lower sales, higher imports, lower investment and, if this case can be made, more pit closures.

3.2 If, as expected, the delegate conference calls a ballot recommending rejection of the final offer, there will be an important campaign period leading up to the vote. We should be preparing for this, though our role may have to be an indirect one. John Vereker has made a start on this.

## 4. DETERRENT

4.1 Rank and file miners will be less willing to strike now than in the past. There is not a strong sense of grievance: there could even be some sense of shame about striking for a very high demand when settlements elsewhere are moderate and unemployment is high. Equally important, miners now depend on productivity and overtime payments for a much higher proportion of their earnings than in the early 1970s. The 10-12 week overtime bans that preceded the strikes of 1972 and 1974 would therefore hurt more now than it did then. High coal stocks mean that an overtime ban could need to last longer than before. (This would be affected by the location of the stocks. In theory, the changes in the law on secondary action should restrain the NUR and TGWU from supporting strike action; but with very limited enforcement measures, we are uncertain about their effectiveness.)

4.2 NCB should be doing some miners opinion research by now, as we suggested in our "Steel Strike Lessons" paper. But I don't expect they thought of it or had it suggested to them.

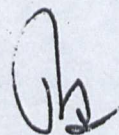
# SECRET

This built-in deterrent may not be enough. We should consider letting it be known - perhaps through discreet leaks rather than in a way which seems overtly provocative - that we are making contingency plans for increased imports, rationing and other steps necessary to combat a miners' strike. If we expect the delegate conference to call for rejection of the offer anyway, this would not be provoking them unduly. Among the membership no doubt a display of determination by Government would provoke a few people to vote for rejection. But we think that a much greater number will decide that a final offer of, say, 12%, would be preferable to a twelve-week overtime ban and strike - provided they believe we are willing to fight it. The final offer may need to be higher. We are not advocating a strike; but once the NUM believe we would not be prepared to face one, the pass has been sold. It's just like unilateral disarmament.

## 5. SUMMARY

5.1 The importance of getting this right is so great that you may want a discussion to explore some of the points. We suggest you raise with David Howell:

- (a) whether the NCB should be stamped by Gormley;
- (b) whether the initial offer should not be lower;
- (c) whether the Board's propaganda fully displays the cost - in terms of danger to their industry - to the miners themselves, of strike action and/or higher pay;
- (d) whether the Government should discreetly let it be thought that contingency planning has started.



JOHN HOSKYNS



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

01 211 6402

2

Mr Shand seems to  
have underestimated the  
depth of the Selby seam.

MS  
17/10

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

16 October 1980

Dear Tim,

at the Young  
Contractors dinner

Thank you for your letter of 2 October recording a suggestion made to the Prime Minister by Mr Shand that it would have been cheaper and less environmentally damaging in the longer term to mine the Selby coal by opencast methods.

It is difficult to believe that Mr Shand made this suggestion seriously. To work the same area of coal would involve digging up some 170 square kilometres (about 100 square miles) of land in E Yorkshire with the destruction of all the villages and other habitations that lie in it, together with all the features of environmental, historical, topographical and archaeological interest. The whole operation could take up to 100 years and although it would presumably be carried out progressively, any particular location would probably be seriously affected by the workings for anything from 10 to 20 years. So the people concerned would not only have had to give up their dwellings and go into entirely new accommodation elsewhere, but they would have to put up with disturbance all round them for this period of time while the working and restoration were going on. Moreover there would undoubtedly be controversy over what the ultimate shape of the eventual restoration should be and some of them might well not like what would finally result.

|| The minimum depth of the target seam is 300 metres and it dips to the east down to 1100 metres. All the earth above it would have to be moved and subsequently replaced. The overburden dumps would be vast. The undertaking is so much larger than anything else attempted to date that it is not possible quickly to estimate how its costs would compare with the deep mine method but some indication can be given by the fact that the ratio of

(2)



overburden to coal would be 60:1 as against what is now regarded as the highest economic working ratio of 25:1.

Drainage would impose vast difficulties. The River Ouse would have to suffer major diversion. All the aquifers in the area would be destroyed and immense problems of water control would arise.

What is proposed, in short, would be an excavation of a nature and size that has not been tried anywhere in the world. The environmental consequences would be devastating to the people in the area in the short and medium term and unpredictable in the long term and, in sum, would be out of all proportion to those which can be achieved by the method of underground working chosen.

May I also send you our comments on the point made by the Young Contractors' Group and recorded as V in your letter of 1 October to David Edmonds. These are as follows:-

The limitations on opencast coal are not the scale of effort of the NCB but the difficulties of balancing off the environmental effects against the need for the coal. It is proving quite difficult to achieve the present target of 15m tonnes a year output against the opposition mounted by local authorities, amenity societies, local pressure groups and individuals etc. Nevertheless we are anxious to do everything possible to encourage low-cost coal extraction. To this end we have been pressing the National Coal Board to apply maximum practicable flexibility within the statutory limits in their licensing of private coal operations - both deep mined and opencast. There are limits to what can be done but we will continue to pursue this line.

However short term constraints mean that we need less rather than more coal, just now, and, because of inbuilt rigidities in the deep mined sector, opencast is, in fact, the marginal production.

There is also the point that the NCB need the opencast profits (£110m in 1979/80) to help them meet their financial targets.

*Yours ever,*

*J D West*

J D WEST  
Private Secretary



SECRET

John Hoskyns' commentary (ATA) is

PRIME MINISTER

MINERS' PAY

Yes - D.H. + L.H. - very critical of Mr Howell's proposals. Do you want to talk to Mr Howell? And other colleagues?  
x S.P. - not

I have now had details from Ezra of NCB's thinking on the handling of the miners pay negotiations.

MS  
17/10

Joe Gormley has proposed a timetable which would provide for the negotiations to be concluded and the Board's final offer to be put to ballot before he goes to Australia in mid-November. This timetable is more compressed than usual but on balance the Board consider it politic to go along with Gormley, so as to ensure that the final stage of negotiations can take place while Gormley is still available to lead the union side. This means that the timetable is as follows:-

- Thursday 23 Oct: formal presentation of the attached claim (already sent to the Board in writing) and initial response by Board disclosing financial situation;
- Thursday 6 Nov: Board make formal offer;
- Tuesday 11 Nov: negotiations brought to conclusion;
- Thursday 13 Nov: Gormley puts results to his National Executive Committee (NEC);
- Friday 14 Nov: Delegate Conference summoned (as required by NUM's Annual Conference Resolution) and calls for ballot, probably recommending rejection of the offer.
- early Dec: ballot result available.

At the meeting on 23 October the Board will present financial information (copy enclosed) showing that at best £145m will be available for pay increases to all their employees. The union will be able to calculate that it is equivalent to roughly 10% on base rates. (Actually after allowing for the productivity earnings it would be 8% on the total pay bill). The Board will not finalise the details of their formal



offer until after this meeting but expect it to be either 10% on base rates for all, or a bit more for face-workers and a bit less for the others.

They had great difficulty in arriving at this figure, having to balance their difficult financial and market position against the real danger of provoking immediate industrial trouble (steel has been very much in their minds) if their initial offer is too low. Apparently the Board were influenced to decide on 10% by the strong advice of the new part-time members from the private sector.

However, they believe it inevitable that they will have to go a bit higher than this in the subsequent negotiations, and though they have no figure in mind at present, I am assured that they will be fighting very hard to keep any improvement as small as possible. They will keep me closely posted on developments, although once they reach the period of intense negotiations in early November they will clearly not be able to give us 7 days' notice of any proposed alterations in their offer.

I have detected no complacency on Ezra's part as was suggested in the Chancellor's letter of last week; indeed the Board regard their situation as an extremely tricky one to deal with. Recent stories in the Press to the effect that, with Government blessing, they are proposing to offer 18% will have raised miners' expectations in an unfortunate way. The Board have no illusions about the financial and marketing problems a pay increase of even 10% would cause them and will therefore strive for the lowest possible settlement they can get. But we have to accept that a break-down of negotiations leading to industrial action would, from their point of view, be disastrous as well as in the end leading to a much higher settlement. They realise that no offer that they can contemplate is likely to be endorsed by the NEC or the much more militant delegate conference. So it will all depend on the ballot and what is the lowest figure the individual miner will be prepared to accept - against the advice of his union - rather than strike for more. The Board therefore intend taking steps from now on to



put the essential facts of their financial and market position directly to the men.

How best to tread the tightrope will require very delicate judgement and I suggest that for the time being at least we must leave the Board to pursue their chosen tactics, while at the same time keeping in the closest touch with events and the further development of their thinking.

I am considering, following the Chancellor's meeting this morning, what advice I can give my colleagues if they are called upon to comment on the miners' pay claim.

I am sending copies of this letter to the Chancellor of the Exchequer and the Secretary of State for Employment.

*DIA.*

Secretary of State for Energy

*rd/14* October 1980

The NUM argued during the last round of wage negotiations that the need to ensure full utilisation of indigenous energy resources by expanding UK coal production cannot be divorced from the need to improve the wages and conditions of workers in the coal industry. Our view on this remains unchanged. While the settlement that was reached last year went part of the way towards fulfilling this need for improvement in earnings and conditions, much remains to be done.

The relationship between increased earnings and improved performance has been demonstrated as we said it would, and the position in which the coal industry now finds itself can best be summed up in the words used by Sir Derek Ezra in his foreward to the NCB Report and Accounts for 1979/80.

"1979/80 was a year of achievement for the industry.

After a difficult year in 1978/79, the industry recovered strongly:

deep-mined output was up by nearly 4 million tonnes -

the first increase since 1963,

output per man rose by 5%.

sales were nearly 10 million tonnes higher,

the number of fatal accidents was 30, the lowest

figure ever, and the overall casualty rate was

lower as well.

These results are a welcome sign that the industry is turning the corner after the long decline that started in the Sixties, and that the benefits of Plan for Coal are now beginning to appear.

Financial objectives were achieved."

Moreover, this impressive progress has been continued into the current financial year.

The NUM believe that the Board Chairman was right to highlight the successes achieved by workers in the industry last year. We believe also that it was right for Sir Derek to draw attention to the experience of the Sixties, for the burdens of that period have been carried by workers in the industry ever since, and the lessons which were learned by the decline of the coal industry during that period must never be forgotten, either by the NCB or the British period.

Alongside the improvement in recent results, the coal industry should also be facing a much more secure long-term future than it has known for many years. Indeed, the heads of state of the major industrialised countries of the Western World agreed a joint communique at the summit meeting in Venice in June which



included the following passages.

"We must rely on fuels other than oil to meet the energy needs of future economic growth. This will require early resolute and wide-ranging actions. Our potential to increase the supply and use of energy sources other than oil over the next ten years is estimated at the equivalent of 15 to 20 million barrels of oil a day. We intend to make a co-ordinated and vigorous effort to realise this potential.

To this end, we will seek a large increase in the use of coal and enhanced use of nuclear power in the medium term, and a substantial increase in production of synthetic fuels, in solar energy and other sources of renewable energy over the longer term.

Together we intend to double coal production and use by early 1990. We will encourage long-term commitments by coal producers and consumers. It will be necessary to improve infrastructures in both exporting and importing countries, as far as is economically justified to ensure the required supply and use of coal."

This statement followed the publication in May of the report of the World Coal Study organised under the auspices of the Massachusetts Institute of Technology, which concluded that coal will have to supply between one half and two thirds of the additional energy needed by the world during the next 20 years. To achieve this goal, world coal production will have to increase by up to three times its present levels.

Moreover, other reputable independent bodies including the EEC and the IEA have drawn similar conclusions, and it is significant that the major international oil companies, which formed part of the world coal study, have demonstrated their belief in the growing importance of coal production by heavily investing in coal industries in several different countries, for present and future development.

Once again, critical attention is being focussed on the policy of relying on external sources for energy, because of stability of supply and escalating costs, by the current hostilities in the Middle East, between Iran and Iraq.

The current surplus of coal on the world market is a short-term phenomenon. It is inevitable that, as coal replaces oil as the major source of energy and chemical feedstocks, the countries which now place large amounts on the export market will increasingly protect their reserves for use in their own domestic economy. Any surplus will be aggressively competed for by nations with little or no indigenous reserves. It is patently obvious that nations with substantial reserves, including the UK, will need to determine future policy on the basis of economic, strategic and social need, and not on short-term commercial viability.

Nevertheless, it is equally beyond dispute that the industry, along with other industries at the present time, faces a number of short-term economic difficulties arising from the industrial recession brought about by Government policies.

It has been argued by Government ministers that at a time of rising unemployment the way to preserve employment prospects is to encourage progressive reductions in real wage rates. The NUM rejects this thinking absolutely. Indeed, if we look at the German experience, it is one of high wages, low unemployment and a low level of inflation. It is evident from recent events that low wages are not currently preserving jobs, eg. in the textile industry, just as low wages did not maintain employment in the mining industry in the Sixties. On the contrary, it is our view that the failure to maintain earnings levels in the past has itself reduced employment by depressing morale in the industry, restricting recruitment and retention of skilled labour and acting as a disincentive to investment. The cumulative effect of these factors, together with the advance of wages in other industrial sectors, were major contributing causes of the industrial action in 1972 and 1974. It took these disputes, and the oil crisis of 1973, to provoke the long needed examination of the coal industry. We are determined that those mistakes will not be repeated.

Short-term economic fluctuations cannot be allowed to stand in the way of progress towards long-term objectives and that just as the Board has determinedly looked to the future when investing in mining capital, so it must do when investing in the skilled and secure workforce that is needed to utilise that capital in the interests of the industry and of UK fuel consumers.

It is with these long-term objectives in mind, and against the background of increasing prices of basic commodities, ie., food, transport, clothing, etc., added to by the Government's determination to defray the cost of social provisions away from the Exchequer on to the shoulders of each individual, that we present this claim, to be operative from the 1st January, 1981.

In order to maintain and improve our members living standards, we are seeking an increase in the surface minimum rate (S6) to bring it to £100 per week for five shifts. At the same time, all other grade rates should be increased by the same percentage. The rates for craftsmen 1A on the surface and winding enginemen (S1) should be made the same.

Additionally, we are seeking that from the 1st January, all grades should be paid on a salary basis.

You will recall that our objectives when we were negotiating the Early Retirement schemes were to bring the retirement age for underground workers down to 55, and also to have the schemes include all workers both underground and surface. Although by agreement, the scheme currently operating has brought early retirement down to the age of 60, the lower age is still our objective, as is the inclusion of surface grades. We are therefore seeking in this claim, improvements in the Early Retirement scheme and we are particularly concerned to include those men both underground and on the surface who are not currently covered by the scheme. The Board gave a commitment in respect of this latter group which stated that the Board would be prepared to give early retirement to these groups in step with a general reduction of the State retirement age. At the time, the Union accepted, reluctantly. However, in our opinion several major factors have changed. It appears very unlikely that the Government is going to make any moves to reduce the State retirement age, and since our previous negotiations, the levels of unemployment in the country have increased drastically. We are now of the opinion that this industry must follow the course of early retirement for our members as a priority, irrespective of the policies adopted by other bodies. This will also enable the creation of jobs for younger people in this industry, who will be needed to replace our retiring members.

As well as benefiting our members, particularly those underground, we see this as a further measure which would enable extra employment to be created in this industry, and thereby reduce the number of people who are jobless.

Over the last few years, we have continually placed before the Board a claim for an increased annual holiday entitlement. We are doing so again, and not for the first time, we require average earnings to be paid for holiday periods. This has been a continuous claim by the Union, but particularly since the introduction of the incentive scheme the man's average earnings have become considerably more than his grade rate. This therefore means that now a man taking holidays is receiving substantially less during a period when he requires more money because of the extra expenses of holidays.

In the first part of this document, we have referred to the turning of the corner for this industry, as demonstrated by the improvements in productivity, etc. We have also referred to the increased demands which will be made on the industry in the future, for our product. The introduction of area incentive schemes has played a major part in this up-turn in the industry's fortunes, by rewarding extra effort. In order to maintain this upward trend and help the industry meet future demands, we are seeking an increase in the level of payments for obtaining the standard task performance.

The improvements as itemised above will, in our opinion, reinforce the morale of our membership by more justly rewarding them for their efforts. And, as we have said before, this will in turn improve the performance of the industry, and set us on the road to achieving our longer term objectives.

We are again bringing to the attention of the Board our desire to have a reduction in the working week. We are seeking the introduction of a 4 day working week into the mining industry. Although the Joint Working Party has been examining this question for more than a year, and has been gathering valuable information on the detailed operations of the pits in order to identify the problems and the possibility of a reduction, it is our opinion that such a reduction should be introduced in the near future.



SECRET

NOTES ON FINANCIAL TABLES

Table A compares the estimates for the year 1980/81 prepared at the time of last year's pay claim with how they now look. This shows that even with a much bigger coal price increase (1), the bigger operating loss and increased cost of the wages settlement (2) (plus other factors) are likely to lead to a £50m loss instead of break-even.

Table B shows how the additional income from the January 1981 price increase will, after extinguishing the £50m estimated loss provide £45m for the wage settlement now to be negotiated (applying from 1 January 1981).

Table C estimates the position in 1981/82. On the basis of the 1 January 1981 price increases it shows £172m becoming available in the financial year. Of this seven-twelfths will be available between 1 April and 31 October 1981 ie £100m.)

(The next pay settlement is due on 1 November and table C excludes any element for this and also for any further price increase that may then be necessary). With the £45m from 1980/81 this makes £145m available (for all employees not just NUM) for the current pay round.

13 October 1980

SECRET

SECRET

TABLE A

Statement of the Board's likely Financial position in 1980/81  
(before January 1981 pay/coal price increases)

	<u>As Statement 2</u> <u>to NUM</u> <u>31 October 1979</u>	<u>Latest</u> <u>Estimate</u>
	mt	mt
Output - deepmined	107	110
- opencast etc	14	15
- Total	<u>121</u>	<u>125</u>
	£mn	£mn
Operating loss (deepmines) <u>without</u> interest, grants, pay and coal price increases	(330)	(400)
Profit from other mining activities including Opencast	115	85
Loss on Coal Products	(20)	(17)
Profit on NCB Ancillaries	15	19
Interest	<u>(225)</u>	<u>(245)</u>
Loss <u>without</u> grants, pay and coal price increases	(445)	(558)
Expected maximum level of Government grants	250/260	253
(1) Net benefit anticipated from coal price increases during 1980, allowing for CEGB agreement	425	570
(2) Estimated cost of March 1980 pay settlement for <u>all</u> Board employees including consequential charges	(230/240)	(315)
<u>Overall Result</u> (before January 1981 pay/coal price increases)	<u>B/even</u>	<u>(50)</u>

7 October, 1980

SECRET

TABLE B

Statement of the Board's likely financial position in 1980/81  
(after January 1981 pay/coal price increases)

	<u>Latest</u> <u>Estimate</u>
Output - deepmined	mt
- opencast etc	110
- Total	<u>15</u> 125
<u>Overall loss (before January 1981 pay/coal price</u> <u>increases) as in Table A</u>	£mn (50)
Net benefit from January 1981 coal price increases in 1980/81, allowing for CEGB agreement	95
Sum available in 1980/81 for January 1981 pay increases for <u>all</u> Board employees including consequentials	<u>(45)</u>
<u>Overall Result (after January 1981 pay/coal price</u> <u>increases)</u>	<u>B/even</u>

7 October 1980



TABLE C

Statement of the Board's likely Financial position in 1981/82

	<u>Estimate</u>
	mt
Output - deepmined	111
- opencast etc	15
	-----
- Total	126
	-----
	£mm
Operating loss (deepmines) <u>without</u> interest, grants and January 1981 pay/coal price increases	(410)
Profit from other mining activities including Opencast	128
Loss on Coal Products (without interest or grants)	(12)
Profit on NCB Ancillaries	20
Interest	(290)
Loss <u>without</u> grants and January 1981 pay/coal price increases	(564)
Expected maximum level of Government grants	254
Net benefit of anticipated January 1981 coal price increases <u>allowing for CEGB agreement</u>	482
Sum available for January 1981 pay increases for <u>all</u> Board employees including consequential charges	(172)
<u>Overall Result</u> (after January 1981 pay/coal price increases)	B even
	-----

Note: Sum available for all pay increases between  
1 April and 31 October 1981  
i.e. 7 months = £100m

1834

~~1834~~

812

7 October 1980



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

Not Ludwishes

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M 14/10

MS

T P Lankester Esq  
10 Downing Street  
London SW1

13 October 1980

Dear Tim,

#### SALES OF GAS BY THE NATIONAL COAL BOARD

The minutes of the E Committee meeting on 15 September record the suggestion that there might be opportunities for the National Coal Board to increase their sales of gas manufactured from coal. My Secretary of State has looked into this point and has asked me to write to let you know his conclusions.

Within the timescale of the Financial Strategy for the NCB, the two possibilities are both essentially the sale of by-products from the NCB's existing activities - gas from the coke ovens owned by NCB's subsidiary National Smokeless Fuels, and colliery methane.

Sales of coke oven gas brought in £8.5m in 1979-80. Virtually all the gas produced is either sold or used by NSF themselves in their own operations; only 1% of available gas is flared - a figures which compares favourably with anything achieved offshore. The balance between using gas in NSF's own operations and selling it naturally depends on market circumstances (at present NSF get greater benefit by using it themselves), and NSF keep it under constant review. Rising gas prices may enable NSF to increase revenue from sales of gas somewhat, but there is no prospect of their securing prices which would justify expanding coke oven operations with gas the primary product (NSF already produce coke surplus to demand).

NCB have in recent years taken the opportunity presented by rising gas prices and vigorously expand their sales of colliery methane. Some four years ago, their sales in the Western Area (where their saleable surplus arises) were only about £0.1m a year; as a result of a new marketing drive they were some £4m in 1979-80, and NCB are now examining further plans which might increase sales to some £7m a year in the next three years.

My Secretary of State's general conclusion therefore, is that the NCB are already actively exploiting the opportunities presented by these by-products, and that the sums involved are, in any case, very small in relation to the coal industry's total finances. In



the longer term however, there may well be opportunities for substantial sales of coal for gasification, either for the manufacture of Synthetic Natural Gas, or for the manufacture of low calorific value gas for industry. While a pilot plant for Synthetic Natural Gas has been developed in the UK, it will, as you know, be some time before full-scale manufacture becomes economic.

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

*Yours ever,*

*J D West*

J D WEST  
Private Secretary



cc David Wright (Co.)  
Anker

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

8 October 1980

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

M. J. W.

MINERS' PAY

I understand that the NUM are going to submit their claim on 9 October. No doubt the NCB will take a little time before replying with an offer and no doubt you will be keeping in close touch with the situation. But because of the obvious importance of this settlement I hope that we can be sure that we will have an opportunity to take stock in good time and before positions begin to harden. I am not at present suggesting that we should intervene in any way - that is something we should have to consider - but only that we should be able to discuss that at the right moment.

You will know better than anyone what the best moment will be but I suggest it would be useful if you could then provide the Prime Minister, Jim Prior and me with your assessment of the situation so that we can consider it.

I am copying this letter to the Prime Minister and Jim Prior.

P.S. Jenkins

PP GEOFFREY HOWE

(As signed by the Chancellor and handed to the Secretary of State for Energy in Brighton).



Young Contractors  
Group -  
Selby coalfield

10. DOWNING STREET

From the Private Secretary,

2 October 1980

LF 16.10.80

I sent you a copy of my letter to David Edmonds yesterday regarding some of the points which came up at the Prime Minister's dinner with the Young Contractors Group. One of the points concerned open cast mining, and the Prime Minister has asked me to follow this up further with you. Specifically, she has asked whether it would have been possible to mine the Selby coalfield by open cast methods; and if so, what might have been the relative cost. It was alleged by Mr. Shand of Alexander Shand (Holdings) (who is also President of the Federation of Civil Engineering Contractors) that it would have been possible at far lower cost than with deep mining and without longer term environmental consequences.

Please could you let me have a note on this to reach me by Thursday, 16 October.

T. P. LANKESTER

Julian D. West, Esq.,  
Department of Energy.

88



10 DOWNING STREET

From the Private Secretary

1 October 1980

Dear David,

As you know, the Prime Minister had dinner last night with the Young Contractors Group.

The Group made predictable comments about interest rates, the exchange rate, the level of public spending on capital projects and in particular on infrastructure, and excessive current spending by Government and local authorities. The following less familiar points were also made:

I They argued that the tendering procedures operated by the European Development Fund tended to favour French construction companies: the Government should press for their replacement by FIDIC-type terms.

II On tendering for contracts within the EEC, they argued that the UK was the only country which stuck to the rules, while other countries - and particularly the French - were in flagrant breach of them. They argued, for example, that their associate companies in France found it very hard to understand why the recent Ipswich project had been allowed to go to a Dutch firm. It was also suggested that the French method of breaking down contracts into small parts tended to keep British companies out of France.

III They argued that more local authority highway work should be subject to competitive tendering: the current £100,000 minimum limit was far too high.

IV It was suggested that some of the spending currently undertaken by Government on infrastructure could be replaced, and supplemented, by private sector financing. The financing of roads and bridges by means of tolls was given as an example.

V It was suggested that the UK's coal requirement could be more easily met if the Government were to allow more open cast mining by construction companies: the scope for open cast mining was enormous, and we were far behind other countries in this regard.

I am sending a copy of this letter to Julian West (Department of Energy) and Anthony Mayer (Department of Transport).

David Edmonds, Esq.,  
Department of the Environment.

Tim Laker.

MS

Nat Incl



10 DOWNING STREET

Prime Minister

Annex D of the

Howard's paper lists what

NCB are doing to

cut costs. His the further

paper which he is promising

will put figures on

what what - in financial

terms - will be achieved

by the various measures.

12. 15/5

Principals

CONFIDENTIAL

I have wanted Energy that you will want to question in House on this.

Costs? - overbooks? - Robert House - very well clean we needed - effort on high energy industries - effort on elec. rates - abolition.

Ref: A02994

Jim - what I don't find in their papers is any attempt to cut the costs of production. That is

PRIME MINISTER

Strategy for Coal  
(E(80) 96 and 99)

what private industry would have to do.

Background

In E(80) 96 the Secretary of State for Energy gives estimates of the external finance requirements of the National Coal Board from 1981-82 to 1983-84 and of the corrective action necessary to bring them back on course.

2. The key figures are usefully tabulated in Annex C1. They are at estimated outturn prices and not 1980 Survey prices and so are not readily comparable with the PEs figures used in other contexts. The inflation assumptions underlying them are not stated. Line 2 shows further external finance required because of lower demand, and lines 4 (i)-(v) provides some sensitivity analysis on varying assumptions about labour and other operating costs. Lines 3 (i)-(iv) show the effect of the corrective measures already in hand - principally stepping up closures, and pricing to enable import substitution and increased exports. But these measures still leave net requirements in excess (in line 4) of the present ceilings.

	<u>£ million</u>		
	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>
Assumed outturn prices which might translate roughly into 1980 survey prices as:	123	280	522
	95	196	332

3. This excess clearly represents a major threat to the Government's public expenditure plans. The Secretary of State for Energy proposes to invite the NCB to put forward proposals to eliminate it by a combination of reduction in output at continuing pits and reduction in capital investment. He does not say





when he would report back but it would have to be in mid-October for the outcome to be taken into account in the final public expenditure discussions at the end of that month. In the meantime the Committee cannot reach final decisions but it can give the Secretary of State guidance on points which should be taken into account in the further work.

4. In E(80) 99 the CPRS argue that in view of the evident substantial over-capacity the Board should be asked how an increased closure programme could be achieved, what would be the risks of confrontation and how these might be minimised. They underline the point that action to reduce cash requirements over the period will inevitably have a short-term adverse effect on revenue account - because of redundancy payments and other costs associated with accelerated closures. They suggest that these might be treated as extraordinary items, below the line.

#### Handling

5. After the Secretary of State for Energy has introduced his paper the Chancellor of the Exchequer will wish to comment. He will probably wish to draw attention to the paper E(80) 104 - due to be circulated before the meeting - assessing the overall impact of the nationalised industries on public expenditure plans and the need to achieve substantial reduction in their requirements. This paper has been circulated primarily as background to the discussion of steel, shipbuilding and rail on Wednesday, but it is equally relevant to coal. The Secretaries of State for Wales and for Employment and Lord Mansfield will also wish to speak.

included  
here

6. In discussion you will wish to cover the following -

i. Closure costs. The Board have already stepped up the rate of closures from the equivalent of  $1\frac{1}{2}$  million to  $2\frac{1}{2}$  million tonnes a year. It seems reasonable that in the further work to eliminate the excess they should consider, as proposed by the CPRS, how an increased programme could be achieved and what would be the consequences. It might well be worth paying the price of more attractive redundancy payments to achieve the longer term benefits. Ministers will no doubt want some indication of where these closures would be likely to take place.



ii. Investment. The Board will be pursuing the possibility of further cuts. They are likely to argue that investment in new productive capacity is essential to their longer-term strategy. On the other hand their investment plans cannot be immune to the present fall in demand and the consequent over-capacity. The case for new investment would be much stronger if it was in parallel with increased closures of high costs, inefficient pits.

iii. Prices. The working assumption appears to be that since prices are largely market determined, and it is undesirable to push up electricity costs, the Board cannot price themselves out of trouble. This assumption would bear probing because, although the Board set great store by their agreement with the CEGB, the latter will remain largely a captive customer throughout the period. At least the Government ought to have the option of higher prices as an alternative to a higher PSBR.

iv. Pay. The sensitivity analysis in Part 4 of Annex C1 gives some indication of the consequences of increases in labour costs. But the Committee will want the Secretary of State to comment on what might be the implications of possible outcomes of the miners' pay settlement this year. There must be a risk of painful decisions now to eliminate the excess with the excess then re-emerging following the settlement.

v. Implications for revenue account. The Committee are likely to endorse the view that priority must be given to reducing the cash requirements of the Board, even though in the short-term this might have an adverse effect on revenue account.

Conclusions

7. In the light of discussion you will wish to record conclusions -
1. Noting the present position as reported by the Secretary of State for Energy.
  2. Inviting him to circulate a further paper in time for discussion in the week beginning 13 October with proposals, or options, for eliminating the excess now identified and taking account of points made in discussion.

ROBERT ARMSTRONG

*(approved by Sir R. Armstrong  
and signed on his behalf)*

12 September 1980

copy to Mr Duguid  
re MNP 21/8. Not Incl

SECRETARY OF STATE FOR ENERGY  
LONDON SW1  
01 211 6402

Rt Hon Nicholas Edwards MP  
Welsh Office  
Gwydyr House  
Whitehall  
LONDON SW1

21 August 1980

*See Nich*

STRATEGY FOR COAL

Thank you for sending me a copy of your letter of 12 August to Geoffrey Howe.

I entirely agree that we must consider the consequences for employment of any course of action which we require the National Coal Board to take. However, we must proceed in order. I shall not be able to give in my paper more than global estimates - without a regional breakdown - of the possible closures which NCB might need to make, on certain assumptions. It will be for the Board to decide in due course on pits which need to be closed in the light of the requirements which we lay on them and of their situation at the time. Given the Board's hyper-sensitivity about any suggestion that they might maintain a "closure programme", I am not inclined to ask them to work out hypothetical lists of closures in advance.

Possible ways of providing new employment or the cost of remedial measures are quite outside my responsibilities and I do not think that it will be right for me to seek to cover them.

I am sending a copy of this letter to the other recipients of yours.

D A R Howell

*me*  
*Duguid*

CCAD

Next the VMS

SWYDDFA GYMREIG

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Oddi wrth Ysgrifennydd Gwladol Cymru The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

12<sup>th</sup> August 1980

De Guffy

STRATEGY FOR COAL

I have read with interest your letter of 1 August to David Howell about coal industry prospects in the medium term.

I am of course at one with you on the need for a paper, on the lines you suggest, setting out the facts and figures and identifying the options. I would be concerned however, if the paper did not cover the full costs and implications for an area like South Wales of any measure such as an accelerated programme of pit closures.

The proposals which I understand the Chairman of the NCB is considering at present for a phased programme of closures over three or so years in South Wales would be uncomfortable enough. But anything implying a greater number or greater speed of closures would, in my judgement, raise very serious issues indeed. It would hit hard at relatively small areas which already have very high levels of unemployment and little hope of achieving high priority for their hopes for new employment opportunities. Taken together with the demanning in steel and the effect of the recession which is hitting South Wales particularly hard, a major programme of pit closures in South Wales would make an already difficult situation almost unmanageable.

I hope therefore David Howell's paper can encompass the unemployment implications of the options you suggest, together with the likely cost involved in facing up to the need to help provide new employment. Any substantial job losses in coal mining in South Wales will inevitably set up a demand, which I do not see we can readily resist, for further remedial expenditure.

I am sending copies of this letter to the Prime Minister, the Secretaries of State for Industry, Employment and Scotland, to Sir Robert Armstrong and to Robin Ibbs.

The political and economic cost of a large  
closure in the mines is a factor too!

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

J → am  
Neil

cc: Chief Secretary  
Financial Secretary  
Minister of State (C)  
Minister of State (L)  
Sir Douglas Wass  
Mr. Ryrie  
Mr. Monck  
Mr. Wicks  
Mr. Ridley

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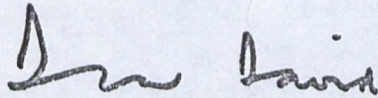


Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

| August 1980

R

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



#### STRATEGY FOR COAL

At the meeting of E Committee on 16 July the head of the CPRS and I were asked to suggest topics and questions that you might cover in your report back to E early in September. For convenience this letter contains our combined views.

Our concern is not to overturn the financial strategy or to diminish the NCB's responsibility for it, but to see that it is implemented. There is a strong possibility, to put it no higher, that the strategy is not attainable on the NCB's present policies. We need to form a view, not least for public expenditure planning purposes, in the light of changed economic circumstances on:

- (i) the likelihood of the NCB attaining its financial target of break-even after social grants and interest by 1983/84, and of living within the external financing figures laid down in the strategy;
- (ii) the change in policy that might need to be adopted in order to secure these results and their feasible scale;
- (iii) the cost of failure, including quantification of the size of the NCB's potential addition to public expenditure plans.

We appreciate that sticking to the financial strategy will not be an easy task since financial objectives

/were

CONFIDENTIAL



were set. External circumstances have become less favourable and the industry's uncompetitiveness become more of a handicap. Among the quantitative factors on which we would like to have your Department's assessment are market prospects on specified economic assumptions: coal imports, NCB production, deep-mined and opencast; miners' pay; productivity; pit closure programme; and coal prices. On some you may wish to consider a range of outcomes.

In the light of your assessment, you will want to review the course of action open to the NCB to achieve the financial strategy. A key option would be an accelerated pit closure programme. It would therefore be helpful if your paper could indicate what size of closure programme would be planned if the Board were:

- (i) to achieve the financial strategy without increasing prices disproportionately in captive markets;
- (ii) to close all the distinctly uneconomic pits by the mid-eighties. In view of the need to keep pay and closures as separate issues in order not to prejudice the long-term prospects of the industry, timing will be a crucial factor; and
- (iii) to keep supply in balance with demand as new capacity comes on-stream.

In addition, we envisage that the paper would contain your assessment of other measures which might supplement an accelerated pit closure programme particularly if a programme on the scale of para 4(ii) were not practicable e.g. cuts/deferment of investment; disproportionate price increases at the expense of electricity consumers; other measures to reduce output or to increase disposals - rather than stocks - by means of exports or competing effectively with imports; and their effects on the NCB's external financing requirements and profit and loss account. It may be necessary for the NCB to give higher priority to staying within the financing figures than to moving towards break-even in the years before 1983/84. But saving cash would of course enable the NCB to invest more than if it uses up the cash available within the strategy on stocking.

/I realise



I realise that there is relatively little time in which to cover all this ground and that you may have to take some short cuts. The urgency of this is underlined by the problems of 1980/81 which we will be discussing in E next Monday. What we are seeking is a judgement by those who know the industry on what the realistic options for achieving the financial strategy in changed circumstances really are.

I am sending copies of this letter to the Prime Minister, the Secretaries of State for Industry, Employment, Scotland and Wales, to Sir Robert Armstrong and to Robin Ibbs.

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

GEOFFREY HOWE.



*Nat. Incls.*

Y SWYDDFA GYMREIG

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*Oddi wrth Ysgrifennydd Gwladol Cymru*



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*From The Secretary of State for Wales*

*12277*

29 July 1980

*Dear Julian*

I mentioned to you that my Secretary of State met Sir Derek Ezra for a general discussion last Thursday. I also promised that I would let you have a copy of the minutes of the meeting which are attached. Certain of the issues which were raised are, of course, relevant to the subsequent developments referred to in Ian Ellison's letter of 25 July to Tim Lankester.

I am sending copies of this letter and the minutes to those who received Ian's letter.

*Your ever*  
*John Craig*  
J F CRAIG  
Private Secretary

Julian West Esq  
Private Secretary  
Department of Energy  
Thames House South  
Millbank  
London SW1

CONFIDENTIAL



MEETING WITH SIR DEREK EZRA IN GWYDYR HOUSE  
ON THURSDAY 24 JULY

Those present:	Secretary of State	Sir Derek Ezra
	Mr J A Annand	Mr D G Brandrick
	Mr J F Craig	Mr Malcolm Edwards
		Mr Alan Blackshaw
		Mr Philip Weekes

1. The Secretary of State welcomed Sir Derek Ezra. He said that he had met the Chairman of BSC recently and was grateful for an opportunity now to discuss the major issues facing the coal industry in Wales. Sir Derek Ezra said that in the last 15 months or so the output and productivity at certain pits in South Wales had improved; but at the same time others were being closed. The moral was that closures could be achieved peacefully but only if they were carried out at a certain pace - if that pace was forced trouble and confrontation would follow. Overall, however, the financial results for the South Wales coalfield in 1979/80 were poor. Mr Weekes confirmed that the results when published on 24 July would show an overall loss of just under £60m with an offsetting profit of £12m on opencast. Sir Derek Ezra said that the reasons for the poor results were partly geological difficulties and the age of many of the pits and partly a loss of markets. He stressed the importance to the NCB of the coking coal agreement with BSC which was in the process of being re-negotiated for 1981.

2. The Secretary of State said that he understood that the Chairman of BSC would be putting forward proposals to the Government by September in respect of the steps necessary to keep BSC within its cash limits. It was possible, for example, that he might decide to rely more and more on imports; overseas barter agreements (which would help to sell more steel abroad) might well be considered. Sir Derek Ezra expressed surprise that such a course might be pursued. He suggested that it might be impractical and referred to past experience with Poland. The NCB had stayed loyal to the BSC because it was in the long term interests of the NCB and the country that they should do so; this loyalty should apply in both directions. The Secretary of State suggested that if they did not enter into barter arrangements it was possible that BSC would nonetheless reduce their demand for coal. Sir Derek Ezra said that short term solutions to the problems which BSC faced would be short sighted. It was essential to have regard, for example, to the serious impact on the coal industry.



If the NCB was unable to sustain its coking coal market he would not be able to answer for the consequences which could be explosive. It was essential to have time to phase out inefficient and loss-making coal mines - he saw 3 years as the time-scale required in South Wales. The NCB was at present in the course of negotiations with BSC about the coking coal agreement for 1981. Mr Malcolm Edwards indicated that agreement would have to be reached in the next 6 weeks or negotiations would break down. Sir Derek Ezra said that if the negotiations were broken off publicly it would place him in an impossible position. The NCB would be embarking on difficult pay negotiations in the autumn. The NUM would submit their claim towards the end of October; the NCB would respond by mid-November; and it was hoped that the negotiations would be concluded by late November or early December. A decision by BSC to import coking coal would be a major factor in impeding a satisfactory conclusion to the pay negotiations. The link between closures and imports was an emotive issue for the NUM. The Secretary of State said that he did not know if the Chairman of BSC would decide to enter into barter arrangements; as far as he was aware Mr MacGregor had not yet reached any conclusions and would not do so before September. Sir Derek Ezra said that he would have to inform the Secretary of State for Energy about this possibility. He repeated that even if difficulties in the pay negotiations were avoided, transitional arrangements over some 3 years would be required in order to prevent trouble occurring in the South Wales coalfield. At the end of this period 9 of the 12 collieries subject at present to the colliery review procedure would probably have been closed with a resultant drop of 1m tonnes of output pa and 9,000-10,000 jobs. Mr Weekes added that a phasing out in this way would nonetheless secure a reduction in the financial losses being made at present.

3. The Secretary of State asked how far the deterioration in the NCB's markets was offset by an increase in prices. Sir Derek Ezra said that the primary factor today was the general reduction in demand for energy. He was less worried about the market for domestic and electricity coals than for coking coal. The Secretary of State asked about the recently announced decision not to grant money for the replacement of two of the batteries at the Phurnacite plant. Sir Derek Ezra said that the NCB would be seeking an early meeting with the union, local authority and customers involved. However, the demand was greater than the plant could satisfy. It seemed likely that production with the four remaining batteries would continue for some time. It might indeed be sensible to make some new investment at the Phurnacite plant.

4. Sir Derek Ezra offered to prepare for the Secretary of State a strategic document setting out the NCB's financial position in South Wales. In answer to a question by Mr Annand, he confirmed that this document would, in effect, bring up to date the Tripartite Sub-Committee's 1979 report. Mr Annand said that he hoped that it would be possible to identify the changes which had taken place since the 1979

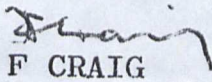


report which gave rise to changed forecasts. Mr Weekes said that he thought it would take some 4-6 weeks to prepare the paper. Sir Derek Ezra asked the Secretary of State for an assurance that while this document was being prepared, there could be no unilateral action by BSC. The Secretary of State said that he could not give any such assurance. However, he fully recognised the consequences of the possible courses of action by BSC and he would draw the attention of his colleagues to the fears expressed by Sir Derek.

5. The Secretary of State asked about the future of the liquifaction project at Point of Ayr. Sir Derek Ezra said that while a satisfactory feasibility study had been carried out he was concerned about suggestions that the Government might not now be willing to meet the full extent of its expected financial commitment.

6. Sir Derek Ezra referred to the NCB Pension Fund involvement in helping to finance nursery factory developments with the WDA. A £3m deal would be announced shortly.

7. In conclusion Sir Derek Ezra agreed that he would keep in touch with the Secretary of State. He emphasised again that the run down of the coal industry in South Wales could be achieved either relatively painlessly given time or with great pain and incalculable consequences if an adjustment period was not allowed.

  
J F CRAIG  
Private Secretary  
28 July 1980

cc PS/Permanent Secretary  
Mr R A Lloyd Jones  
Mr J A Annand  
Mr J H Clement.

Noted

A. Duguid

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

01 211 6042

MBAM ym

12/2/80

25 July 1980

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament St  
London  
SW1P 3HE

Dear Sir

NCB: EFL FOR 1981-82

I have been thinking further about the decision recorded in the minutes of the meeting of E Committee on 16th July to put off settling the NCB's EFL for 1981-82 until we have discussed a paper setting out the NCB's prospects of achieving the financial strategy which we have set them running to 1983-84.

I fully understand the wish to delay but I am afraid that this would cause great difficulties. Although the NUM have yet to translate their wages resolution - which demands for some 35% - into a formal claim, NCB must already start to think about their possible response now. Their EFL for 1981-82 is obviously a key datum, and if there is to be any question of a change, they need to know as soon as possible.

Unlike other nationalised industries, NCB already has EFL for 1981-82, which we settled last Autumn as part of the Financial Strategy, which, as you know, involved setting the Board's EFLs years by year until 1983-84. The choice is between reaffirming this figure of £570m in 1979 survey prices revalued in the normal way, and substituting a lower figure based on the assumption that next year's wage increase will be in single figures.

I am quite clear in my own mind that re-working the EFL on different wage assumptions would draw us directly into the heart of the NUM wage negotiations. It is unrealistic to think that the change in EFL could be kept from the unions. The NUM would take the change as a challenge, while the NCB would seek to saddle use with responsibility for the negotiations and the final settlement. This is not the way in which we want to handle nationalised industry wage negotiations.

Further, an imposed change in the EFL would undermine the whole of our financial strategy for the NCB. This strategy will require total commitment from the Board. If we now change a key element unilaterally for reasons of general policy, the Chairman, who is already talking about the need for "greater flexibility", will have a perfect excuse for seeking other changes in his turn. In such circumstances, any subsequent efforts to re-establish financial discipline on the NCB would be undermined.

I do not think that reaffirming the existing EFL will either lead the NCB to be reckless over pay or make it harder to persuade other nationalised industries to accept EFLs for 1981-82 calculated on a low wage assumption. No other industry already has an EFL for 1981-82 or as tightly drawn a financial framework as the NCB. As for pay, I understand from informal discussions between my officials and NCB that the NCB certainly do not believe themselves to be in a position where they can simply pass on large wage increases in prices and that, as a result of falling demand and of the pressures resulting from the decision to revalue EFLs by the standard method, the existing EFL is already tight and the NCB will have to take painful decisions if they are to accommodate within the EFL any wage settlement which is realistically likely.

I should be glad to know whether you agree with these arguments. Since Ezra will be told of our general intention to set EFLs on the basis of low wage assumptions at your meeting with the NICG on Monday, we ought to tell him where he stands as soon as possible thereafter.

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

D A R HOWELL

*Yours*

*David*



Nat Inds

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Ref. A02633

PRIME MINISTER

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Strategy for Coal

(E(80) 67)

BACKGROUND

(1) A key element in the Government's medium-term financial strategy is to turn round the nationalised industries as a whole from requiring some £2½ billion of external finance (grants and borrowing) in 1979-80 to providing a net inflow of some £½ billion in 1983-84. The four major loss-making nationalised industries (coal, rail, steel and shipbuilding) are particularly important for the success of the strategy. The National Coal Board was expected to provide about £⅓ billion of the improvement over the period.

2. The Secretary of State for Energy recommends:-

(a) that the Government should stick to its figures as embodied in

Cmnd 7841 and leave it to the NCB to live within them (despite the impact of the recession on the industry);

(b) that "no additional requirements" should be imposed on the NCB.

By this he appears to mean three things: that there should be no

(i) further cuts in the investment programme (a possibility canvassed by the Chief Secretary in E(80) 64); that the NCB should be excused

(ii) being given a specified target relating to costs per unit of output

(a general requirement agreed by E, on a proposal by the Chancellor of the Exchequer, at its meeting on 26th June (E(80) 22nd Meeting, Item 3); and that the NCB should not be forced "to sell ancillaries

(iii) worth perhaps £20 million in total" (this is an oblique reference to the discussions in E(DL) about the sale of the NCB's share in Sankey's - the builders' mercants - which the NCB are resisting;

(c) that the Board's EFL for 1981-82 should be set in September (earlier than the general run of nationalised industry EFL's) bilaterally between the Department of Energy and the Treasury.



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3. Mr. Howell is asking for a lot without very much explanation. He is of course particularly concerned to maintain a degree of flexibility in advance of this winter's wage negotiations with the NUM. But there may well be a major conflict between the approach to a settlement with the NUM implicit in his proposals and the contribution the NCB is expected to make to the financial strategy. At any rate your colleagues may well feel that they need more information than they are now being offered before coming to a view. In particular they may feel the need for quantification of the NCB's financial prospects in 1981 on the basis of alternative assumptions about the outcome of the wage negotiations. It may be that, strategically, there is little choice but to let the NCB settle with the mineworkers at whatever level of pay increase is necessary to buy peace. But what are the consequences of, say, a 20 per cent settlement (let alone the NUM claim for 35 per cent) on the industry's prospects? And what are the implications for prices, closures and investment of combining a high level of wage settlement with a pre-fixed EFL? Without further information there is no way of judging the realism of Mr. Howell's approach either for the wage negotiations or the future course of the PSBR.

HANDLING

4. After the Secretary of State for Energy has introduced his paper you might invite the Chief Secretary, Treasury to comment. The Secretary of State for Scotland and Mr. Michael Roberts (representing the Secretary of State for Wales who is tied up with the Welsh Grand Committee) and the Secretary of State for Employment may also wish to comment - particularly on the prospects for a satisfactory wage settlement with the NUM and on the related questions of pit closures, investment cutbacks and the sale of NCB assets.

5. The first judgment will be whether the Committee is prepared to come to any decisions in this matter without further information. If not, the discussion can be regarded as a second reading and Mr. Howell invited to bring forward a further paper, quickly, giving supplementary financial information for the coming year as a basis for decisions.





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6. This is the most likely outcome, in which case all the decisions should be reserved for the next discussion. This might be targeted either immediately before the Recess or early in September.

7. If however colleagues are prepared to take some or all of the decisions now you may find it convenient to work through those listed in paragraph 2 above which are more specific than the rather vague formulations in the concluding paragraph of Mr. Howell's paper.

CONCLUSIONS

8. Very much subject to discussion, but essentially EITHER to meet again on the basis of further information to be provided by Mr. Howell - with all decisions reserved meanwhile - OR to list specific decisions on any or all of the following points:-

- (i) To agree that the NCB should be told to live within the already agreed limits set out in paragraph 2 of Mr. Howell's paper.
- (ii) To agree that the precise EFL for the NCB in 1981-82 should be set by Mr. Howell and the Chancellor without further reference to the Committee.
- (iii) To agree that the NCB's investment programme should be maintained unaltered.
- (iv) To agree that the NCB should not be pressed to dispose of ancillary assets.
- (v) To agree that the NCB should be excused from achieving performance targets related to costs per unit of output.

(Robert Armstrong)

15th July, 1980

CONFIDENTIAL

Qa 05074

To: MR LANKESTER

From: J R IBBS

Strategy for Coal - E(80)67

1. Mr Howell's paper asks his colleagues 'to persevere' with the agreed strategy for the coal industry and to stick with the strategy's original financial objectives as a basis for planning Public Expenditure. This seems to us a triumph of hope over experience.

2. The coal industry today bears unhappy similarities to the steel industry a year ago:

- Consumption. Down in all principal markets.
- Capacity. Large surplus of high cost capacity, concentrated in sensitive areas such as South Wales, Scotland and the North East. Additional capacity coming on stream as the result of recent heavy investment programmes.
- Imports. Up and rising. Running at double last year's level.
- Finances. Market conditions and surplus capacity may have put the industry's financial objectives virtually beyond reach. All the risks seem downside, unless losses are passed through to the captive electricity consumer.
- Closures. An enhanced closure programme is required, but would be fought vigorously by the unions.
- Pay. A large claim is in the offing. Negotiations start in September.

3. In the light of our experience over steel, a number of questions have to be asked. First, should Ministers continue to base their public expenditure projections on the agreed, though by now decidedly optimistic, financial objectives that are part of the coal industry strategy? Might it not be prudent to acknowledge the downside risks? The CPRS suggests that Mr Howell should be pressed to quantify the above factors and the likely range of financial outturns for the industry. He should also be asked:

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What are the industry's market prospects over the term of the plan in the light of current economic trends?

What is Mr Howell assuming for pay settlements and price increases?

What levels of closure programme would be needed -

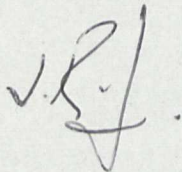
- (a) to keep supply and demand in balance;
- (b) to close all the high cost pits by the mid-1980s say;
- (c) to enable the Board to achieve their medium term financial objective of break-even in 1983/84?

4. On pay, if Ministers want to exercise any influence in the coming round, they will need to decide their line by September at the latest.

5. Mr Howell is right in trying to keep the pay and closure issues separate. To tackle the miners over both pay and closures at the same time could make strike action unavoidable. The time for negotiating an enhanced closure programme will be between this year's pay settlement (around the end of the year) and the start of the next pay round in September 1981. This is a narrow window for which preparations would need to start as soon as possible.

6. Conclusion. Ministers need more quantification of the coal industry's prospects and likely financial performance. They should therefore keep an open mind until they have received further information. This information is required speedily. Indeed if, as Mr Howell suggests, the 1981/82 EFL must be set by September, there would be advantage in his bringing a paper forward before the Recess.

7. I am sending a copy of this minute to Sir Robert Armstrong.

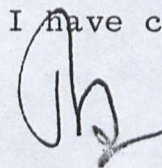


15 July 1980

COAL INDUSTRY FINANCES

1. We think David Howell's proposals should be judged against the following criteria:
  - (1) Will they minimise public expenditure?
  - (2) Will they put maximum pressure on the NCB to achieve a moderate pay settlement?
  - (3) Do they put maximum pressure on the NUM to settle moderately by confronting them with a trade-off between excess pay and other outcomes undesirable to them?
  
2. The proposals may appear to pass the first test but, without much greater determination than the NCB are likely to produce, we suspect a financing problem rather like BSC is looming. The paper does not reveal the extent of the problem.
  
3. On the second and third tests, David Howell refers (at paragraph 9) to the need to "preserve flexibility on miners' pay". But we think the plight of the NCB should be brought home to the NUM. An excessive pay award could be met in one of three ways: cutting investment; cutting manpower (through an accelerated closure programme); and raising prices. The disadvantages of the first two should be clear to the NUM. But will they be told that these are likely consequences of militant demands?
  
4. Is it equally clear that raising coal prices will have unpleasant consequences? This depends crucially on the ability and willingness of NCB's customers to switch to coal imports if the price is too high.
  
5. There is no doubt that BSC will switch to imports. But CEGB do not have much importing capacity and only recently shelved a plan to build a new deep-water facility at Killingholme at a cost of £11m which would allow annual import of 8-10m tons. We think this project should be resurrected as a clear sign that CEGB are willing and increasingly able to import.

I have copied this minute to Geoffrey Howe.



JOHN HOSKYNs

PART 1 ends:-

CST to S/S Energy 17.3.80

PART 2 begins:-

E(80) 67 11.7.80