

PART 3

SECRET

Confidential File

Financial Position of the Coal Industry
Mineworkers Pay

NATIONALISED
INDUSTRIES

Pt 1: June 1979

Pt 3: March 1987

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
11.3.81		17.7.87					
13.3.87		20.7.87					
16.3.87							
25.3.81		— ENDS —					
27.3.87							
3.4.87							
9.4.87							
16.4.87							
27.5.87							
5.6.87							
25.6.87							
29.6.87							
8.7.87							
9.7.87							
15.7.81							

● PART 3 ends:-

s/s Energy to CDL of 20/7/81.

PART 4 begins:-

Home Sec to PM + att of 22/7/81.

cc J. Stevens
A. August
A. Walters
Nax 1-2

MILBANK LONDON

01 211 6402

Rt Hon Francis Pym MP
Chancellor of the
Duchy of Lancaster
Privy Council Office
Whitehall
London SW1A 2AT

cc Pym

20 July 1981

Dee Francis

pc
227

THE COAL INDUSTRY

Thank you for your letter of 9 July.

I entirely agree that such an exercise must be carefully conceived, and its conduct carefully managed. We shall take every care to do this, in close consultation with others. My officials will be in touch with other Departments about how to carry the exercise forward.

We had envisaged from the outset that the material we circulated would be used selectively and with care, depending on our objective at any particular time and on the context. We believe that the material we circulated provides a good basis on which to draw. At the same time we had always intended that it could be extended and adapted, and will certainly be considering your and other suggestions for ways in which this might usefully be done.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer and Sir Robert Armstrong.

Howell
D. A. R.

D A R HOWELL



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ha*

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

17 July 1981

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

*✓ from
Pym
PWS*

Dear David

12

12/7

THE COAL INDUSTRY

in copy

I have seen a copy of Francis Pym's letter of 9 July about the background material, enclosed with your Private Secretary's letter of 6 July, for unattributable use by Ministers in the proposed publicity campaign on coal.

Francis Pym's points about the presentation of the background material are valid. But I do not see his arguments as a reason for drawing back from the proposed publicity campaign on coal. Indeed, he was not proposing that. Could I suggest that officials should give the material the presentation which Francis has suggested and should prepare the planning of the campaign as proposed in my Private Secretary's letter of 6 July. Officials should bear in mind that the objective of the campaign, which would need to be sustained, is to bring home to the public the inefficiencies of the mining industry and the burden it places on the economy. The aim would be to strengthen our hand in implementing a sensible strategy for the coal industry and to bring to bear on the industry pressure of public opinion to put its house in order.

I am copying this letter to the Prime Minister, the Chancellor of the Duchy and to Sir Robert Armstrong.

[Handwritten signature]

GEOFFREY HOWE



✓ A. Duguid

Treasury Chambers, Parliament Street, SW1P 3AG

John Moore Esq MP
Parliamentary Under-Secretary of State
Department of Energy
Thames House South
Millbank
London SW1P 4QJ

16 July 1981

R. Jan.

R.

COAL INDUSTRY BILL

Thank you for your letters of 25 June and 6 July.

I agree that decisions on the amount by which the NCB's grant and borrowing limits should be raised in the forthcoming Bill should await consideration of the NCB's medium-term prospectus. Drafting of standard provisions can proceed on the basis that the numbers can be filled in later.

The present arrangements for paying coke stocking aid and SSEB coalburn grant should be allowed to run their course until the present powers expire at the end of 1982-83, within the ceilings agreed in the 1979 Financial Strategy. In addition the power to pay coking coal production aid can be retained on the Statute Book until it expires at the end of 1982-83.

In your letter of 6 July you suggest changing the name of the grant paid after striking the Board's profit and loss, from "deficit grant" to "Section 3 grant". As you know, I would be most reluctant to lose the name "deficit grant" since this would make it harder to increase public awareness of the Board's substantial losses. There is no reason to believe that use of this name has misled anybody into thinking that we will necessarily meet the Board's deficit in full. Though I do not press for the use of the name in the main text of the Bill itself, the rubric beside the relevant line should in my view continue to refer to "NCB deficit grant" in the same way as the rubric beside Section 3 of the Coal Industry Act 1980.

You mention that it may be necessary to consider an increase in the present limit on social grants, depending on the present and projected rate of redundancies. I think the decision on whether this will be needed should await the Autumn, when we will have a better idea of the likely rate of redundancy.

You also suggest that the Bill might include a small change in the present arrangements for social grants to enable certain costs at present reimbursed at 50 per cent to be refunded in full. This would represent a small benefit to the NCB and I would be reluctant to concede it at the present time. Unless there are compelling reasons for making the change now, I think it would be tactically preferable to keep this carrot in reserve until such time as we can secure a worthwhile quid pro quo.

Finally, there are three further points which I think could usefully be included in a Bill of this sort, without introducing undue complications:

- i) You may be aware from recent correspondence in relation to the Transport Bill, the Iron and Steel and the British Telecoms Bills, that we are seeking to standardise the treatment of subsidiaries within statutory borrowing limits. Our preferred course is for the borrowing of all subsidiaries, whether or not wholly-owned, to count against the limit and I suggest that you consider an addition to this Autumn's Bill to achieve this.
- ii) Guarantees effectively commit public funds and should count against borrowing limits set by Parliament. This is a point to which the PAC rightly attach importance and the nationalised industry statutes are gradually reflecting this practice. Could I ask that the relevant clause of the Coal Bill should be drafted accordingly.
- iii) The forthcoming Bill provides the opportunity to include a power to set the Board a financial target or to lay duties of a financial nature upon them. Other nationalised industry legislation - eg Section 5 of the Petroleum and Submarine Pipelines Act 1975, the Iron and Steel Act 1975 and more recently the British Telecoms Bill - already does so. A suitable provision ought to be included in the forthcoming Coal Industry legislation.

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


LEON BRITTAN

A. Duguid

*Nat
Ind*

211-6402 ..

J R Ibbs Esq
Central Policy Review Staff
Cabinet Office
70 Whitehall
London SW1

15 July 1981

Dear Sir

NCB EFL FOR 1981-82

12/17

Thank you for your letter of 9 July.

We must of course be alert and sensitive to the political and economic risks inherent in the NCB's financial problems and in their handling of the NUM and also ensure that different aspects of overall Government strategy do not become compartmentalised. I therefore think you are entirely right to raise your point about the potential consequences of our policies and I am grateful to you. It is because of my concern that the NCB should think through the management of their external finance requirement for the year in good time, and discuss their problems with us, that I have asked the Board to report to me on the measures which they have in mind. My Department will monitor their position closely over coming months.

I am sending a copy of this letter to the Prime Minister and the Chief Secretary.

Yours

David
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D A R HOWELL

Natby
Coal

✓ Mr Dwyer
Mr Walters
→ Mr Verden

Prime Minister 4

01 211 6402

TL
14/7
MS

Rt Hon James Prior MP
Secretary of State for Employment
Caxton House
Tothill St
London SW1

14 July 1981

Dear Sir

NUM CONFERENCE 1981

The National Union of Mineworkers held their annual conference from 6 to 9 July in Jersey. As he has done in the past, John Moore attended for part of the time. I attach a background note, based on his impressions and observations, in which you and copy recipients may be interested.

I am copying this to the Prime Minister, the Chancellor of the Exchequer, the Secretaries of State for Scotland, Wales and the Environment, the Chancellor of the Duchy of Lancaster, Sir Robert Armstrong and Mr Ibbs.

Howell
David

DRA R HOWELL

CONFIDENTIAL

NUM CONFERENCE 1981

It was clear from the conference that:

- the left wing of the NUM dominates both the National Executive Committee and the delegate conference as a whole;
- the right wing and the 'moderates' lack influence on these two bodies;
- the 'moderates' tend to follow the left-wing lead on issues such as Belvoir and pit closures;
- Arthur Scargill is now almost certain to succeed Joe Gormley as President of the NUM;
- part of the left-wing is obsessed with the idea of 'taking on' the Government;
- there is a wide gap between the militancy of the NUM leadership and the moderation of the men in the many of the coalfields;
- although Sir Derek Ezra tried to avoid making this apparent, in the final analysis the Board's sympathies on issues such as Belvoir are closer to the miners' than they are to the Government's.

The main conclusion to be drawn is that it is important for the Government to separate this year's wage negotiations from discussions on Belvoir and pit closures. If these issues are allowed to come together, and the left wing will make every effort to achieve this, industrial action is very likely. If these issues are kept separate, the NUM as a whole, and the NCB, believe that a 'reasonable' settlement will emerge from a pit-head ballot on this year's pay negotiations. In the miners' terms, this means something related to the RPI.

The target of our propaganda campaign is the nation - not the miners. Our tactics should be to keep the debate on coal cool and analytical, insisting that each issue should be examined on its own merits.

Because of the high degree of organisation and ability among the left in the NUM, there is a danger that our concern to 'talk down' pay settlements will come to be seen as a formal pay policy, against which the left can wield their industrial muscle. We must guard against this risk in our future dealings with the industry.

While John Moore has long been able to talk privately with Joe Gormley, Michael McGahey and Lawrence Daly, this year was the first occasion on which Arthur Scargill sought him out. Scargill is certain of the Presidency. The only question remaining is whether Trever Bell will run against him, or simply not stand. Scargill told John Moore that if Bell did stand against him, he would prevent Bell from succeeding Daly as General Secretary.

CONFIDENTIAL

Flan A

~~C. A. Aquino~~
A. Walters



Chancellor of the Duchy of Lancaster

~~or Ann~~ Mia
(in by law
to me)

PRIVY COUNCIL OFFICE
WHITEHALL LONDON SW1A 2AT

9 July 1981

David

THE COAL INDUSTRY

Tend.

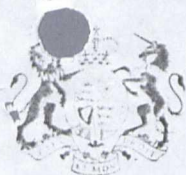
I have seen a copy of your Private Secretary's letter of 6 July, enclosing background material for unattributable use by Ministers in the proposed publicity campaign on coal.

I am not convinced that the material, as drafted, offers a sound basis for such a campaign to be mounted. Campaigns of this kind must not only be very carefully targetted and planned, but must also be framed in such a way as to recognise the risk that they will - if they are successful - quickly be recognised by those against whom they are directed as virtually a propaganda exercise. There can be no conceivable benefit in making the miners the target of such an exercise if the benefits are not such as to outweigh the risk. It can only be a matter of judgement, as to how far such a campaign might affect miners' attitudes towards this years pay negotiations; but clearly a campaign which was not carefully designed might do rather more to inflame opinions among the miners than to encourage support amongst the public as a whole.

It is against that background that I have reviewed the material circulated under your Private Secretary's letter; and I am obliged to say that I consider it falls somewhat short of what is needed. It will not be enough simply to state that miners are relatively well paid compared with the normal run of manual worker; or that their industry requires relatively large levels of subsidy; or that productivity improvements have been disappointing. Experience shows that the miners have, on the whole, been considerably successful in enlisting public sympathy for the view that their job is dangerous and unpleasant, and that their industry represents a national strategic asset well worth paying for. My personal

Contd ...

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



judgement is that a campaign as conceived, and if it is to be successful, requires to be based on a great deal more information on such points as the cost of coal/electricity to our industrial competitors overseas; a comparison of the efficiency and unit cost of British and foreign coal industries; and most important of all, the establishment of a convincing connection between on the one hand the cost of preservation of uneconomic pits and high wages in the mining industry, and on the other the effects on employment opportunities and industrial competitiveness elsewhere in the economy.

To summarise, a campaign of the kind we are considering is likely to become recognised as such by the miners, and likely in that case adversely to affect their attitudes. Unless the approach we adopt can convincingly demonstrate to the public as a whole that the mining industry as currently paid and managed is an intolerable burden on the growth of our economy and the creation of new employment, then it is a very high risk enterprise indeed. Against that background I suggest that a somewhat different approach is needed to the presentation of this material; and once this has been done, I certainly endorse Geoffrey Howe's view that the campaign needs very careful planning.

I am copying this letter to the Prime Minister, to the Chancellor of the Exchequer and to Sir Robert Armstrong.

Francis Pym
Francis Pym

FRANCIS PYM



CABINET OFFICE

Central Policy Review Staff

With the compliments of

J. R. Ibbs

70 Whitehall, London SW1A 2AS

Telephone 01-233 7765



A. D. Duguid

JR

Wat Gwl

CABINET OFFICE
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: J. R. Ibbs
CONFIDENTIAL

Qa 05614

9 July 1981

Dear Secretary of State,

NCB EFL for 1981/82

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I am troubled by one aspect of the situation set out in your reply dated 8 July to the Chief Secretary about his concern that the NCB wish to regard £1200m rather than £1117m as their EFL. I agree entirely that the Government has to insist that £1117m is the EFL and that it is not for the NCB to propose an alternative. Also I agree that they should be asked how they propose to find the necessary savings.

However, in the light of events in February I fear the NCB may feel forced to do something foolish or clumsy. I therefore believe it is important to emphasize that they should tell you what they propose to do before they do it. Within the financial constraints, largely union dictated, in which the Board operates, e.g. operating loss, stocks, investment and wage demand, the practical choice may be between a breach of the £1117m EFL or a bust-up far more costly than the £83m difference between that and the NCB's suggested figure.

If a management is set a task it lacks the capability to achieve there is sometimes a disaster. The NCB suggestion of an EFL of £1200m may be an inept cry for help rather than an attempt to flout the system. It would be prudent to check this.

I am sending a copy of this letter to the Prime Minister and the Chief Secretary.

yours sincerely,

J R Ibbs

The Rt Hon David Howell MP
Department of Energy
Thames House South

CONFIDENTIAL

“Sales, efficiency and investment –our policy to beat the recession”

Address by Sir Derek Ezra, Chairman of the National Coal Board,
to the annual conference of the National Union of Mineworkers
at Jersey, July 8 1981.

I am glad to be with you at this important conference and to be speaking after yesterday's speeches by Merlyn Rees and Alan Fisher. Now it is my task to tell you how the Board see the affairs in the industry and what action we are taking to deal with them. I hope at the end of my remarks you will agree that you are totally behind what we are doing.

This is a rather special occasion for two people, Joe Gormley and myself, because it is just over 10 years ago that we both took on our present positions – he as President of the NUM and me as Chairman of the NCB.

Mutual respect

We have been through some difficult and indeed turbulent times together, but our association has been such that we have developed a mutual respect and liking for each other. What I believe has brought that about more than anything else is that we are united on the basic issue, which is how we can build up this industry to become the most prosperous enterprise in Britain. That is our overriding objective. I was asked yesterday in an interview whether I had any comments on the next president of the NUM. I said I had one comment I can state with certainty. Whoever that next president is, he – like Joe – will have that overriding objective to fight for the industry.

Fundamental problem

I will tell you how, in my opinion, we have to fight in the present circumstances. The industry faces a fundamental problem of which you are all aware – the contradiction between the firm future prospects for coal and all the difficulties of the recession. How do we get through these present difficulties without harming the future?

There is not the slightest doubt about the growing importance of coal in the years ahead as a source of energy. When I spoke to you last year I referred to the many world studies which had come to the conclusion that, as we move towards the end of the century and into the next, coal is bound progressively to take up more and more of the world energy load.

We all know about the uncertainties of oil and the present glut is symptomatic of continuing uncertainty. We know that glut can be changed overnight by some further untoward development in the Middle East. We know too about the uncertainties of nuclear power. Though nuclear power is, of course, going to make a big contribution to energy supplies in the future, its development is being resisted in many countries and undoubtedly is going to take much longer to materialise. We know that other newer energy sources cannot make much contribution until well into the next century.

Governments must act

So we come to coal and about that there is no argument. As a result of studies by a task force of the International Energy Agency's Coal Industry Advisory Board which I am leading, a firm recommendation will be made to Governments of member countries in October.

This will be on the lines that 'if you as Governments believe that coal is inevitably going to play a bigger role in the future, you have got to do something about it.' That means making sure the conditions are created and the investment is undertaken to enable the necessary coal resources to be developed and, most importantly in the medium-term, coal utilisation facilities to be provided. This is essential to ensure that we do not get into the situation, when other energy sources are failing, of having massive coal reserves which are known to exist, without the right investment decisions having been taken in time to exploit them or to use them. That is the message we are going to give in October.

Recession strategy

Now, how must we work our way through the recession to safeguard our future prospects? There are three ways of doing this – through sales, efficiency and investment. This is our policy to beat the recession.

Coal sales have been badly affected by the recession. I said last year that we were going to sell 121 million tonnes compared to 125 million tonnes the previous year. In the event the forces of

recession proved stronger than we expected and, with the mild winter, 117½ million tonnes were sold. It was a very bad year for coal sales. What we had to do was to get this situation corrected, to take very vigorous action to make sure that coal had a larger share of the smaller energy market.

Sales efforts

I think you will agree that our efforts were effective. In 1980 imports were 6½ million tonnes of coal and exports were 4½ million tonnes, so the adverse trade balance was 2 million tonnes. This year we are increasing exports by seizing the opportunities created by an unexpected combination of events :

- Political difficulties in Poland created an immediate lack of coal supplies from that source ;
- The Russian Government's decision, for reasons which are not clear, to stop coal exports to the West ;
- Problems in America – a major strike and congestion at their ports ;
- Strikes in the ports of New South Wales and congestion there and in the main ports in South Africa.

Coal exports

The combined result was that much of the coal which countries were expecting from other sources was not available. Very quickly, we made it clear that our coal could replace these lost supplies. In a relatively short time from having sold 4½ million tonnes in 1980, we built up our order book of firm sales for 1981 to 9 million tonnes plus more than one million tonnes of coke. We are selling into 22 different countries – including all European Community countries, Scandinavia, Switzerland, Austria, Portugal, Spain, Israel, Albania, Rumania, Hungary, Bulgaria, Yugoslavia and Brazil.

As we are meeting here, there is a team in the United States negotiating to sell prime metallurgical coke to the American steel industry. This afternoon I will be meeting the chairman of

the Jersey Electricity Company and representatives of the States of Jersey to persuade them that, as they develop their electricity resources on this island, they should turn back to coal which will give them many advantages over the oil they now use. When I was at the conference of another mining industry union, I had similar discussions in the Isle of Man. Indeed, everywhere I go I find that people are now listening to us seriously as major suppliers once more.

Firmer prices

What we have shown is that we can move very fast on exports, whatever the circumstances. We have built a solid base from which to go forward. Now we have got to expand our ports in order to build up export tonnage from 10 to 15 to 20 million tonnes a year. Prices on the export market are not as good as the home market. But we were very wise to move when we did, because international prices are beginning to move up, the dollar has strengthened and the price gap is narrowing. I think the gap will continue to narrow.

We have been building up exports and diminishing imports. That was one of the agreements reached during our Tripartite meetings. I hope imports will come down eventually to 2 to 2½ million tonnes as an irreducible minimum. This year they are likely to amount to 3½ million tonnes, so we have fundamentally altered the balance of our trade : 10 million tonnes going out, three-and-a-half million coming in. That balance will progressively move in our favour.

Britain benefits

I would like to make it clear we are now one of the biggest overseas earners in Britain – from coal and coke exports, sales of technology and of mining machinery, and using our skills in developing new mines overseas. It means we are operating in about 50 countries altogether, bringing in more than £500 million a year in foreign currencies. As a result of our positive purchasing policy, we make sure we buy as much as possible competitively in this country of the £1,000 million we spend on

goods and services in a year, in this way providing employment outside our industry. So, by replacing potential imports and by export earnings, Britain benefits by up to £1,500 million a year from the coal industry, directly or indirectly. The value to the nation of the coal we produce is, of course, additional.

Home markets

Inland markets are much more difficult. Indeed, we have had to build up overseas trade in order to make up for the difficulties at home. But as a result of all the efforts abroad and at home I fully anticipate we shall this year get very near to selling 121 million tonnes, which we said was our aim last year.

In the home market our objectives have been twofold – first, to get the maximum amount of trade we possibly can ; second, to be poised and prepared to take advantage of any upturn in the economy.

Electricity

Coal is now generating about 80 per cent of all electricity used in Britain. It has been mentioned that the electricity industry are importing 15 million tonnes of oil for consumption and I would like to make it clear that this is not correct. They used 11 million tonnes of oil in 1979, $6\frac{1}{2}$ million tonnes in 1980 and in 1981 it will be lower still. The electricity industry are consuming as little oil as possible, consistent with the maintenance of the system. Wherever they can use coal, they are doing so, because coal is so much cheaper. We are now supplying all the coal the electricity industry can consume, subject to their own sales of electricity. When these sales improve we shall be poised to get more business.

Steel

Our situation is the same with the steel industry, which has suffered very severely in the world steel crisis. We have made sure we get the maximum amount of business they can take on board, consistent with their import contracts which British coal

is progressively replacing. British coal is getting back into Port Talbot steelworks after more than a year. There will be another import contract coming up before long and we will replace that.

Manufacturing

In manufacturing industry we have suffered a very severe blow because their output has diminished, but we are now building up a new market. Factories want to convert back to coal and the Government's new scheme has already attracted 800 inquiries, many of which we hope will successfully result in new business. But, of course, if we do want to persuade people to come back to coal and stay on coal, they must be persuaded that we are a reliable and competitive long-term source.

Domestic market

In the domestic market the biggest problem is customer price-resistance. If we were to put up prices very much more, we would not sell our product. That is why we introduced the biggest-ever summer price reductions which have led to a good improvement in sales ; we shall need to control our prices very tightly if we are to hold our position in this market.

Joint campaign

Finally, by agreement between the unions and the Board, we have launched in every mining area a major campaign to get the maximum amount of local authority business for coal. Teams are now being formed for this purpose. We believe it is in the interests of local authorities to burn more coal, given the price advantage over other fuels. It is certainly to our advantage to see that this happens.

In all these ways we are, therefore, taking very strong action to restrict the impact of the recession. In spite of that we shall probably be adding a little to stocks this year. The colliery stocks we now have are at a level of about 22 million tonnes. This is more than we like and we want to reduce stocks.

Raise efficiency

The next part of our campaign to deal with the present crisis is to raise efficiency, which can only be done in two ways – by effective investment and effort. We have both. We know that our efficiency, in terms of overall productivity, is going up consistently at a rate of about four per cent on last year's level. No-one can complain that we are an industry that is not putting to best use the investment we have made and the resources we have in materials and, above all, in skills.

Recruitment

Reference has been made to recruitment. To produce coal efficiently we depend on having the right number of shifts worked in the right places. We are getting many more shifts worked by people already in our employment because absence is now at its lowest recorded level. So long as we can get the shifts from the people who are already employed, it obviously makes little sense to recruit vast numbers of additional people. Therefore recruitment varies according to the situation. We are now getting a better balance in our shifts than for a long time. That is why we are securing improvements and surely that is something to continue to strive for. We shall recruit as necessary to maintain the proper level of shifts in the right places to get the best results.

Investment

Finally, let me mention investment, the third leg of our exercise. One of the main objectives in our recent Tripartite discussions with Government was to make sure that we could continue to invest in line with our Tripartite agreement on the Plan for Coal. We have been investing at this rate since 1974 and we believe that those investments have indeed paid off. In that period we have introduced two drift mines – one at Royston in Barnsley Area and one at Betws in South Wales. They have both been completed with excellent results. Revenue output last year at Royston was 5.29 tonnes-per-manshift and at Betws was 4.66 tonnes, in each case more than twice the

national average. There is not the slightest doubt that this investment has paid for itself several times over, through a combination of investing in the right places and using the right skills.

Productivity up

Nine other major schemes have been completed at existing collieries since 1974 and their combined output has risen from 7.4 million tonnes before the capital was invested to 9.86 million tonnes. The average productivity has risen from 2.78 to 3.47 tonnes-a-manshift.

The financial framework recently negotiated in Tripartite discussions should allow us to continue investment on essential schemes – but I must underline essential. We must use this money in schemes – such as those I have mentioned – that are going to pay off. Reference was made to preference being given to one Area over another. There are no preferences. Where we put the money is dictated by the geology and the availability of coal reserves. Wherever these are, we will want to invest. Obviously we cannot invest where workable reserves do not exist.

Waiting for NELP

This leads me to the North East Leicestershire Prospect which was the subject of your debate when I came in this morning. A document in circulation purports to be a draft statement by the Secretary of State for the Environment. We do not know anything about the status of this document or even how it came to be circulated, but obviously as it exists, we are bound to read it because it is relevant to our affairs.

I can only say that as far as I can see, the Government have not yet come to a decision. Mr. John Moore, who is with us today, indeed answered questions in Parliament on July 6 to that effect ; he made it clear that no decision had yet been reached. That makes it all the more important for us to make our views very clear. This is an issue on which there is complete accord between management, represented by the Board, and the unions. Why is there this accord ? Because this is a fundamental

issue for us ; it underlies the whole significance of our Plan for Coal.

This Plan depends on introducing at regular intervals new capacity into our industry for two purposes : to replace the capacity that inevitably has to go out ; and to build up so that, overall, we shall be producing more in the 1990s and beyond when we know full well that more coal is going to be required.

Cannot wait

If this big scheme does not go through, it puts our whole Plan out of gear. It is no use people telling us : 'When we need the coal you can produce it' – because it takes 10 years from the start to the finish of a major scheme of this sort. So we cannot wait until the need arises. What everyone has to do is something very difficult – to guess at the future. We have made our guess and we believe it is true that this coal is going to be required in 10 years' time. We can be certain of that anyway because, quite apart from expanding the industry, this coal will be needed to replace output we shall no longer get from our existing Leicestershire coalfield.

All the six collieries in that coalfield will be exhausted by the time the new pits are completed and this was one of the major reasons why we put so much effort into the exploration of the Belvoir field. Without the new coalfield the industry would certainly not be able to offer alternative work to the 4,000 highly skilled and successful men now working in those collieries. There would be a lot of other jobs generated outside the industry in engineering and construction work for NELP. We would be spending almost £1,000 million of investment generating outside jobs while these collieries are being developed.

Need the coal

Certainly the country will need the coal. The industry and the country also need the employment. As far as the environment is concerned, we are regarded throughout the world as having made great progress in reconciling mining operations with a high standard of environmental protection. We have given an

absolute assurance that it would be our objective to minimise the adverse impact on the environment.

This is an issue which I believe we must continue to advance firmly and logically, based on a thoroughly justifiable case. If we were to go forward as a country always putting the environment first in every respect, we might end up with a pleasant environment but with no industry and no employment. If, on the other hand, we said that industry had to be developed regardless of the environment, then we would risk getting back to the 'dark satanic mills' of the 19th century.

Environmental safeguards

The skill and the challenge at this advanced stage on the eve of the 21st century are to reconcile the need for industrial growth and for environmental safeguards. That is what we should be doing and I hope that, at the end of the day, the Government will agree this should be the objective.

Research effort

In addition to investment in output – in developing existing mines or new mines wherever the coal reserves make this possible – we have also massively stepped up our research effort. This is an integral part of our Plan for Coal. Through mining research and coal research our aim is to make mining operations more efficient and coal utilisation more effective. I am glad to say we have innovated and led in many ways and this explains our growing success in selling British mining and coal technology throughout the world. As an example, I was recently at a conference in Edmonton, Alberta, where we presented to the Canadians ways in which they could develop and use their coal resources using British technology.

Fluidised combustion

Great strides have been made. On coal usage, we have developed fluidised combustion. This will be a dramatic way of using coal in the future and already there are 40 fluidised bed

combustion systems working satisfactorily in this country. Standard installations will soon be available and I know that they are creating great interest abroad. At meetings I have held in Spain, France and Italy, people have been asking for installations of this technology in their own countries. We are progressing with the pressurised fluidised bed system at Grimethorpe, in Yorkshire, for electricity generation. This will greatly improve the efficiency with which electricity can be generated from coal.

Oil-from-coal

Reference has been made to the Point of Ayr oil-from-coal pilot project. I am very glad that we managed to persuade the Government to accept the validity of this scheme and I know John Moore played a big part in gaining approval for it. Admittedly the amount of money the Government was prepared to put in was relatively disappointing, but I believe we can get the additional money which we need from elsewhere. We are negotiating quite a substantial sum from the European Community and some other interested parties are also prepared to subscribe.

I would like to make absolutely clear that we are not waiting for all the money to be subscribed before going ahead. We have complete faith in the project. We are going to go out to tender so that nothing is held up and we will go ahead to build this project. I am convinced we will get the support we need. I am convinced it will be a great success.

Mining technology

Our mining research has been concentrated on control engineering. We now have some of the most sophisticated and effective machines for the deep mining of coal anywhere in the world. The more we spend on equipment and machines, the more effectively they will perform with fewer breakdowns. We have to work the machines harder, not the men ; that is the new kind of mining and the key to higher efficiency.

We lead the world in the use of microchip technology in mining. The American authorities have asked us to equip one

of their mines with this type of control equipment and this says quite a lot for the breakthrough we have made. At the same time we are maintaining a very great effort continually to safeguard safety and health in our industry.

Action on safety

Tragically from time to time, in spite of all our efforts, people suffer accidents, sometimes fatal, in our enterprise. We can never rest in this field until we have eliminated all fatal accidents. All I can say is that we have consistently maintained the best safety record in the world for a mining enterprise of our size. We intend to keep on doing that.

Three-point policy

I would like to end this way. To meet the country's continuing crisis we have a three-point policy for coal :

- We have to fight hard and skilfully for every tonne of business we can get – overseas as well as at home. We have made a massive start in that direction.
- We must maintain the current excellent progress in raising efficiency – encouraged to do so by the consistent four per cent improvement which we have been achieving for some time now.
- We must go on getting good results from our capital investment and from our research.

United industry

The lower our costs the more coal we shall sell. The more coal we sell, the more jobs we shall provide. An industry united behind those objectives can rise above the present problems and inherit the better future that can undoubtedly be ours.

My last words to your conference are these: We are moving in the right direction – we must not be blown off course.

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printed by Belmont Press

Talking about Coal

Number 173: July/August 1981

Two clear objectives

The coal industry have two clear and related objectives. The first is to do everything possible to overcome the effects of the present recession, and the second is to maintain a high level of investment in the future.

These objectives form the basis of the National Coal Board's present policies. They have led to major efforts in sales, efficiency and investment which are the key to the success of the industry's operations.

Sales

Demand for energy in Britain has been adversely affected by the recession. In terms of coal equivalent, energy consumption fell from 348 million tonnes in 1979/80 to 323 million tonnes in 1980/1 – lower than it has been for five years.

All forms of energy suffered. But whereas coal consumption fell by 6¼ per cent from 128 to 120 million tonnes, oil consumption fell by 12½ per cent from 134 to 117 million tonnes. Coal has once again become the largest single source of energy supply in Britain.

The Board's objective is to obtain for coal a still larger share of a diminished overall energy market, and to make sure that it is well placed to benefit from the recovery, when it comes.

The electricity industry are now using coal for 80 per cent of their total primary energy – the highest for 20 years. The steel industry, while still having to combat adverse trading conditions, are using more coal than last year. General industry, stimulated by the Government's aid scheme, are taking a lively interest in conversion back to coal. In the domestic market large summer price reductions have stimulated sales.

The most remarkable change has occurred in the balance of the coal industry's overseas trading.

In 1980/1, 4½ million tonnes of coal were exported and about 7 million tonnes imported, making an adverse balance of 2½ million tonnes.

In 1981/2, based on firm expectations, 9 million tonnes of coal (and one million tonnes of coke) are likely to be exported and 3½ million imported, leading to a positive balance of 5½ million. The value of coal and coke exports and overseas sales of coal technology and mining equipment is likely to be approximately £500 million in 1981/2, compared with £322 million in 1980/1 – making the coal industry one of this country's biggest overseas earners.

Efficiency

As a result of the Plan for Coal investment programme, launched in 1974, the collieries now have better equipment, better prepared faces, better underground and surface layouts than at any time in the past. Attendances are the best ever recorded.

There has been a continuing rise in productivity, which is currently showing 4 per cent improvement over last year – as envisaged in Plan for Coal. A continuance of this rate of improvement, backed up by sustained investment, should enable the industry to meet long-term objectives.

Investment

New coal mining capacity, whether at existing long-life pits or at entirely new developments, is highly productive.

Two new drift mines – Betws in South Wales and Royston in Barnsley Area – are already more than twice as productive as the average. Nine major schemes at existing long-life collieries, which have now been completed, are showing improvements of 33 per cent.

Without sustained investment such improvements, with good pay-back periods, cannot be achieved. It is, therefore, essential that present investment levels, in real terms, should at least be maintained in the years ahead.

Through exhaustion and other factors some mining capacity is lost every year – that is the nature of mining. In order to meet an increased demand in the longer term, new capacity has to be introduced at a progressively faster rate than these losses.

At the recent series of Tripartite meetings, all three parties – Government, management and unions – reaffirmed the need for investment in the mining industry to be maintained in line with the objectives of Plan for Coal. However, the funds available in the present financial climate are limited to the minimum required to meet these objectives; investment must therefore be concentrated on essential projects with sound prospects.

Another vital aspect of maintaining a high level of investment is the impact on suppliers, many of whom have already suffered as a result of cost-reduction measures which have had to be introduced.

If present improved performances are continued, the industry should have reasonable prospects of meeting the demanding financial objectives arising out of the recent Tripartite discussions. If, however, the industry are knocked off course for any reason, it could have a serious adverse impact on current performance and profitability, and set back future prospects.

'I am hopeful that we shall have the support of everyone in the industry in avoiding this,' said NCB Chairman Sir Derek Ezra when he presented the 1980/1 report and accounts.

Financial results

The National Coal Board's 1980/1 financial results show a substantial improvement in trading profit, which increased from £27½ million to nearly £70 million.

The major contributory factors were the continued increase in productivity, particularly at the coalface, and close control of costs.

It was a particular achievement in view of the dramatic market decline, due to the recession. This inevitably led to a major increase in coal stocks which tied up considerably more capital than in the previous year.

Because of this, the industry's high level of investment and continued high interest rates, the Board's interest charges went up from £185 million to £256 million. The improved trading results enabled part of this increase to be absorbed.

The increase in interest charges more than accounted for the year's financial loss of £37.8 million – to which must be added £20 million as a provision for the Nypro works at Flixborough which is in difficulty due to the collapse of the artificial fibres market.

European comparison

Britain has the lowest production costs and the lowest level of Government grants among the European Community coal industries.

In 1980 production costs per tonne (including interest payments and depreciation) were:

Belgium	£61
France	£45
West Germany	£44
Britain (in 1980/1)	£35

The other coal industries receive Government grants on a very much larger scale:

	£ million		£ per tonne	
	1980	1979	1980	1979
Belgium	176	175	27.8	28.5
France	275	283	15.2	15.2
West Germany	1152	1176	12.2	12.6
UK (1980/1)	175	189	1.4	1.5

These figures, based on 1980 sterling exchange rates, are derived from European Commission and NCB sources. They exclude social security subventions to coal industry pension funds and social grants; for the Continental coal industries these are larger than the direct aid to production. In the case of Germany, the figures include the levy on electricity consumers that is used to subsidise coal burned in power stations.

NCB

'Talking about Coal' is a series of notes for speakers and writers prepared by NCB Public Relations
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Nak Ind

~~cc~~ Mr Ingham
Mr Walters

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

01 211 6402

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Rt Hon Leon Brittan QC MP
Chief Secretary to the
Treasury
Treasury Chambers
Parliament Street
London
SW1P 3HE

8 July 1981

Dear Leon

NCB EFL FOR 1981/82

- with TL?

Thank you for your letter of 3 July.

I share your concern about the Board's approach to their 1981/82 EFL.

Sir Derek Ezra has said that, although the Board will take all reasonable measures to minimise the industry's external financing requirement they could not agree that an EFL of £1117m represents a valid objective for 1981/82, in the light of commitments already entered into, and the fact that they received their EFL a quarter of the way through the year, reducing the Board's room for manoeuvre.

I made it perfectly clear to the Board in giving them their EFL that the figure of £1117m is a limit and that they must work within it. I have written to Ezra again to underline that the Board's published EFL of £1117m is a definite limit, and that the NCB must plan to operate so as to keep within it, putting in hand quickly remedial action which is necessary to make savings. I have asked the Board for a report within the next 2 weeks on the action they are taking, and will let you have a further report by the end of the month.

I am copying this letter to the Prime Minister and to Mr Ibbs.

G. ...

D A R HOWELL

Daw

Not final
copy.

cf Ingham 4
Verker
Duguid
Walters

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

01 211 6402

Prin Hinich

This is the briefing
material promised by
Mr Howell. I have
side-lined the best

6 July 1981 bits.

David Heyhoe Esq
Private Secretary to
the Chancellor of the Duchy of Lancaster
and the Paymaster General
Privy Council Office
Whitehall
London SW1

R
97

[But Mr Dym - Flay A -
says the material is
irreparable, and its
presentation needs to
be carefully planned.]

Dear David,

THE COAL INDUSTRY

Tim Lankester's letter of 29 June asked for my Secretary of State's
brief, containing background information for unattributable use
by Ministers in the proposed publicity campaign on coal, to be
circulated as soon as possible. A copy is enclosed with this
letter. If the Chancellor of the Duchy is content, Mr Howell
would be grateful for its wider circulation.

R
(9)

I am copying this letter to Tim Lankester (No 10), John Wiggins
(HM Treasury), David Wright (Cabinet Office) and Gerry Spence (CPRS)

Yours ever

J D WEST
Private Secretary

Coal Industry: Background brief

Summary of Points to make.

Productivity

1. The coal industry has a disappointing productivity record over the last 10 years. Plan for coal envisaged productivity rising by 4% a year. If those expectations had been realised, productivity today would be a quarter higher than it actually is.

Miners' Wages

2. Mineworkers are well paid. They receive 30% more than the average manual worker's wage. And they have substantially improved their position relative to other workers since the mid-1970's.

Manpower Rundown

3. The coal industry has enjoyed a much higher degree of protection than private sector industries, and other loss-making nationalised industries, from the effects of the recession on jobs. It has done much less to trim its workforce and eliminate loss-making capacity.

Support for the Industry

4. ^{Since 1976,} operating grants to the coal industry have risen nearly 20 - fold in real terms. At some £450m, they now represent £22 for each UK household, or £1,530 for each NCB employee.

Loss-making capacity

5. The coal industry has a large "tail" of loss-making capacity, which represents a heavy burden on the successful and profitable parts of the industry, and on the taxpayer.

Production costs

6. The nation has invested substantially in modernisation of the coal industry since the mid-1970s - £2.8 bn. But average deepmined costs have risen as a result of high wage settlements and failure to raise productivity. The results of investment must now start to come through in terms of a sustained increase in productivity and steady improvement in the industry's financial position.

Coal Prices

7. Because NCB's unit costs have risen, coal prices to industry and homes rose faster than inflation in the 1970's.

MANPOWER AND PRODUCTIVITY

Point to make

1. The coal industry has a disappointing productivity record over the last 10 years - if the expectations of "Plan for Coal" had been realised, productivity today would be a quarter higher than it actually is.

Background

2.	<u>Year</u>	<u>Number of pits</u> (At end of year)	<u>Industrial Manpower</u> (Average for year)	<u>Output per</u> <u>manshift</u>
	1950	901	691,000	1.23
	1960	698	602,000	1.42
	1980/81	211	230,000	2.28 [2.32]

The bracketed OMS figures are those for 1980/81 on NCB's new definition.

3. Improvement was slower in the 1970s than in the 1960s:

<u>Number of Pits</u>	fell by <u>58%</u> in 1960s only by <u>12%</u> in 1970s
<u>Manpower</u>	fell by <u>52%</u> in 1960s only by <u>20%</u> in 1970s
<u>Output per manshift</u>	rose by <u>58%</u> in 1960s only by <u>2%</u> in 1970s

The OMS figure for 1980/81 is about 2% less than the level reached in 1972/72 - before "Plan for Coal".

4. Overall productivity rose by less than 1% in 1980/81. An increase of just over 2% in OMS at the coal face was offset by a decline of about 1.5% in OMS elsewhere below ground, ie on transportation systems etc, principally because of higher attendance, low absenteeism. No separate figures for production OMS are available before 1979/80.

5. The original "Plan for Coal" envisaged an increase in productivity of some 4% a year, on the basis of plans for the industry. Very large capital expenditure has been made: £2.8 bn since 1974/75.

6. But productivity in 1980/81 was only 6% higher than the low level (depressed by the strike) in 1973/74, and 2% lower than in 1972/73. If the planned 4% increase in productivity between 1973/74 and 1980/81 had been achieved, OMS would have been 2.83 in 1980/81, 24% higher than actually achieved. The difference represents an extra cost to the industry of about a fifth of the wage bill at collieries - some £350 m a year.

MINERS WAGES (To be revised in September)

Points to make:

1. Mineworkers are well paid. They receive 30% more than the average manual workers wage. And they have substantially improved their position relative to other workers since the mid-1970s.

Background

2. The most recent figures available, from D/Employment's October 1980 pay surveys show a further improvement in miners earnings relative to other industrial workers.

(£/week, including value of sick pay and benefits in kind)

<u>October</u>	<u>Miners Earnings</u>	<u>All male manual earnings</u>	<u>Percentage ratio</u>
1976	78.82	66.97	117.7
1978	105.95	83.50	126.9
1980	150.11	113.06	<u>132.8</u>

(Source: D/Employment Earnings Survey October 1980)

These figures do not take account of the January 1981 miners' settlement or of most 1980/81 round settlements in other industries.

3. Those figures include benefits in kind worth on average £9.32 per week in 1980 (£5.05 per week in 1976). These are untaxed.

4. The most important benefit in kind is concessionary coal worth in 1979/80 on average £5.60 per week - compared with average household expenditure on fuel heating and light in 1979 of £5.25 (from Family Expenditure Survey). This concessionary coal (or, in certain cases, a cash allowance in lieu) is untaxed.

COMPARISONS OF MANPOWER RUNDOWN

Points to Make

1. The coal industry has enjoyed a much higher degree of protection than private sector industries, and other loss-making nationalised industries, from the effects of the recession on jobs. It has done much less to trim its workforce and eliminate loss-making capacity.

Background

2. The rundown in coal industry manpower in recent years has been modest by comparison with other industries, not just 'crisis-torn' ones

Examples:

<u>Steel</u> -	1978 - 1981	<u>39%</u> :	13% pa
<u>British Leyland</u> -	1978 - 1981	<u>24%</u> :	8% pa
<u>British Shipbuilders</u> -	1977 - 1980,	6.6	
		<u>20%</u> :	7% pa
<u>Civil Service</u> (planned)	1979 - 1984,	<u>12%</u> :	2.8% pa
<u>Chemicals</u> -	1978 - 1981	<u>8%</u> :	2.6% pa
<u>Food, drink and tobacco</u> -	1978 - 1981	<u>9.6%</u> :	3.2% pa
<u>Mechanical Engineering</u> -	1978 - 1981	<u>16.6%</u> :	5.5% pa
<u>NCB</u> - from 240,000 in 1977/8 to 230,00 in 1980/81:		<u>4.2% in 3 years,</u>	or <u>1.4% pa</u>

3. Even implementation of the accelerated closure programme withdrawn in February would not have involved a rundown of more than some 5% pa, cushioned by generous redundancy terms.

SUPPORT FOR THE INDUSTRY

Points to Make

1. ^{Since 1976,} operating grants to the coal industry have risen nearly 20 fold in real terms. They now represent £22 for each UK household.
2. Support for the industry has increased rapidly over the last 5 years. Leaving social grants on one side, in 1976/7 operating grants were £11m or 10 pence per tonne. Last year they were £174 million or £1.60 per tonne; this year they will be some £450 million or £4.10 per tonne. This is an increase of 200% over the last six years: the Retail Price Index has risen by 80-85% over the same period.
3. The new 1981/82 operating grants of over £450m to NCB represent:-
 - £22 for each UK household (a 'coal tax' on each hearth)
 - £14 per second, day and night
 - £1,530 for each NCB employee
 - 0.5p on income tax
 - nearly 8% on VAT
4. This is not the whole burden on the economy. In addition:
 - Government pays social grants - £100 million this year in order to compensate the industry for the problems it has inherited from the past.
 - Government provides finance for investment, working capital, and the money to finance stocks of unsold coal out of the PSBR.
 - The profits of opencast, £161 million in 1980/81, have been swallowed up by loss - making pits.
 - The profits of the best pits, some with costs as low as £26 per tonne, have also been swallowed up in losses elsewhere.
 - £174.6 million of capital was written off in 1973.

LOSS-MAKING CAPACITY

Points to make

1. The coal industry has a large "tail" of loss-making capacity, which represents a heavy burden on the successful and profitable parts of the industry, and on the taxpayer.
2. For example, in 1979/80 the 10 million tonnes of pit capacity which made heaviest losses had an OMS of 1.3, not much over half the national average. It lost in accounting terms about £190 million.
3. Almost all this capacity is still open and the loss must by now be of the order of £250 million.
4. But this assumes that the coal produced is sold at current UK prices. In fact stocks are expected to increase. At normal prices this means revenue forgone of over £200 m. Total cash drain associated with the 10 mt capacity is therefore about £500 m.
5. The profits from opencast coal and profitable deep mines are swallowed up by the losses on high-cost capacity.

PRODUCTION COSTS

Points to Make

1. The nation has invested substantially in modernisation of the coal industry since the mid 1970s - £3bn since 1971/72, £2.8bn of which since 1974/75.
2. Of course, no-one expects immediate results from long-term investment of this sort. But the results must now start to come through, in terms of a sustained increase in productivity and steady improvement in the industry's financial position.
3. But the average unit cost of deepmined coal has risen $2\frac{1}{2}\%$ in real terms in the last 5 years as a result of high wage settlements, and failure to raise productivity.
4. Deepmined coal total costs per tonne (1980/81 prices)

1980/81 = £34.80

1975/76 = £30.60

an average rate of increase over five years of 2.6% pa in real terms.

1970/71 = £21.50

an average rate of increase over ten years of 4.9% pa in real terms.

COAL PRICES

Point to make

Because NCB's unit costs have risen, coal prices rose faster than inflation by $3\frac{1}{2}\%$ /year throughout the 1970s, and domestic prices by nearly as much, despite an enormous increase in support for coal.

Background

Real increase in prices 1970-1980

<u>Industry</u>	%
Coal	48
Electricity	25
Gas	17
Heavy Fuel Oil	175

Note : Coal's competitive position relative to oil improved, despite the 48% real increase in coal prices.

<u>Domestic</u>	%
Coal	42
Electricity	38
Gas	-25
Home heating oils	93

Coal accounts for 50% of the cost of generating electricity - a total coal bill of over £2 bn in 1980/81. An increase of 5% in coal prices would mean an increase of over 2% in electricity tariffs.

cc Mr Duguid
Mr Waller
Mr Ingham



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

6 July 1981

J.D. West, Esq.,
Private Secretary,
Department of Energy

Dear Julian,

THE COAL INDUSTRY

The Chancellor of the Exchequer has seen the letter of 29 June from Tim Lankester recording the Prime Minister's comments on the proposed publicity campaign described in your Secretary of State's letter of 24 June. B
47

The Chancellor believes that if the publicity campaign is to have the desired effect, it must be sustained over a period of time, directed to the target audiences and use the widest and most influential means for disseminating the message as possible. Structuring the campaign in this way will require careful planning and the Chancellor suggests that it would be worthwhile for the information divisions of the Departments concerned to meet to prepare a strategy.

I am sending a copy of this letter to the Private Secretaries to the Prime Minister, Chancellor of the Duchy, the Secretary of State for the Environment and to Sir Robert Armstrong and Mr. Ibbs.

Yours ever,

Richard Tolkien

R.I. TOLKIEN
Private Secretary

Not find
Coal

Walters
Verkes
Duguid

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Ann Amos

Treasury Chambers, Parliament Street, SW1P 3AG

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

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317

MT

3 July 1981

Dear David,

NCB EFL FOR 1981-82

I understand that the NCB have recently reported an external financing requirement for 1981-82 of £1200m which they say is based on the minimum figure the Board feel is currently attainable. This is well above the limit of £1117m recently agreed by Ministers and which you announced last month.

I am sure that you will agree that the external financing requirement of £1200m is totally unacceptable. The NCB's EFL is not a target which they can use their best endeavours to meet. It is a definite limit and the NCB must plan to operate to keep their expenditure within it.

No doubt you are urgently pursuing with the NCB the measures necessary to bring them within the EFL of £1117m. I think it is essential that such measures should be put in hand quickly. Last year's experience demonstrated that if remedial action is delayed, savings are not secured in time. Could I therefore ask that you should let me have a report by the end of the month of the measures which the NCB plan to take to keep within their published EFL? The Board ought also to be reminded that the £1117m is indeed a limit and not "a best endeavours target". I attach the greatest possible importance to this matter and feel that unless firm and reliable action is taken by the NCB to comply with the £1117m EFL it will be clear that it is possible to flout Government policy with impunity.

I am sending a copy of this letter to the Prime Minister and to Mr Ibbs.

LEON BRITTON

SECRET

Prime Minister

23/

*Not Indent
Coal
in the Document*



mt

The extra 0.2 mt tons looks v. little. But we agreed that we should not put at risk this year's pay settlement, and that the main build-up of stocks at the power stations would have to be after November - in time for next year's pay round. (See round at Flag A).

Prime Minister

MOVEMENT OF COAL TO POWER STATIONS

Following our meeting of 19 June, I am writing to let you know that additional coal has started to move from NCB pithead to CEGB power stations. I have asked the Boards to increase the tonnage beyond 1 1/2 mt if this can be done in an unobtrusive way; they say it might be possible to move about 0.2mt more and I have asked them to use their best endeavours to do so. (No doubt the Secretary of State for Scotland will be letting you know about the position there).

*T2
3/7*

The financial arrangements for compensating additional costs are under discussion. We have agreed a provision of up to £10m to cover additional handling and transport costs and we hope that this sum will be adequate.

As to the longer term, the CEGB will be reporting to me later this month on the various ways of increasing stocks and endurance; I will report later. I understand that the Secretary of State for Scotland is discussing plans with the Scottish Boards on a similar basis.

I am copying this minute to the Chancellor, the Home Secretary, the Secretary of State for Scotland and to Sir Robert Armstrong.

JLA

Secretary of State for Energy
3 July 1981

SECRET

*Nat Ind
Coal*

Nat Ind

MR INGHAM

cc:-Mr Vereker

Mr Duguid

The Prime Minister read John Vereker's minute of 26 June about coal publicity, and asked me to turn it into a letter to the Department of Energy. This is attached. I have taken the liberty of saying that you will be in touch with them to discuss the idea that Lord Robens should be approached to write an article.

L.P. LANKESTER

29 June, 1981

CONFIDENTIAL

Rtb



b/c MR Ingham
MR Vevaker
MR Duguid

10 DOWNING STREET

From the Private Secretary

29 June, 1981

The Coal Industry

Thank you for your letter of 24 June about the proposed publicity campaign. I have shown this to the Prime Minister, and she has the following comments.

First, she agrees that any campaign must be discreet, and this must point in the direction of avoiding Ministerial exhortation. What is needed, in her view, is dissemination of the facts, and especially facts about the costs of the coal industry and the importance of rational economic decisions. But she does not believe that preparing a background brief for unattributable use by Ministers is the only way of going about this. She thinks it would also be useful if some appropriate supplementary questions could be stimulated in the House designed to elicit the relevant facts, which can then be drawn to the attention of energy and lobby correspondents in an unobtrusive way. She has also suggested that Lord Robens might be approached to see if he would be willing to write an article for one of the large circulation newspapers - which would take the line that, while there is a useful future for the coal industry, this can only happen if it becomes more efficient. Bernard Ingham will be in touch with your Press Office to discuss this latter possibility.

BF. } Second, as regards timing, the Prime Minister believes there would be some advantage in giving publicity to "the facts" before the NUM conference, so that at least the media is not dominated by the material coming out of the conference. She would, therefore, like your Secretary of State's further brief to be circulated with this in mind as early as possible.

I am sending a copy of this letter to David Heyhoe (Chancellor of the Duchy of Lancaster's Office), John Wiggins (HM Treasury), David Edmonds (Department of the Environment), David Wright (Cabinet Office) and Gerry Spence (CPRS).

LANCASTER

J D West, Esq
Department of Energy

✓ B

CONFIDENTIAL

MR LANKESTER

cc:- Mr Ingham
Mr Duguid

CONFIDENTIAL

Armi Ansteth 2
See David Howell's
letter below. I think
(on it)
The Venku's comments
are wise. Shall I
write to Energy on
similar lines?

Yes please. I agree
with John Venku

COAL

I have as we agreed talked to Bernard Ingham and to the CPRS about the proposals in the Department of Energy's letter to you dated 24 June, about a campaign on the costs of the coal industry.

We agree that this must be discreet. We do not want to make it look as if the Government is squaring up for a fight with the miners. In fact we want to encourage a climate in which the moderates in the NUM are able to decide on their pay claim on as unpolitical a basis as possible. This all points in the direction of avoiding Ministerial exhortation, but encouraging the dissemination of facts, and especially facts about the costs of the coal industry and the importance of rational economic decisions.

We do not think that providing a background brief for un-attributable use by Ministers is the only way of going about it. That should certainly be done, but it would also be useful to have some questions asked in the House designed to elicit the relevant facts, which can then be drawn to the attention of energy correspondents and lobby correspondents in an unobtrusive way. Bernard Ingham would also be prepared to approach Lord Robens to see if it could be possible to arrange for him to write an article for a large circulation paper, which could take the line that of course there is a useful future for the coal industry, but only if it becomes more economic.

As for whether it is necessary to wait until after the NUM conference, we see some advantage in having these facts in circulation beforehand, so that at least the media is not dominated by the material coming out of the conference. But it would obviously be necessary to avoid giving the conference the impression that the Government is attaching too much importance to its decision, when in fact the pay claim itself will not be determined until the early autumn.

JM

26 June, 1981

CONFIDENTIAL

Nat. Ind

A. Walter
A. Duguid

DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ
01 211 3932

Rt Hon Leon Brittan QC MP
Chief Secretary
HM Treasury
Parliament Street
London SW1

25 June 1981

Dear Mr Brittan

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COAL INDUSTRY BILL

Following agreement by QL Committee and Cabinet that a Coal Industry Bill should be included in our legislative programme for the next Session, I am anxious to put in hand the preparation as soon as possible, as is essential if we are to secure Royal Assent by 31 March 1982. Our recent decisions in E Committee have opened the way for decisions on the Bill and I am now writing to pull the threads together, at least of the financial provisions which must form the core of it.

The first purpose of the Bill is to increase the limits on the NCB's borrowing powers and on the grants which David Howell can pay to them. We must in any case provide powers enough to cover 1981-82 and 1982-83 (I do not think that we should want to put ourselves in a position where another Bill was essential before 31 March 1983). It will, however, be some time before we can say whether we are in a position to look further ahead. Decisions on the exact figures too will have to await the NCB's medium-term prospectus, which the Board will give us early next month. However, I see no particular difficulty about proceeding with the drafting of what are standard provisions, leaving the numbers to be filled in nearer to the introduction of the Bill.

It may also be necessary to increase the limits on the social grants payable to the Board. At present we have financial authority extending to 1983-84, and there is a fairly comfortable margin in hand. But everything depends upon the rate of redundancies; these are currently running at more than twice the 1980-81 rate, but it is too early to say whether this is a long term trend, or a short term consequence of the improved redundancy terms. We will have a better ideas of the rate of redundancy by the Autumn, and we can decide finally then whether an increase in the present provisions is needed and if so how much it should be.



We also need to consider the structure of operating grants. In E Committee, David Howell proposed (Annex C, E(81)57), that we should allow the existing agreement for the payment of limited amounts of coke stocking aid and aid for additional coal burn by SSEB to run their course until both expire at the end of 1982-83, and that the remaining amount to be paid by way of operating grants to NCB should take the form of a single grant to be shown on the NCB's revenue account before a balance of profit or loss was struck. I think that the Committee accepted these proposals with the exception of the accounting presentation of the single grant, which is now to be shown in the NCB's account after profit and loss.

On this basis I should like to proceed as follows with the different operating grants to NCB:-

- i) Coke stocking aid and aid for additional SSEB coal burn; I believe that we should honour the agreement under which these grants are paid, until they run out at the end of 1982-83. I can see no useful purpose which would be served by upsetting them and to do so would be gratuitous irritation in our relations with the coal industry. The amounts are small (£27m out of total non-social grants of £450m in 1981-82) and do not significantly affect public presentation. No change in the present legislation would therefore be needed;
- ii) we both agree that coking coal production aid should not be paid. I suggest however, that we leave the relevant s.8 of the Coal Industry Act 1973 on the statute book until it expires at the end of the financial year 1982-82. I can see no presentational advantage in repealing this power in isolation;
- iii) following your letter of 12 June David Howell may want to think further about the name of the single "operating grant" which the Board are to receive. The advice which I have received however is that, whatever the name, the nature of the grant is such that we can continue to pay it under s.3 of the Coal Industry Act 1980.

E Committee agreed that in future, if loans are made to NCB on deferred interest terms, repayments of principal may be deferred as well as payments of interest. I am advised that the existing legislation would not need to be changed for this purpose.



I think it would also be useful to make a small change in the existing provisions for social grants, to get legislative authority to pay premature pensions costs for RMPS beneficiaries at 100%, instead of the present jumble of 100%, 50% and Nil payments. This will involve a small amendment of Section 4 of the Coal Industry Act 1967. My officials are already in touch with yours about the details.

If, as I hope, you can agree that we should go forward on this basis, I should like to put work in hand on the Bill as soon as possible, as, indeed, will be necessary if I am to meet our timetable of introducing the Bill earlier in December. I am therefore, sending a copy of this letter to The Lord Chancellor as Chairman of L Committee. I should be grateful if he would treat it as a request for drafting authority for the provisions which it describes.

I am also sending a copy of this letter to the other members of E Committee and to Sir Robert Armstrong and Mr Ibbs.

Yours sincerely

David Watts

JOHN MOORE

(Approved by Mr Moore and signed in his absence)



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

01 211 6402

C. A. Walters 2
A. Duguid

*at the instn
of the Sec*

Denis Austin

T P Lankester Esq
Private Secretary
10 Downing Street
London SW1

24 June 1981

~~The campaign should be
started before the
proposed campaign
starts after the
NUM conference
in early July.
He will be
examining further
proposed
brief for use
on a non-attributable
basis.~~

Dear Tim,

THE COAL INDUSTRY

Your letter of 19 June about the coal industry asked for early advice on what form a campaign of public persuasion might take, when it should be mounted and by whom.

The Chancellor of the Exchequer discussed (in his minute of 13 May) the possibility of such a campaign, on a non-attributable basis, to bring home to the public the real burdens imposed on the economy by the in-efficiencies of the NCB and the attitude of the miners to closing down uneconomic pits (and on wages too for that matter).

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In his minute of 1 June, my Secretary of State agreed with the need for such a campaign but also argued that careful thought would need to be given to the timing. We now have the Tripartite behind us but it seems to us that the campaign should not start until after the NUM Conference in early July. Thereafter, however, it could form a very significant part of our strategy towards the industry in the run up to the next round of NUM wage negotiations.

As to the form the campaign should take, my Secretary of State agrees with the Chancellor that the aim should be to get across to the public the costs imposed on the taxpayers and the economy by the coal industry. Officials here are preparing a background brief for Ministers on the facts that need to be put across. We will be discussing that brief with others concerned in the near future.

When it is finally agreed, it will be available to Ministers for use in unattributable briefing as part of whatever careful, selective but sustained campaign best fits with our developing strategy towards the coal industry, in the light of the NUM Conference, the NCB wages claim and our own deliberations (eg on the CPRS report).

CONFIDENTIAL



My Secretary of State will write further when the brief is ready in its final form.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster and the Secretary of State for the Environment as well as to Sir Robert Armstrong, and Mr Ibbs.

Yours ever,

A handwritten signature in black ink, appearing to be 'J D West', with a long horizontal flourish extending to the right.

J D WEST
Private Secretary

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10 DOWNING STREET

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From the Private Secretary

19 June 1981

Dear Tuhin,

Movement of Coal to Power Stations

As you know, the Prime Minister held a meeting this morning with your Secretary of State, the Chancellor of the Exchequer and Sir Donald Maitland to discuss the movement of coal to power stations. Robin Ibbs, Robert Wade-Gery and John Hoskyns were also present. They had before them your Secretary of State's minutes of 10 and 18 June, the Chancellor's minute of 15 June, and also the Secretary of State for Scotland's minute of 16 June.

The Prime Minister said that she was disappointed by the latest proposal that only an additional 1½ million tonnes of coal should be moved to the power stations before 1 November. This was considerably less than the 4-5 million tonnes which had been envisaged when the matter had been considered in April. Her own view was that arrangements should be made to move as much coal as was physically possible. This would not only increase the country's endurance in the event of a strike this year; but it would also help to increase what might be considered the "normal" level of stocks against the possibility of a strike in 1982. She doubted that the risks of moving additional stocks, over and above 1½ million tonnes, were as great as your Secretary of State feared. Given that stocks at the pits had increased from 13 million tonnes to 22 million tonnes over the past 12 months, it was only natural that there should be some additional movement.

Your Secretary of State said that the 4-5 million tonne figure mentioned in April had been an estimate of what was possible before he had been able to consult the NCB. In the event, he had found that the maximum that could be moved was 2½-3½ million tonnes because they were already building up extra stocks as a result of low demand for electricity. He was, however, reluctant to ask the NCB to move as large an amount as this. To move more than an additional 1½ million tonnes would be highly visible and would increase the risk of confrontation with the miners. The additional 1½ million tonnes which he proposed, plus the possibility of raising oil burn, would raise endurance to 10 weeks.

Mr. Ibbs said that there was no possibility of increasing stocks sufficiently at the power stations to enable the Government to withstand a strike this year. The decision as to how much coal should be moved before 1 November should be taken against the following criteria: first, what additional movement would be consistent with the lowest settlement in 1981? Second, what additional

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/ movement

movement before 1 November would maximise the level of stocks by 1 November 1982? If it was felt that anything additional to the 1½ million tonnes proposed by Mr. Howell would make it more difficult to achieve a low pay settlement, then it would be unwise to take any further action. It was also by no means clear that extra movement before 1 November would help to increase the level of stocks in 1982. The Government should aim to increase the level of endurance by a sizeable margin - to say 20-22 weeks - by the winter of 1982. Against the possible risks of confrontation, the best time to build up additional stocks would be during the six months after this year's pay settlement. But because of the physical constraints, immediate steps would need to be taken to see how the capacity of the power stations to receive the coal could be increased.

In discussion, the following points were made:

- (i) Endurance was determined not only by the quantity of stocks at the power stations, but also by their quality and distribution. For example, in November 1979 there had been 16 million tonnes of coal at the power stations, but this had been sufficient to last for only five weeks. Steps had since been taken to ensure that the quality and distribution of stocks were improved.
- (ii) It would be worth considering installing dual firing at one or more power stations, particularly with a view to burning North Sea gas. Additional gas burning in the event of a strike would almost certainly mean that less gas would be available for industry; but a conscious decision to cut off gas to certain industries might be worth taking.
- (iii) Considerable problems were being encountered in putting together the finance for the gas gathering pipeline project. Those who had promised to put up finance for the project were now asking for a Treasury guarantee.
- (iv) Endurance would be increased as and when the AGR's came on stream. Every effort should be made to speed this up.
- (v) If the Government were to provide any additional financing for the movement of additional stocks, this should be given to the CEGB. If extra money were given to the NCB, there was a risk that they would use it as an opportunity to ask for additional finance for other things.

/ Summing up

Summing up, the Prime Minister said that the Department of Energy should ask the NCB and the CEEGB to arrange for additional coal to be moved from the pits to the power stations before 1 November over and above the 1½ million tonnes' addition already envisaged. The additional movement should be as large as physically possible, subject to the Department being satisfied that it would not make it significantly more difficult to achieve a low pay settlement for the miners. The Government should aim for a much larger volume of stocks at the power stations by November 1982 than would be possible by November 1981. With this aim in view, the Department should urgently review the steps that would have to be taken and prepare a plan of action. The Department should review the possibility of installing dual firing at one or more power stations, and do everything possible to push ahead with the nuclear programme. It should also make renewed efforts, in consultation with the Treasury, to find a solution to the problems which were preventing the gas gathering pipeline project from getting under way.

BE || The question of a campaign of public persuasion was not discussed. The Prime Minister would be grateful for early advice from your Department on what form the campaign should take, when it should be mounted, and by whom.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Home Secretary, the Secretaries of State for Industry, Employment and Scotland, the Minister of Transport, and to Sir Robert Armstrong and Robin Ibbs. I would be grateful if, for obvious reasons, copy recipients would treat this letter with the utmost discretion. It should be shown to officials in Departments on a strictly "need to know" basis.

ms. cur.

Tim Latham.

Julian West, Esq.,
Department of Energy.

J. H. H. H.

PRIME MINISTER

COAL

Now that Tuesday's tripartite is over without explosion - despite some potentially dangerous rumblings from McGahey - the time has come to organise and plan carefully our objectives in handling the coal industry over the next four months.

Our aim must be to get a very low November pay settlement. This will be decisive in setting the tone for the whole pay round, so the prize is big.

The question immediately arises as to whether we are prepared to see a strike purely on pay. Our answer to this question must condition our actions from now on (the NUM conference, before which it would be unwise to move visibly, is 6 - 9 July. We should be clear about our intentions before then).

Our eventual confrontation with mining monopoly union power must be one that we will win. We will win if we have prepared properly. It may be that it would be better to fight on an issue such as the rational reorganisation of the industry than on the sole issue of pay.

However, if the answer to the key question above is that we are prepared to risk industrial action, and we should be quite clear in our minds in reaching this view, then a number of further issues arise:

- (i) How visibly do we prepare, bearing in mind that the greater the visibility the higher the risks of encouraging militancy? So far we have decided to increase power station endurance from 7-7½ to



9-9½ weeks. I have proposed that this be done by a low profile shift of extra stocks to power stations plus additional stock build resulting from below forecast demand, plus the possibility of raising oil burn fast, when and if the crisis comes, (plus organising sufficient ancillary material stocks). This would push potential endurance to 10 weeks. We could get another week's endurance by shifting up to two more million tonnes before autumn, but the logistics become more uncertain and costly and there would be much more public evidence of what we were up to. I understand you want to discuss this at a meeting on Friday.

- (ii) How do we best mount our campaign of public persuasion designed to put us in the strongest, and the miners in the weakest position when it comes to a pay battle? This should probably start directly the NUM conference is out of the way.
- (iii) What moves, if any, is it worth making between now and the pay negotiations to keep the temperature down so as to strengthen further Gormley's position and to frustrate Scargill? I doubt whether we will stop the Scargill succession but if we show ourselves publicly ready to take on the miners that will put him right in the driving seat.

I know that MISC 57 is examining how to withstand a coal strike and that the Civil Contingencies Unit planning for emergency is at the ready. And the CPRS are studying the wider impact of the coal miners' power on the basis of John Hoskyn's recent paper. There is also the longer term strategy for handling the coal industry, on which work is now in hand.



But meanwhile I believe it is essential for colleagues now to decide - in the light of the studies now in hand - whether or not we can now contemplate a miners strike - and, if so, to proceed with ~~the~~ most thorough planning and campaigning accordingly.

also
I hope this minute may/provide a framework for our discussion on Friday.

Secretary of State for Energy

18 June 1981

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One of the industries which has suffered most from the recession is the coal industry. By last autumn the effect of reduced demand by industry for coal and for electricity, faced the coal industry with a crisis of over production. The National Coal Board's response was to introduce a series of cost savings, and also to attempt to accelerate the rate of closure of older pits with poor productivity.

In February 1981, following strong union reaction to that attempt the Board agreed to withdraw the accelerated programme and to revert to normal consultative procedures when a closure was in prospect. The Government agreed to adjust the industry's cash limit to accommodate that change. In addition it agreed to meet the cost if the NCB, through discussions with the electricity and steel industries, was able to reduce imports of coal by those two nationalised industries, "towards the irreducible minimum". The NCB put the cost of that help at between £100-£200 million. In view particularly of the very great improvements in productivity in the industry which augurs well for the future, the Government was willing to offer this additional aid to coal during the recession.

While the Board has been involved in negotiations with the steel and electricity industries, it has not been possible to set a new cash limit for the current year. But it has now reported its success in negotiating a reduction in imports of 4 million tonnes this year. Accordingly on 16th June Mr. Howell, Secretary of State for Energy, told the House of Commons that the Government was to increase the coal industry's cash limit by £231 million to meet its undertakings on pit closures and imports, and to take some account of the impact of the recession on the Board's costs, for example in having to put more coal to stock.

The new cash limit is still a very tight constraint on the industry, obliging it to cut costs and to maximise its efficiency. The NCB accepted at Tuesday's tripartite discussions with the Government and the unions that essential investment under "Plan for Coal" could continue, but stressed that there would now be no room for investment in doubtful projects. And as Mr. Howell told the House of Commons, the unions made clear that they were not seeking a blank cheque from government for investment in madcap schemes.

Within the increased cash limit, Mr. Howell announced that the proportion accounted for by Government grant would increase. The Government had decided to raise the level of grant from the planned level of £250m to £550m for 1981-82. However, this change has no additional impact on the cost to the Exchequer. The difference between the increase in grant of £300m and the increased cash limit of £231m lies in a transfer of £69m within the cash limit from loans from other sources to grants. The effect on public spending is the £231m increase in the cash limit, and that alone.

Because increases of this size cannot be accommodated under the Coal Act 1980, Mr. Howell announced his intention to bring forward new legislation in the autumn to increase the existing statutory limit on the Board's borrowing and to allow for continuing grant support. As a first step, pending that legislation, Mr. Howell is to lay orders before Parliament to raise the limits on the Board's total accumulated borrowings from £3400 million to £4200 million, and to increase the limit on grants payable to the Board from £525 million to £590 million.

In each case these are the only steps by which the Government is permitted to increase the limits to the maxima under the existing legislation. These maxima do not reflect levels of borrowing and grant which the Board is actually likely to need in the very near future.

The Future for the Coal Industry. The increased cash limit for the NCB should not be seen only in the light of the Government's undertakings given in February and the short term costs of the recession, but also against the background of significant improvements in performance and prospects in the coal industry, and also as an indication of the Government's commitment to turn coal into a competitive and effective industry.

*Productivity: Productivity has been increasing at a rate of 2 per cent per year and has increased by 3 per cent over this time last year.

*Imports and Exports: since February the Board has not only been able to cut back the amount of coal being imported, but also has had great success in promoting exports. This year exports have doubled to 8 million tonnes, and the Board is selling to 22 countries. So that despite the world recession, the UK's net exports of coal in 1981-82 should be about 5 million tonnes, the highest since 1965.

*Closures: Although it was agreed in February to withdraw the Board's accelerated closure programme, routine closures of exhausted pits in consultation with the unions have been proceeding well. There have been 3 closures since the February tripartite and a further 4 closures have been announced to take place later in the financial year.

PERSONAL



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10 DOWNING STREET

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- ② pl return.

Andrew Durrin

Tim
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To see and

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return pls (and show 10/10.

John if you wish). But

pls. note that this

has been sent to

me on a personal

basis without D. Howell's

authority.

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Personal
of Mr. Dwyer



DEPARTMENT OF ENERGY
Thames House South
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Tel: Direct Line: 01-211
Switchboard: 01-211 3000

Tim Lancaster.

With the Compliments of

the

Secretary of State

PS /SOS

Julian West.

NATIONAL COAL BOARD
HOBART HOUSE
GROSVENOR PLACE
LONDON SW1X 7AE

01-235 2020



CHAIRMAN

16th June, 1981

Secret

Commercial In Confidence

The Rt. Hon. David Howell, M.P.,
Secretary of State for Energy,
Thames House South,
Millbank,
LONDON, SW1P 4QJ.

Dear David,

External Financing Limit 1981/2

Following our meeting on 15th June, I am setting out in writing the difficulties which the Board foresee in meeting the EFL of £1,117m. which you have imposed for 1981/2.

As we indicated to you, we consider that the additional grants of £293m. (to bring the total to £550m.), could bring us within reasonable striking distance of a break-even position in 1981/2, subject to social cost grants being sufficiently flexible to reflect the actual level of redundancy, and provided that there are no undue industrial relations difficulties. You also noted our strong view that the concept of deficit grants should be superseded.

It is principally in relation to capital expenditure and working capital that our difficulties arise. The capital allocation for Mining of £650m. (at September, 1980 prices) offset by a reduction of £25m. on other capital expenditure would represent a substantial reduction on the actual level of expenditure last year, and this is likely to be apparent to our suppliers. Nevertheless, we could reconcile this lower level of capital expenditure with continuation of "Plan for Coal" provided that we were able to make a start on a number of long term projects during the course of the year which would involve little expenditure in 1981/2 but which, of course, give rise to a higher level of commitment for 1982/3 and beyond. You indicated that we should not make such forward commitments until our long term prospectus had been considered and in turn we emphasised the need to avoid delays on several important contracts due to start in October. We should clearly not wish to be placed in a position whereby we would need to announce a further deferment of these projects at what would be a very sensitive juncture in our wage negotiations.

/...

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

16.6.81.

However, we cannot see how even such a restricted level of capital expenditure, involving a minimum of new commitments, can be made compatible with the overall cash limit of £1,117m. which in our view is understated by at least £100m. While we will take all reasonable steps to reduce cash requirements, a formal undertaking to keep within this limit would imply a series of actions, singly or in combination, all of which could lead to major confrontation with the Mining Unions. If such actions in fact led to confrontation, progress towards achievement of the EFL would naturally be further frustrated.

The Board are already redeploying manpower, with consequential improvements in productivity, to the maximum extent which they regard as realistic and we shall, of course, continue this pressure. We have also accepted, with reluctance, a level of capital expenditure which we regard as the absolute minimum.

In these circumstances, I have to confirm to you the Board's considered view that, although we shall take all reasonable measures to minimise the industry's external financing requirements, we cannot agree that an EFL of £1,117m. represents a valid objective for 1981/82, in the light of commitments already entered into and of the fact that we are now near the end of the first quarter with little room left for manoeuvre.

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Nationalised Industries

PRIME MINISTER

Coal Statement

Mr. Howell's Statement passed off relatively quietly.

Merlyn Rees described the decisions as a victory for common-sense over Treasury strict constructionism. He emphasised the benefits which would flow to the private sector, given the pattern of NCB expenditure. The new money would allow further progress on the plan for coal, but the amount was not sufficient for anything more than a first step. He also sought clarification on some of the figures. He concluded by asking what was happening on the Vale of Belvoir.

The follow-up was predictable. Dennis Skinner saw the announcement as a cosmetic change which could do little to resolve the industry's problems. John Morris and George Foulkes enquired about progress on pet projects in their area. Ioan Evans stressed the economic value of our coal reserves. For the Liberals Alan Beith wanted to see increased NCB investment matched by increased CEGB investment in solid fuel power stations, in preference to green field nuclear sites. On the Government side, the initial speakers - Patrick McNair-Wilson, John Hannam, Nigel Forman - were not unhelpful but expressed some scepticism about the prospects of increased coal sales and the abandonment of the accelerated run-down programme. Trevor Skeet was more aggressive, complaining that there was one economic system for coal-mines and another for the rest of the country. The exchanges concluded with a string of Government Backbenchers more openly critical of the decisions, including John Townend who saw it as one more example of the increased subsidies to nationalised industries which would make it impossible to ever get the PSBR under control, and John Ward who told Mr. Howell that private industry did not share his faith in the ability of the NCB to control its finances.

16 June 1981

Seen by PM

MR 16/12

ORAL STATEMENT - 16 JUNE 1981

NCB FINANCES

With permission, Mr Speaker. I should like to make a statement about the National Coal Board's finances. As I have previously undertaken, I wish to keep the House fully informed of what is happening in the coal industry."

The Board's requirement for external finance in the financial year 1980-81 was £884 million, £52 million more than the limit of £832 million announced in response to my hon friend the Member for Nelson and Colne (Mr John Lee) on 12 December.

The Board's announced external financing limit for 1981-82 of £886 million will be raised to £1117 million. The funds will be found from the Contingency Reserve within the planned totals of public expenditure.

I shall be bringing forward legislation in future to increase the existing statutory limit on the Board's borrowing and to allow continuing grant support for their operations and revenues. Meanwhile, I shall continue to make advances to the Board out of the National Loans Fund.

Subject to the approval of Parliament, I propose to increase the amount of grants made available to the Board in this financial year within the revised EFL. I will bring before Parliament shortly an order under the Coal Industry Act 1980 to increase the limit under section 4 of that Act of grants payable to the Board from £525 million to £590 million. Subject to Parliamentary approval of the necessary supplementary estimate, the cash limit of Class IV, Vote 5 will be increased by £70 million. I will also bring before Parliament, under the same Act, an order to increase the Board's borrowing limit from £3400 million to £4200 million.

When I saw the Board and mining unions this morning in a tripartite discussion, I reviewed progress over the past four months and outlined my intentions. It was agreed that this would provide a satisfactory basis for further progress.

cc A. Dwyer 28



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Am. Smith

Mr Younger is not available tomorrow; but I am told that he is fairly "handicapped" on this. If you decide that more than 1 1/2 ton extra should be moved, he will play his part with the SSEB.

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PRIME MINISTER

MOVEMENT OF COAL TO POWER STATIONS

1. I have seen the Secretary of State for Energy's minute to you of 10 June and can confirm that I have been having similar discussions with the South of Scotland Electricity Board.
2. At a recent meeting with the Chairman and Deputy Chairman I was told that there should be no difficulty in building up stocks of coal to 10-11 weeks' supply. Much of this build-up can be achieved by continuing to receive coal at the normal rate of delivery throughout the summer. In this way the Board may be able to avoid attracting attention.
3. As far as ancillary supplies are concerned the Board are engaged in a detailed assessment but their preliminary advice was that stocks could be increased to provide cover for a 9 week period, and possibly longer. It should be possible to continue to obtain ancillaries, particularly during the early stages of a coal strike, but ideally the stock of ancillaries should be built up in advance to match the stock of coal and I shall be pressing the Board on this.
4. If you agree I will ask the Board to increase its combined stocks of coal and ancillaries to the levels indicated and on the financial basis which the Secretary of State for Energy has outlined. I have already made it clear to the Board that I hoped they would be prepared to cover the cost of ancillaries within their EFL and I have no doubt that the Board will be prepared to accept similar arrangements to those appertaining to the CEBG.
5. The Secretary of State for Energy has drawn attention to the possibility of increasing oil burn to help withstand a coal strike. There is scope for higher oil burn in Scotland and it would be possible in the event of a strike to use oil-burning stations in Scotland to export power to CEBG (although the quantity involved can only be marginal in the

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context of the much larger CEGB system). Like CEGB, the Scottish Boards would probably ask for compensation for increasing oil burn or building up additional oil stocks and would need adequate notice in order to build up their stocks.

6. I am copying this minute to the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Home Secretary, the Secretaries of State for Energy, Industry and Employment, the Minister of Transport and to Sir Robert Armstrong.

Cy.

SCOTTISH OFFICE
16 JUNE 1981

S E C R E T



Treasury Chambers, Parliament Street, SW1P 3AG

Julian West Esq
Private Secretary to
Rt Hon David Howell MP
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1

15 June 1981

Dear Julian,

NCB FINANCES

The Chief Secretary has seen a copy of your Secretary of State's minute of 12 June to the Prime Minister covering a copy of his opening statement to tomorrow's Tripartite. The Chief Secretary suggests the following alterations:

(i) Paragraph 3: (Boiler conversion scheme): The wording here ought not to give the impression that the scheme was introduced solely for the NCB's benefit. He therefore suggests the deletion of the first half of the third sentence, and a minor drafting change, so that this sentence now reads:

"The scheme has aroused a considerable degree of interest."

(ii) Paragraph 4: The beginning of the second sentence should be expanded to read:

"I promised in February that in the light of the withdrawal of the Board's accelerated closure programme I would look at the existing financial constraints on the Board...."

Third sentence. The NCB ought not to be given a public commitment that they will be insulated from the short-term fluctuations in the prices of competing fuels. This will be quoted back at the Government and will provide the industry with an argument for higher EFLs.

What they might regard as a short-term fluctuation in market demand, may well in reality be a longer-term change in their financial circumstances. Furthermore, it needs to be made clear that Government support for the industry is dependent on the industry becoming competitive.

The Chief Secretary would like the fourth sentence and the first half of the fifth sentence (down to the end of the 12th line) to be deleted.

The Chief Secretary also thinks that the end of paragraph 4 should make it clear that the preceding points in that paragraph constitute the background against which the financial review has been conducted. The first sentence of paragraph 5 should then be deleted.

With these points in mind, the Chief Secretary suggests that from the third sentence onwards the paragraph should read as follows:-

"Behind that is our commitment to the long-term potential of a coal industry which is competitive and efficient. It is clear that financial pressures on all of us will be great for some time to come and it would be wrong in any terms to spend money which, as a nation, we have not got. It has been essential in conducting the review to be clear about the background against which it has been taking place."

(iii) Paragraph 5, third sentence: This sentence refers to the industry "breaking even" after grant. The Chief Secretary believes that talk of the NCB "breaking even" after grant gives quite the wrong presentational impression in that it conceals from the public the enormous scale of the industry's losses. The sentence should read:

"First, we shall continue to make grants to the Board, based on their overall financial needs, which will give it a fighting chance of offsetting its losses, although the industry will need..."

There should also be a sentence in this paragraph which makes clear that the industry's losses before all grants in this financial year are expected to be over £ $\frac{1}{2}$ billion.

(iv) Paragraph 5, sixth sentence: The Chief Secretary pointed out in his letter of 12 June to your Parliamentary Under-Secretary, Mr Moore, that the term "operating grant" smacked too much of the old regime of specific operational grants rejected in E Committee. He would therefore want the word "operating" to be dropped from this sentence (and from the third sentence of paragraph 7).

(v) Paragraph 8, sixth sentence: The Chief Secretary wonders whether this sentence, with its reference to the Board's financial problems continuing "for a few years" conveys the real depth of the Board's financial difficulties. This point might be met by replacing the words "will continue for a few years" by either "are deep seated" or by "will continue for some years".

(vi) Paragraph 8, eighth sentence: The reference to protecting the industry from short-term fluctuations should be omitted for the reason in paragraph (i) above.

2. Finally, the Chief Secretary has commented that he thinks your

CONFIDENTIAL

Secretary of State should be wary of referring to the Plan for Coal in any context during the Tripartite since the Government may well want to distance themselves from the Plan.

I am sending a copy of this letter to the Prime Minister, the other members of E Committee, the Secretaries of State for Scotland and Wales, Sir Robert Armstrong and Mr Ibbs.

Yours ever,

Terry Matthews

T F MATHEWS
Private Secretary

CONFIDENTIAL

cc Adngid

SECRET

27



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

PRIME MINISTER

MOVEMENT OF COAL TO POWER STATIONS

David Howell sent me a copy of his minute of 10 June seeking agreement to his proposal to ask both the NCB and the CEBG to take action right away to advance 1½ million tonnes winter coal deliveries into the summer. He indicated that to try to move more coal, for example, the 4-5 million tonnes referred to at our meeting at No.10 on 14 April, would involve costly and obtrusive measures.

2. I think that we were aware at our April meeting that moving coal from NCB stocks to power stations might be obtrusive, but as I recall, we agreed that the industrial risks were manageable. There is nothing in David's letter which alters that view, especially if, as he suggests, the increase in stocks was presented as an endeavour to prevent pit stock build-up. Despite the industrial risks involved, I would certainly be in favour of trying to move more coal in addition to the 1½ million tonnes proposed, provided that this can be done within the resources already agreed.

3. I have already agreed with David and George Younger that up to £10 million should be added to the NCB's EFL agreed by E Committee in order to accommodate the cost of moving coal to both CEBG and SSEB power stations. I am also prepared to agree that this £10 million should take the form of additional deficit grant, as David proposes in paragraph 8(ii) of his minute. I would be most reluctant to see yet a further increase in the NCB's EFL for this purpose. But it appears from the figures in David's minute that it would be possible to move extra coal beyond the additional 1½ million tonnes proposed within the

£10 million

SECRET



£10 million which I have already agreed. Paragraph 4 of his minute suggests that the extra costs of moving the 1½ million tonnes in summer compared to winter is perhaps only of the order of £3-4 million, although costings at this stage must inevitably be approximate. There ought therefore to be some money left over within the £10 million to move 1 million tonnes or so more. If there is not, or if it is decided that more coal should be moved than the £10 million can accommodate, the Generating Boards should be asked to pay the extra costs involved. After all, they have the strongest interest in building up coal stocks for what could be a difficult winter for power supplies.

4. David's minute raises some other points:

(i) It is clearly right that the coal should be delivered on deferred payment terms with the price paid by the CEBG related to the "normal" timing of delivery. This would avoid imposing on the NCB the loss of £4 million, referred to in paragraph 3 of the minute.

(ii) It is suggested that we would have to consider compensating the ^{CEGB}~~CEBG~~ for the up to £5 million needed for them to build up ancillary material stocks commensurate with the increase in their fuel stocks. This should be resisted strongly. We are in effect warning the CEBG of the risk of industrial action next winter which could affect their capacity to meet their customers' requirements for electricity. Surely in those circumstances the CEBG have a duty to take action, on a contingency basis, which would help them safeguard electricity supplies. The Board would be in an indefensible position if, during a coal strike they had to reduce electricity generation because of a shortage of ancillary materials while they still had coal stocks left. I am sure that David Howell will

/impress



impress these points on the CEBC and resist any attempts by them to claim compensation for the extra £5 million expenditure, which is a very small part of their total expenditure.

5. I am sending a copy of this minute to the Chancellor of the Duchy of Lancaster, the Home Secretary, the Secretaries of State for Industry, Employment, Energy and Scotland, the Minister of Transport and to Sir Robert Armstrong.

R. G. Torkien
Pro.

(G.H.)
15 June 1981

(Approved by the Chancellor and signed in his absence)

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

after August

R

MR IBBS

Movement of Coal to Power Stations

The Prime Minister was grateful for your minute of 12 June, and she has asked us to set up a meeting on the lines you suggest. She would like you to attend, and we will be in touch to arrange a time.

I am sending a copy of this note to David Wright (Cabinet Office).

T. P. LANKESTER

15 June 1981

CONFIDENTIAL

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Continues is sitting up meeting.



SECRET

CC Mr [unclear] [unclear] [unclear]

Mr [unclear] thinks 1 1/2 in tons is too little; but he suggests we need a meeting with Mr Howell and Donald [unclear] before imposing a higher

Qa 05389

12 June 1981

To: MR LANKESTER

From: J R IBBS

Yes
[unclear]

MOVEMENT OF COAL TO POWER STATIONS

1. The Government's objective should be to maximise coal stocks at power stations as a deterrent to industrial action by the NUM in the Autumn. Also, if a strike occurs, it would give the Government longer to resist extremists and reach as low a settlement as is acceptable to the moderates.

figure on him. The balance of risks and benefits does have to be weighed.

2. The extra stocks, whether 4mt or 1 1/2mt, would not enable the Government to live out a lengthy and bitter strike. 4mt is about two week's usage; 1 1/2mt is therefore a virtually negligible contribution to the Government's position in the Autumn. The maximum stocks at power stations, with all possible measures, are likely to give about 14 weeks endurance - the length of the 1980 steel strike.

Shall we arrange an early meeting?

3. Clearly the more there is movement of stocks, the more noticeable this becomes and the greater is the risk of hardening attitudes; in turn, this could make it more difficult for the Government to achieve a satisfactory outcome both on the closure/investment issues left over from February and on the forthcoming NUM wage claim. The judgement to be made is at what point the benefit from building larger deterrent stocks is outweighed by the difficulties/risks resulting from an associated deterioration of attitudes. (John Hoskyns has put forward a somewhat different view, namely that build up overtly of stocks might in itself be helpful in its effect on attitudes).

[unclear] 12/6

4. Judgement on the balance of argument should not be made without greater knowledge than is available from Mr Howell's minute.



SECRET

5. There is clearly a need to probe thoroughly whether the judgement leading to the recommendation of only $1\frac{1}{2}$ mt is soundly based. Against the original promise of movement of 4 - 5mt, $1\frac{1}{2}$ mt is quite unsatisfactory; both the reduction and the delay that have occurred are disturbing. It would be wrong to accept the proposal of $1\frac{1}{2}$ mt without probing the arguments advanced for constraining additional stocks to this level. However, until the strength of the arguments has been established, it would be unwise to impose a higher figure than that proposed by the Secretary of State.

6. In my view the appropriate course would be for the Prime Minister, before reaching a decision, to have a discussion with the Secretary of State and the Permanent Secretary. I should very much like to be present if that were possible, as display of the arguments should shed further light on the general coal problem.

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

SR



Prime Minister.

PRIME MINISTER

*Seen by Sir [unclear]
Munich
[unclear]*

*D.S.T. Collins
Duty clerk
12/6/87.*

NCB FINANCES

1. In order to minimise the risk of leaks, I decided to tell the National Coal Board of our decisions on their finances shortly before the Tripartite arranged for next Tuesday, 16 June. In Ezra's absence in Vienna, I saw Siddall and three others of full-time Members today.

2. I explained our decisions and made it clear that I should need to rely on the Board to help us put these decisions across at the Tripartite and to support us against any charge that the Government was failing to honour the commitments given in February or our general support for "Plan for Coal". I said that I would rather cancel the Tripartite, even at a late stage, than go into it if there was a rift between us which the unions could exploit.

3. The reaction of Siddall and his colleagues was straightforward. They understood the present state of the economy and the pressures on public expenditure. The figures however were extremely tight and keeping within them would be so difficult a task that they did not feel able to accept a final commitment to them until they had been discussed with the full Board. In order to fit in with our timetable, a special meeting has been arranged for Monday.

4. As for the Tripartite, Siddall and his colleagues understand the dangers of a rift between us and I rely upon them to stay beside us. They emphasized however that, without the greatest care in presentation, the Tripartite could go badly wrong and that, even after it was past, there would still be considerable risks. They were particularly concerned about the level capital investment, where expectations are high, and where a slowing down of new expenditure is likely to become visible during the year.



5. These reactions underline the anxieties which I have expressed to you before. As you know, I am concerned that our decisions may give the militants material which they could use to polarise opinion against us in the coalfields. You will remember the relatively small majorities against industrial action on the last two ballots over pay; swings of 1% and 6% would have been enough to swing the decision the other way. I believe that allegations of bad faith on our part or renegeing on our commitments would be most damaging and could well set the scene for a confrontation over pay later in the year.

6. I shall therefore seek to play the Tripartite on the lowest possible key. I shall seek to use it to show that we are maintaining effective discussions with both sides of the coal industry and that we are honouring our commitments. I shall not encourage further meetings but, if one is inevitable, I shall seek to secure a date as late in the year as possible.

7. The themes which I mean to develop in the Tripartite are the extent to which we are honouring our commitments, the economic pressures which we have to overcome in order to do so, and, for the longer term, the way in which Plan for Coal emphasizes not only the need to protect the coal industry from short-term market fluctuations, but also on the need for long-term decisions to be based on a sober view of demand and competitiveness. You may like to see the enclosed draft of an opening statement which my officials have prepared and which seems to me to be on the right lines although I shall want to do some work on it myself. If I can develop these lines now, they will be a useful base for a subsequent campaign to bring home to the public the true cost of supporting the present coal industry.

8. I am sending copies of this letter to the other members of E Committee, the Secretaries of State for Scotland and Wales, Sir Robert Armstrong and Mr Ibbs.

[Handwritten signature]

PP SECRETARY OF STATE FOR ENERGY
12 June 1981
(approved by the Secretary of State and signed in his absence)

COAL INDUSTRY TRIPARTITE MEETING: 16 JUNE 1981

DRAFT OPENING STATEMENT FOR THE SECRETARY OF STATE

1. I am glad to welcome you all to the latest in our series of meetings. When we last met on 11 March, we agreed that it would be useful for us to meet again when my review of the Board had reached an appropriate stage.

2. I am grateful to you all for coming in today. So that I can explain to you before, first the conference season, and then the summer holidays make it increasingly difficult to hold such a meeting, how far we have got and the decisions which the Government has taken.

3. I should like to begin, however, by reporting the progress which, as you probably know, has been made on other fronts since we last met:-

- first, as you know the Chancellor of the Exchequer announced our Boiler Conversion Scheme in his Budget statement on 9 March. The detailed "Notes for Applicants" were published and applications invited on 22 May. I am glad to tell you that things seem to be going well and that the scheme has aroused the most satisfactory degree of interest. So far there has been ~~500~~ inquiries from interested companies, and I am sure that many of these will be translated in due course into firm applications;

- Second, as Mr Moore announced in Parliament on 22 May we have been able to give a measure of financial assistance to the liquefaction project at Point of Ayr. I hope that now that we have led the way, others will follow. It is particularly

important that we should obtain support and expertise from as wide a range of sources as possible;

- third, we have pursued the suggestion made at one of our earlier meetings that there might be scope for conversion of power stations in Northern Ireland to coal firing. It is clear that this is a possibility for the longer term, but that it deserves further study. The Secretary of State for Northern Ireland, announced on 8 May that although he "had decided that he could not at this time justify the additional expenditure which would be involved in converting Kilroot Phase II to use coal, he has asked NIES" to undertake a study, in conjunction with his officials, taking into account not only the possibility at some future date of converting oil-fired stations to use coal but also the possible contributions of inter-connection with other electricity systems and of new generating technologies". It is clear that this possibility will not be forgotten

- fourth, imports. I gave the industry a clear commit of our support in action to reduce imports of coal this year by CEGB and NCB toward the irreducible minimum, subject only to considerations of coal quality and the need to honour existing contracts. The Board have, of course, taken the lead in negotiations with BSC and NCB, but I have kept in close touch with progress and done what I could to smooth their way. I think that progress has been satisfactory. As a result of these negotiations, the Board have been able to secure an additional 400,000 tons of coking coal to BSC this year while CEGB's imports will fall from

2.25mt last year to 750,000 tons this year. [Subject to confirmation. There may be a prospect of a further modest reduction in CEGB's import later in the year, but it is too soon to be sure of it yet]. As a result of these measures, I expect that UK coal imports this year will have fallen by 4 mt compared with 1980-81. Because of the Board's enterprise in the rapid expansion of exports to offset the continued slackness in the home market for coal, the UK's net exports of coal in 1981-82 should be about 5mt, the highest figure since 1965.

4. Let me now turn to our review of the Board's finances. I promised in February, that I would look at the Board's existing constraints with an open mind and with a view to movement. The fixed starting point must be my commitment to support the Board in their efforts to negotiate a reduction of imports towards the irreducible minimum and in their agreement that closures should continue to be handled in the industry's established consultative machinery. Behind that is our commitment to the long term potential of the coal industry and the need to see that the industry is not at the mercy of short-term fluctuations in the prices of competing fuels. The background today is discouraging. I earnestly hope that we have reached the bottom of the recession, but it is clear that financial pressures on all of us will be great for some time to come and it would be wrong in any terms to spend money which, as a nation, we have not got.

5. I say these things not as an excuse for evading our commitments, quite the reverse, but so that we can all be clear on our minds about the background to what has been decided. Let me now tell you the outcome, so far, of our review. First, we shall continue to make grants to the Board, based on their overall financial needs, which will put the industry in a position where it has a fighting chance of breaking even, although the industry will need to make a contribution through increased sales or revenues, or

reduced costs and higher efficiency. I know that we can rely on everyone involved to do this. These grants will also offset the Board's interest burden. The total amount involved will be operating grants of some £450m this year, with a further £100m by way of social grants.

6. Second, capital investment. I have told the Board that their capital investment approval for this year will be £805m this high approval will, I hope, enable the industry to make further progress with modernisation in line with the objectives of Plan for Coal. I have also fixed the Board's External Finance Limit at £1117m. This is the largest limit of any nationalised industry, equivalent to those of BSC and British Telecom (as recently increased) put together.

A *tell Parliament of my intention to introduce*

7. Increases of this size cannot be accommodated in existing legislation. I shall therefore ^A ~~be introducing~~ new legislation this Autumn to ensure that I am in a position to continue a proper level of support to the industry over the next few years. As a first step, pending that legislation, I shall ^{also} ~~shortly be~~ ^B ~~laying~~ Orders before the House of Commons to raise the limits on the Board's borrowing powers and on the operating grants which I can pay them to the full maximum permitted under the present Acts.

B *shortly tell Parliament of my intention to lay*

8. We shall also need to look further ahead. It is clear that the difficulties facing us all have not got less since we met in February and March. The prospects are of a market for coal which continues depressed and of continuing high losses by the Board. In the time available my review has concentrated on immediate problems, but I also have to consider the medium and long-term. Here, the difficulties have not got less for any of us since we met in February and March. The prospects is that the market for coal will continue to slack and that the Board's financial problems will continue for a few years. Although I have concluded my present review of the Board's finances, my work on the industry's medium and longer-term position is a

continuing process. I shall be continuing it in a spirit of sober realism, because I have to bear in mind that although the Government will protect the industry from short-term fluctuations, Plan for Coal equally emphasises that decisions, above all investment decisions, must be based on a long-term view of energy requirements and prices and that no Government, with the best will in the world, can ever afford to try to shut out reality for ever.

COAL 1

11 June 1981

SECRET

Rbb²⁵



10 DOWNING STREET

From the Private Secretary

MR IBBS

CPRS

Movement of Coal to Power Stations

You will no doubt have seen a copy of Mr Howell's minute of 10 June.

The Prime Minister's immediate reaction to this is that the additional 1½ million tonnes of coal which he is proposing to move before 1 November is simply not enough, given that we were told that 4 - 5 million tonnes could be moved when this was discussed in April. Indeed, she had assumed that an extra 1½ million tonnes of coal would already have been moved by now.

But before responding to Mr Howell, the Prime Minister would be grateful for your view. Could I please have this by the weekend.

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

LEI:WES:IER

CS

11 June, 1981

SECRET

010

A Dignid

1 1/2 million tons just
isnt enough. - I addressed
that - such an amount will
already be needed & will
Manda.
why not?

SECRET

PRIME MINISTER

Prime Minister

24

Mr Howell is now proposing
to move and only an extra
1 1/2 m tons of coal, against 4-5
m tons considered feasible. The
Hoskyns (Fly A) argues that this is
totally inadequate; I agree. But I
think you will want Robin Hobbs'
view, which I will get. I fear
another meeting may be
needed.

MOVEMENT OF COAL TO POWER STATIONS

I have consulted the NCB and the CEGB about the movement of
additional coal from NCB pithead stocks to CEGB power stations
during the summer months. The Boards, who have together given
careful and discreet consideration to the possibilities, have now
advised me that in their view it would be possible to move an
additional 1 1/2 million tonnes of coal before 1 November without
having to arrange for costly and obtrusive overtime working at the
mines and stocking sites at weekends, loading trains for delivery.
Both the Boards consider that this tonnage should be secured by
advancing deliveries from the winter programme to the summer: during
the course of the year 1980/81 the CEGB would take no more than their
agreed 75 million tonnes of coal but would hold a higher stock at
1 November. This proposal must be considered against a background
of sluggish electricity sales. The latest estimates show that coal
stocks at power stations could well be over 1 million tonnes higher
on 1 November than we thought at first. This factor taken together
with advancing 1 1/2 million tonnes of deliveries from the winter to the
summer ought together to raise endurance by about 1 1/2 weeks at 1
1 November compared with the 2 weeks estimate we discussed earlier.


2. My view is that we should ask the Boards to go ahead on this
basis as soon as possible. It is becoming clear that the CEGB are
likely to have difficulty this year in absorbing 75 million tonnes
of NCB coal (the agreed level under the terms of their understanding
with the NCB) and they could well find themselves with very high coal
stocks next March if there is no disruption to coal supplies. If
those stocks were to be further built up to an exceptionally high
level they might well find it impossible to take 75 million tonnes
from the NCB in 1982/83 with consequences for NCB sales that we must
bear in mind.



S E C R E T

- 22 -

3. By advancing winter deliveries in this way the NCB could lose the benefit of higher prices for delivery after the next price increase and could also incur additional costs. Depending on the precise date of the next price increase the loss could be of the order of £4 million and will affect the NCB's capacity to meet its EFL.
4. I gather that British Rail have the capacity to carry this tonnage of coal in the summer, although NCB (and CEGB eventually) may incur more than average transport costs, perhaps of the order of £3-4 million.
5. While the capacity to move and to stock more coal than this 1½ million tonnes is available we must take into account two important factors:
- (i) the effect on the NUM of abnormal and visible action to build up power station stocks. (This would need to be presented as an endeavour to prevent pit stock build-up);
 - (ii) the costs and benefits in terms of extended endurance. A further 2 million tonnes of coal would be more costly to move (incurring overtime) and would represent less than 1 week of endurance at expected peak winter fuel consumption.
6. As you will recall, the Home Secretary has commissioned a study of how to withstand a coal strike as effectively as possible; one way is to increase oil burn in power stations. When considering the tonnage of additional coal that might be moved in summer we must bear in mind that oil-fired capacity is under utilised to a material extent and could be brought on stream quite quickly if more oil is made available to the CEGB. No doubt the CEGB would ask for compensation for increased oil burn which is more costly but it is a flexibility at our disposal.



S E C R E T

- 3 -

7. I have also approached the CEGB on the need to build up ancillary material stocks commensurately with fuel stocks. There appears to be no physical difficulty in doing this, but the Board has said that they would wish to be compensated (up to £5 million). It would be difficult for us to do so without publicity if we draw on the contingency reserve, although it might be possible to delay action on compensation until much later in the financial year after a settlement has been reached with the NUM.

8. If you agree, I would propose to ask both the NCB and the CEGB to take action right away to advance 1½ million tonnes winter deliveries into the summer. On the financial consequences of the operation I would suggest proceeding to discussion on the following basis:-

- i) that coal would be delivered on deferred payment terms, but the price paid by the CEGB would relate to the "normal" timing of delivery, ie the NCB and not the CEGB would gain the advantage of stock appreciation for the 1½ million tonnes if coal prices go up this winter;
- ii) that if we are satisfied additional costs will be incurred by the NCB or CEGB in their own handling operations, or in BR's transport charges, these should be met by an increase in the NCB/EFL and deficit grant;
- iii) I would discuss the position on ancillaries first in the hope of persuading the Board to carry the cost of raising ancillary stocks on its EFL. If however, they will not accept this, we shall need to consider compensation.

9. I hope that similar arrangements would be acceptable for the South of Scotland Electricity Board.



S E C R E T

- 4 -

10. I am copying this letter to the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Home Secretary, the Secretaries of State for Industry, Employment and Scotland, the Minister of Transport and to Sir Robert Armstrong. + Robin Hood

J.A.
↓

Blind - Verker
Hoskyn
Wolfram
Lester

Secretary of State for Energy

10 June 1981

SECRET

10 June 1981

Policy Unit

A 23

PRIME MINISTER

COAL STOCKS

1. On 5 March, E decided that "as much coal as possible" should be transferred from pitheads to power stations.
2. Clive Whitmore's letter of 7 April said D/Energy considered that an extra 4-5m tons could be transferred within about four months of a decision to do so. It said that you now wished to discuss whether the advantages of extended endurance outweighed the disadvantages of what could be seen as a highly provocative operation.
3. Despite Jim Prior's view that the risks of provocation were so great that the subject should not even be discussed with the industries involved, your meeting of 14 April took a clear decision that 4-5m tons should be moved.
4. Now, when four of the eight months between E's decision in principle and the danger period in October have elapsed, David Howell suggests that we should only move 1½m tons. He admits (paragraph 5) that there is still time to move more than this, but argues that it should not be done because it would be provocative and expensive. But these objections were considered and rejected in April.
5. We think that Ministers should stand by their decision in April. We do not believe that the act of increasing overtime in order to move extra coal will itself spontaneously generate strike action; nor, as we understand it, do even the Department of Employment argue this. Instead, they think it will risk "hardening attitudes". We must stop and think what this means.
6. When pay negotiations take place in the autumn, the NUM will put the final offer to a ballot. A 55% majority is required for strike action. Many factors will enter into the voting pattern. No doubt a pay offer that is widely regarded as "derisory" would be rejected. But if there is room for argument about whether the offer is reasonable, one very important factor in deciding how individuals vote will be their own perception of just how uncomfortable a strike would be. In short, they will ask themselves whether it's worth it. High coal stocks at the power stations will influence that judgment, probably

SECRET

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more than any other measure available to Government. That is why we think Ministers should stand by the decision they reached in April, whatever the result of the studies now being undertaken. We believe that to falter now will actually increase the chances of strike action.

I am copying this minute to Geoffrey Howe, Robin Ibbs and Sir Robert Armstrong.

JH
JOHN HOSKYNS

P.S. It is also not clear whether they have sorted out the financial implications with the Treasury, though they were asked to do this.

??

SECRET

SECRET



B/cc WILKINS

RH
22

10 DOWNING STREET

From the Private Secretary

8 June, 1981

B F 18-6-81

The Prime Minister has now considered the proposals in John Hoskyns' paper circulated under cover of his letter of 22 May on further work to be done on the NCB/NUM problem. She has seen your Secretary of State's letter of 4 June, and also his minute of 1 June and the Chancellor of the Exchequer's minute of 13 May on the idea of a publicity campaign and a possible reference to the Monopolies and Mergers Commission.

The Prime Minister has decided that she would like further work to be done on this problem, and that the CPRS should urgently prepare a first study in association with John Hoskyns, consulting other Departments as appropriate. She has asked that the CPRS study should base itself on the analysis in the Hoskyns paper and should suggest answers to the following questions:-

- (a) What is the fundamental nature of the problem?
- (b) What can be done to correct the balance of power, so that it is more in the Government's favour?
- (c) What are the main implications of all this for other aspects of overall policy?

The Prime Minister has emphasised the importance of keeping very tight security on this work, and I would be grateful if you and copy recipients would bear this in mind.

I am copying this letter to John Wiggins (HM Treasury), David Wright (Cabinet Office) and Gerry Spence (CPRS).

J. P. LANKESTER

Julian D West, Esq
Department of Energy

SECRET

SECRET

21



10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

I have today written to the Department of Energy about the further work which is to be done on the NCB/NUM problem. As you will see, the Prime Minister has accepted the advice in your minute of 2 June to John Hoskyns (Ref. A05007), though she has particularly asked that he should be associated with the work.

I attach a secret and personal minute which the Chancellor sent to the Prime Minister on this issue. She did not agree with his recommendation that the further work should be undertaken by a group under CPRS Chairmanship; but she has asked that the CPRS study should take into account the other points in the Chancellor's minute.

The Prime Minister, while agreeing that answers are needed to each of the questions in paragraph 2 of your minute, has commented that the CPRS should not spend too much time on the first one - i.e. "What is the fundamental nature of the problem?"

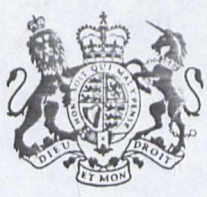
I am sending a copy of this minute ^{and enclosure} to Mr. Ibbs.

8 June 1981

SECRET

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10 DOWNING STREET

From the Private Secretary

8 June, 1981.

The NCB and the NUM

The Prime Minister was grateful for the Chancellor's minute of 5 June. As you will have seen from my separate letter of today's date to Julian West, she has decided to ask the CPRS to prepare a first study on the NCB/NUM problem consulting Departments as necessary, rather than set up an interdepartmental team to consider it. However, she has specifically asked that the various points in the Chancellor's minute should be taken into account in the study, and I have made this clear to the CPRS; I have also sent them a copy of the Chancellor's minute.

T. P. LANKESTER

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

NUM

SECRET

19¹⁻

PRIME MINISTER

Suggest - something near to
h). i.e. CPR.S. I believe it
Should include John Hoskyns.
NCB Is it possible to conduct depts without
the matter leaking? Please do it

At the meeting you held on 14 April, it was decided that extra coal stocks should be moved from NCB to CEGB premises. You also commissioned a study of other measures to help withstand an NUM strike.

The group working on this study under Robert Wade-Gery's chairmanship does not consider its terms of reference extend to the perhaps more important question of how to make a strike less likely in the first place.

spend too long on (Robert's a)
A half-day should be plenty!
mt.

The Chancellor raised this latter question in a minute to you last month (Flag A): he suggested a publicity campaign and referring the NCB to the MMC. Mr. Howell (Flag B) says he agrees in principle with a publicity campaign, though he wants to think further about the timing; he wants to think further, too, about the MMC reference idea. John Hoskyns also wrote a paper which you thought posed too many questions and offered too few answers; but at least it showed that much further work has to be done if we are even to stand a chance of preventing the NCB/NUM from further undermining the strategy.

The Chancellor, David Howell, Robert Armstrong (who has consulted Robin Ibbs) have all now written to say that they agree about the need for further work to be done urgently; and I would strongly support this myself. The Chancellor's minute at Flag C is particularly worth reading, and you should see Robert Armstrong's at Flag D.

Several suggestions have been made about how this work should be undertaken:

- (a) The Chancellor feels that Robin Ibbs should be put in charge of a small group - with overlapping membership with Robert Wade-Gery's group. This would include John Hoskyns.

/ (b)

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- 2 -

- (b) Robert Armstrong and Robin Ibbs think that CPRS should be given the responsibility, consulting others as necessary.
- (c) David Howell thinks that the work should begin with a meeting of a small mixed group of senior Ministers and officials.
- No (d) Alternatively, the Wade-Gery group could simply have its terms of reference expanded.

Assuming you accept that more work should be done, I would be against having a meeting involving Ministers: that would come later. Nor would I give this further work to Wade-Gery to oversee: he is an excellent chairman on the contingency work, but Robin Ibbs and his staff with their industrial experience are better equipped to take the lead from now on. Robin Ibbs has told me that he would strongly prefer option (b) because chairing a group will involve him in a heavier load (he is already very heavily loaded), and because a study by CPRS alone will give him a freer hand. On the other hand, the CPRS's conclusions would have to be looked at by Departments, which could involve delay. On those grounds, a group under Robin's chairmanship as proposed by the Chancellor might be preferable.

The CPRS or the CPRS-led group (whichever you would prefer) could take as their terms of reference the side-lined passage in Robert Armstrong's minute at Flag D, bearing in mind the issues raised in the Chancellor's minute. Security of course will have to be very tight.

Content to go ahead on this basis with CPRS study or CPRS-led group study?

5 June, 1981.

SECRET



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

PRIME MINISTER

THE NCB AND THE NUM

I thought that John Hoskyns' paper on the NCB/NUM problem was very helpful.

2. In particular, I agree with him that we should make arrangements for a careful and urgent examination of this problem by an interdepartmental team. Perhaps it would be best to set it up under CPRS chairmanship.

3. I agree too that the starting point should be to define the problem and set out objectives. It seems to me that we have two types of objectives. The first relates to the efficiency of the coal industry. How can we frame a realistic strategy for a more efficient industry which will not be a drain on the public purse and be able to compete effectively with imports? The second set of objectives concerns the influence of the miners on the national pay scene. What strategy can we adopt which will limit the damage they can do to our economic policies generally?

4. These objectives are not alternatives. Both are obviously desirable and the second may be a necessary precondition of the first. But policy actions for pursuing each may be different.



5. Both, however, seem to raise the question whether a confrontation with the NUM can be avoided, whether it may in fact be necessary if we are to pursue these objectives and what the risks and implications would be. It is impossible to avoid this question. No-one would suggest that we should actively seek a confrontation with the NUM in pursuit of either objective: but the question is perhaps whether in either case we should pursue policies which involve a high risk of such confrontation or whether we should deliberately seek to minimise the risk. This means thinking carefully about the chances of success in such a confrontation and how much those chances might depend on how the confrontation came about and how it was handled. Conversely, we also need to think about the consequences of the pursuit of a low risk policy and what this might entail in the way of concessions to the NUM so that efficiency in the industry is not improved and increases in miners' pay do further damage to our economic policies.

6. I think the interdepartmental working group should try systematically to follow through the implications of alternative lines of policy - "high risk" and "low risk" - in both fields. The work will obviously have to be related to the current secret Cabinet Office study on withstanding a coal strike.

7. In all this, the role of the NCB is obviously important. Paragraph 2.3.2 of John Hoskyns' note suggests that the NCB management perhaps faces a reality which we don't fully recognise. But is it not the case that the NCB see their interest in many respects as coinciding with the NUM's, for example in maximising coal production whatever the market circumstances and without regard to profitability? Surely one of our immediate aims should be to try to detach the NCB to some extent from the NUM?

P.S. Jenkins
 for (G.H)
 5 June 1981

(Approved by the Chancellor
 and signed in his absence).



10 DOWNING STREET

Agreed with Tim L.
that Ditt's letter of 1/6
should go to PM with:

- (a) a further letter from
Dtt (now arrived)
- (b) a letter from the
Chancellor. (still awaited)
- (c) any response from
Coburn's Office (with JH)
- (d) a covering note which
we will supply to TL.

ADJ.
4/6.



17

SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
TELEPHONE: 01-211 3000

01-211-6402

*Top Copy
removed
to John
Hoskyns*

Mr John Hoskyns
10 Downing Street
London SW1

4 June 1981

Dear John

NCB

Thank you for sending me a copy of your letter of 22 May to the Chancellor and the paper attached to it concerning the coal industry.

We face an intensely difficult period on coal in the next few months and I am, therefore, very much in sympathy with your proposal that a small group should be asked to consider our strategic approach to the industry. This should be done as a matter of urgency. I am already committed to a Tripartite meeting which cannot be postponed beyond mid-June and the NUM Conference is to be held early in July. The sooner the work you propose starts, therefore, the better.

Your paper discussed the constitution of the group. It should, of course, be kept as small as possible but, given the political nature of the questions to be reviewed. I believe that a mixed group of Ministers and officials would be appropriate.

I believe, in view of the central significance of the issue, that Ministerial representation should be at the highest level, although if meetings are very frequent it may be necessary to delegate in which case I would ask John Moore to stand in. But I would like to see this off at the start personally.

I look forward to this work being put in hand in the near future and hope the Chancellor agrees. Should not Jim Prior be associated with its work?

I am copying this letter to the recipients of yours.

Jan
Jan

D A R HOWELL

Ref. A05007

MR. HOSKYNS

Thank you for sending me a copy of your letter and memorandum of 22nd May to Geoffrey Howe on the NCB/NUM problem.

2. I have had a discussion with Robin Ibbs. We both think that your memorandum raises the crucial issues which the Government has to address. As to the process of solving the problem, while a number of Departments ought to be involved and will have a contribution to make, Robin Ibbs and I both think that it would be a good idea to have a nucleus of people which was able to concentrate more continuous attention on the problem than an interdepartmental team alone could do. I believe that the CPRS could and should provide this nucleus; and the responsibility for preparing the first study should be laid upon the CPRS, in consultation as appropriate with other Departments. Basing itself on the analysis in your memorandum, the CPRS would be asked to suggest answers to the following questions:

- (a) What is the fundamental nature of the problem?
- (b) What can be done to correct the balance of power, so that it is more in the Government's favour?
- (c) What are the main implications of all this for other aspects of overall policy?

3. There are few more important problems for the Government than how best to cope with the problems presented by the miners. Robin Ibbs tells me that the CPRS would be able to mount a study which would give a first stab at answering these questions by the end of the summer. They would consult you and certain Departments (notably the Treasury and the Department of Energy); but security would have to be kept extremely tight.

4. I am sending a copy of this minute to Mr. Ibbs, but not to the other recipients of copies of your letter of 22nd May.

RA

ROBERT ARMSTRONG

2nd June, 1981



B

cc. A. Duguid.

B

J. Verekas

PRIME MINISTER

NCB FINANCES

The Chancellor of the Exchequer sent me a copy of the minute which he addressed to you on 13 May.

I strongly agree with what he says about the need to bring home to the public generally and to the tax-payer the burden which supporting the coal industry places on the whole economy; we cannot hope to restore any sort of sense to the coal industry's affairs unless we first get public opinion on our side. I have already asked my officials to consider the sort of information which might be used for this purpose.

I also agree that any such campaign must be unattributable and must be handled in a way which will not increase the risks which we are already running of a collision with the mining unions. In particular, we shall need to give careful thought to the timing. The next Tripartite meeting will have to be held in June, and promises to be difficult. I should not wish to start such a campaign before it, and perhaps not before the NUM Conference, which is to be held in early July. Thereafter, the campaign should be handled so as to fit in with our strategy towards the next round of NUM wage negotiations.

The Chancellor also suggests that, as part of this campaign of public education, we should refer the NCB in the near future to the Monopolies and Mergers Commission. I should like to consider this suggestion further and certainly do not want to rule it out. I am sure, however, that we should consider it on its own merits and not attempt to see it as part of this campaign. Given the time which the Commission's inquiries will inevitably take (their recent report on the CEGB took about a year from start to publication) their report would not be available in time to help much in the sort of campaign which we have in mind. Further, such a reference could easily be construed as a hostile move against the coal industry rather than a neutral step, and its public presentation would need to be carefully considered in its own right.

I am sending a copy of this minute to the Chancellor of the Exchequer, the Secretary of State for Trade, and to Sir Robert Armstrong.

J4
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Secretary of State for Energy

1 June 1981

SECRET

AND PERSONAL

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cc Mr. Whitmore
Mr. Vereker

MR. LANKESTER

NCB

- R*
make it
Answer
R
24/5
1. When we spoke yesterday, you said the Prime Minister had not yet reacted to John Hoskyns' paper on the NCB sent under cover of his letter of 22 May to the Chancellor.
 2. I thought you should know that Robert Wade-Gery is himself very conscious of the limitations of the terms of reference and the competence of his CCU-chaired group to examine wider questions of policy towards the NCB. He therefore welcomed John Hoskyns' proposal that a group be set up to look at these issues urgently. He hoped that the Prime Minister would authorise it, and was confident that with cross membership, it could work alongside his own group.
 3. You should also know that Ivor Manley, Deputy Secretary in charge of coal and electricity at Department of Energy, rang me this afternoon to say that his Secretary of State was very well disposed towards John Hoskyns' proposal. It is likely that David Howell will be minuting the Prime Minister to this effect shortly.
 4. From earlier minutes by Robin Ibbs, I think we can safely deduce that he would strongly favour work of the kind proposed by John Hoskyns.
 5. I have not yet been able to get in touch with Nigel Wicks at the Treasury to speak about this, nor have I heard whether the Chancellor has reacted. But Nigel's remarks at the CCU-chaired meeting of MISC 57 on Wednesday suggest that he is very conscious of the need for work which goes beyond the narrow issue of how best to withstand a strike.

What kind of group?

6. Ivor Manley is inclined towards a mixed group of one or two Ministers plus officials. He is, of course, thinking that John
/Moore might chair

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AND PERSONAL

Moore might chair the group. In principle this seems like a sound idea, but it may be that he would provide insufficient political weight. My own preference for speed and simplicity would be simply to expand the terms of reference of Robert Wade-Gery's group. Robert is an excellent chairman, and Peter Le Cheminant can provide first-hand knowledge of all the issues.

29 May 1981



ANDREW DUGUID

cc A Duguid
A Liall

SECRET



Prime Minister

2
159

he will continue
to chase this.

Lord

SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
TELEPHONE: 01-211 3000

01-211-6402

12
29/5

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

29 May 1981

Dear Tim,

You asked me for a note for the Prime Minister's weekend box on the movement of coal stocks to power stations. The present position is that Ministers have agreed the financial basis on which additional coal might be moved from pithead to power stations: the coal would be delivered to the electricity boards (CEGB and SSEB) on deferred payment terms and the NCB enabled to cover transport costs by an increase in their EFL of up to £10 m. Departments have informed the four boards concerned - NCB, CEGB, SSEB and BRB at senior level and have asked them to assess how much coal can be moved during the summer period at what cost. The electricity boards have also been asked to consider raising stocks of ancillary materials commensurately with the likely level of coal stocks in order to safeguard endurance, the cost to be met from their EFL's. We have asked for a report back on the possibilities as quickly as possible and will of course keep you informed of developments.

Yours ever,

Janet

mt

JANET CHADWICK
Private Secretary

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ATT
00
CPRS Nat Ind
25H
PC FR DUGAN
RE WALTERS

10 DOWNING STREET

From the Private Secretary

27 May 1981

Dear Julian.

Thank you for your letter of 12 May about the possibility of breaking up the National Coal Board into regional boards.

I have shown the letter to the Prime Minister, and her view now is it would be a mistake to raise this matter with the NCB Board for the time being.

I am sending a copy of this letter to John Wiggins (HM Treasury), David Wright (Cabinet Office) and Gerry Spence (Central Policy Review Staff).

[Handwritten signature]

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

[Handwritten signature]

CONFIDENTIAL

[Handwritten mark]

W howlster
15
R.



10 DOWNING STREET

22 May 1981

The Rt Hon Sir Geoffrey Howe QC MP
11 Downing Street
LONDON SW1

Dear Geoff,

NCB

We talked, three weeks or so ago, about a PR campaign on the cost of coal to the taxpayer. You mentioned this in your minute to the Prime Minister of 13 May.

We have done some work on this and on the wider question of propagating the case for moderate pay settlements generally.

As you know, we have always believed that Government's actions, and events, speak much louder than words. We therefore conclude that the handling and outcome of the Civil Service pay dispute is more important than any PR campaign and that it is not possible to organise such a campaign as regards the miners unless we are first clearer about our own strategy for handling the NCB/NUM problem. Our first contribution is therefore a paper on that problem, which I attach.

I am copying this letter and the paper to the Prime Minister, David Howell, Robin Ibbs and to Sir Robert Armstrong.

Yours ever

JOHN HOSKYNS

22 May 1981

Policy UnitTHE NCB/NUM PROBLEM1. INTRODUCTION

- 1.1 Economic recovery will be largely dependent on the level of pay settlements in the next round. Especially important will be public sector settlements. As usual, the miners will set the pace.
- 1.2 We are already agonising about NCB EFLs, the level of investment and assumed pay increases for the miners. Much therefore depends on our handling of NCB/NUM.
- 1.3 At present, however, we do not have a properly worked out position on NCB/NUM (I treat them as one entity in this paper). We therefore do not know how or whether we can restrain miners' pay and thus help to moderate other settlements.
- 1.4 This paper suggests some lines of thought, by posing the following questions:
- What is the NCB/NUM problem?
 - What courses are open to the Government?
 - How do we decide what to do?
 - What is the next step?

2. WHAT IS THE NCB/NUM PROBLEM?

- 2.1 No paper yet presented to E has contained what we could call a proper "problem definition". There have been helpful papers describing the present situation and examining its likely consequences. But there has not been a real definition of the problem and we cannot make progress without one. This section raises some of the questions a proper problem definition should address.
- 2.2 In general terms, NUM appears to own NCB and all its assets. In other words, as a recent paper from the Institute of Economic Affairs put it, "Denied access to imports, the British energy consumer will be at the mercy of two semi-monopolists - OPEC and the British coal industry". The NUM insists on maintaining

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investment levels to preserve jobs and also on determining the pay levels for those jobs. It is pretty confident that the Government will not seriously challenge this assumption of control. In effect, therefore, NUM sets coal prices, with their effect on electricity prices; subsidies; and pay levels with their knock-on effects in other industries.

2.3 The different interest groups within NCB/NUM

2.3.1 NCB/NUM is not, of course, a homogeneous body in reality. We need the clearest possible understanding of the different groups and factions, their relative power and interests.

2.3.2 NCB management. We know that NCB management is weak and tends to align with the unions. But, thought we may vilify Ezra, he perhaps faces a reality we don't recognise. Would we be happy if he suddenly got tough, and "took the miners on"? Perhaps he understands the nature of the NCB/NUM problem more clearly than we do and, what is more, knows that the Government doesn't understand it and has not yet faced up to its implications. Would changes in NCB management make any real difference as long as the balance of power is so heavily tilted in favour of the NUM?

2.3.3 Scargill and the succession. Our thinking is influenced by the need to help the moderates triumph over the militants. But what price are we prepared to pay to do that, and what is the pay off? Could we end up buying peace to thwart Scargill, at the cost of jeopardising our broader economic objectives? This raises further questions:

- (a) In any case, how strong is Scargill's position? Could a period of peace really destroy his chances?
- (b) Even if it could, what would the likely militant/moderate mix be on the NUM Executive? Is the likelihood of an eventual confrontation with the miners entirely, or even heavily, dependent on whether Scargill succeeds Gormley? Would it be fair to say that, if he does, he will be determined to engineer such a confrontation and (with, after all, little else to think about) successfully do so?
- (c) To what extent has NUM power effectively outflanked all the measures we can take to reduce it? Can we regionalise? Can

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we increase import facilities or even win back the concessions we have made over the use of existing facilities?

3. WHAT COURSES ARE OPEN TO THE GOVERNMENT?

3.1 The "no-strategy" strategy

3.1.1 This has been our position so far, at least until the decision to increase power station coal stocks was made and the present CCU exercise was put in hand. Our position has been that we do not want a miners' strike; but we don't want to increase the coal industry EFLs; nor do we want the Government's impotence or the effectiveness of NUM's veiled threats to weaken our authority and encourage imitation elsewhere. These are simply conflicting objectives.

3.1.2 Our experience since the Election is not encouraging. The annual ritual is one of a commendable display of firmness, in words, by the Government; a rattling of sabres by the NUM; and a rapid climb-down by the Government because there seems no other option available.

3.1.3 We can improve on this by avoiding making strong statements of intent which we cannot in practice sustain. But the question still arises, what do we do if, in a year or two, Scargill demands, with menaces, a 30% increase with no offsetting closures or investment cuts?

3.2 Prepare to face a miners' strike

3.2.1 In the light of the CCU conclusions, we shall have to decide whether we are prepared to risk a strike and, if so, how to prepare ourselves for it (in the process, of course, aiming to deter the NUM from strike action). We shall then have to consider many aspects which the CCU paper may not cover; the likely impact of the 1980 Employment Act or subsequent legislation, changes to deeming, the possibility of increasing imports (or did we specifically deny ourselves the right to do this, even in a strike situation); and, of course, how to get public opinion - ie the coal and electricity consumer - on our side.

3.2.2 If a confrontation becomes in the end inevitable, would it in fact be an advantage if Scargill was the public (and apparently much

disliked) symbol of the NUM? Could his presence be a key factor in mobilising public opinion to face a strike?

3.2.3 Even though Scargill may be the ideal NUM figurehead, the fact remains that miners are seen to be (and most people with any direct contact would say are) the "salt of the earth". Could we take out some insurance against grievance building up and public sympathy for the miners by, for example, a much publicised visit to a mine, perhaps in one of the more hard-hit areas, by the Prime Minister? There are always many things we can do to improve our chances, provided people do the thinking, and do it early enough.

3.2.4 Finally, has this Government and the Whitehall machine got the necessary competence to handle such an operation successfully? Are colleagues prepared to consider the option, to think it through on the lines suggested in this paper? Are some of them so scarred by 1974 that they are not able to examine the problem rationally? (There are, we understand, one or two officials who were involved in the 1972 contingency planning who believe that the Government could have won in 1972 or 1974 if it had successfully communicated to the public what was at stake and then taken all the necessary action, on the three-day week, TV blackouts etc, immediately, as CCU will no doubt recommend.) If we are prepared to think about the unthinkable, but have not the competence, can we develop that competence?

3.3 Is there a more subtle strategy?

3.3.1 Could we alter the balance of power bit by bit, in a clandestine way, so that what we are doing only becomes obvious when that balance has finally tilted? What would such a strategy cost? Would it break other public expenditure constraints en route to its completion? Measures might include import facilities and regionalisation as in 2.3.3. above. The difficulty with such plans is that, at present, NCB management lack the competence to carry out such an exercise.

3.3.2 Again, faits accomplis on trade union law might be possible. Should state monopoly industries controlled by labour monopolies enjoy 1906-vintage immunities? Should they enjoy any special immunities

at all? Would it make much difference to the strike threat if they didn't?

3.3.3 Are we agreed that the Government should stick to the EFL and leave it to NCB and NUM together to determine prices and to split the EFL as between investment subsidy and pay? If the NUM behaved irresponsibly, they, not the Government, would be running the industry down, jeopardising its future etc. Even if they started out damaging the industry in that way, could that be any worse than the damage caused to the industry itself by an all-out strike? Suppose we insisted publicly that the NUM took proprietorial responsibility, together with NCB, for running the industry on the understanding that import facilities could be freely developed? Is it really possible to make any progress in reducing the NUM's monopoly power without first reversing our recent concessions on imports?

3.3.4 We know that in fact NUM went for import restrictions as the key concession for their own monopoly strategy. They would therefore resist any reversal of that concession to the last. But a proposal which opened up the alarming reality would expose the NUM's monopolistic intentions and their refusal to take any compensating responsibility for the industry through which they are ready to exploit customers and taxpayers. (We suspect that the concessions over imports may only be reversible if the Government is ready to face a strike. The concession might be reversed if the NUM lost its nerve at that point or perhaps only after it had effectively lost the strike.)

4. HOW DO WE DECIDE WHAT TO DO?

4.1 We lack an adequate decision-making process

4.1.1 The decision is not simply difficult in terms of political judgment. It is also complex in terms of risks, pay-offs, the critical path of preparatory moves (especially if we conclude that the risk of a strike must be faced rather than avoided at any cost). We have at the moment no adequate process for doing this. E Committee cannot invent such a process as it goes along. There are too many people there, with neither the time nor the competence to do it for themselves and with greatly varying degrees of interest in the problem. E can make decisions by selection from a menu, but it

cannot itself define or solve complex problems. It cannot produce anything better than the papers put to it contain, and may produce something worse. The meal cannot be better than the menu. In consequence, its decisions may not solve, or even address, the problem.

4.1.2 The problem has not yet been "structured" in advance by people with the time to do it. Ask each colleague for his definition of the problem, and you wouldn't get two answers the same. So instead, we have a sort of negotiation about numbers on pieces of paper. The Chief Secretary would like lower numbers, the Energy Secretary thinks that only larger numbers are achievable. The mood of the meeting is for smaller numbers and an agreement is reached, but without any means of imposing the agreed outcome on the NUM who, in the end, call the shots. So the whole process is quite unreal. It is like a Board of Directors voting unanimously for better profits, but with no idea how they are to be achieved.

4.2 The problem-solving process

4.2.1 We have made a start on this, but we believe that the right steps now are as follows:

- (1) A small interdepartmental team, including CPRS, should prepare short papers on Problem Definition and the Objectives we are trying to achieve in solving the problem. (The commonsense response, that the objective must, by definition, be to "solve the problem" turns out to be meaningless when you get down to it. The objectives have to spell out rather precisely the best outcome you are hoping for, and the very least that you must achieve if other larger ^{UK} objectives are not to go for six.)
- (2) E, or perhaps a smaller Ministerial group, should then satisfy itself (quite possibly requiring the papers to be completely rewritten) that the Problem Definition and Objectives are right.
- (3) The interdepartmental group should then generate alternative plans of action to achieve the objectives, with careful analysis of the risks, timescale and "enabling measures" needed to make each alternative workable.

SECRET AND PERSONAL

(4) E, or the Ministerial group can then choose one of the plans, preferably with a fallback plan, and the interdepartmental team sets to work to make it happen.

4.3 All this is very obvious. It cannot ensure magical answers to difficult problems. But it will help to clear people's minds. It is simply a case of one step at a time, methodical work, and "99% perspiration".

5. WHAT IS THE NEXT STEP

5.1 We recommend that a small team, as described above, is set up (who should be in the lead?) to work out the process by which the Government defines the NCB/NUM problem, chooses a way of solving it, and implements that solution.

CONFIDENTIAL

PRIME MINISTER

E: NCB Finances

When the Ministerial Committee on Economic Strategy discussed the National Coal Board's finances last week (E(81) 16th Meeting, Item 1) it agreed among other things that:-

- (a) the NCB's EFL for 1981-82 should be revised upward to £1,100 million;
- (b) the NCB should receive a single new grant to replace the present specific operating and deficit grants and that this should be paid after striking profit and loss in the Board's accounts; and
- (c) the approved level of capital investment by the NCB in 1981-82 should be agreed between the Secretary of State for Energy and the Chief Secretary, Treasury.

2. The Secretary of State for Energy was unhappy with this decision and referred to it in Cabinet on the following day (CC(81) 19th Conclusions, Minute 5). You then reminded him that E Committee had also agreed that he should be free to bring the issues back to them if this seemed necessary.

3. In the event the matter was discussed further at an ad hoc meeting under your chairmanship which took place on 19th May. The conclusion of that meeting was to confirm the £1,100 million EFL but to agree that capital investment approval for this year should be set at £805 million: a level which would enable the Secretary of State to argue that the Government was providing the NCB with enough cash this year to sustain last year's investment level in real terms. These conclusions should be reported back to the full E Committee, and we have accordingly provided an opportunity for this as Item 1 of the agenda.

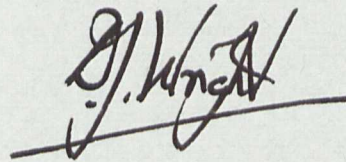
4. All you need say is that in setting an EFL for the NCB for 1982-83 of £1,100 million at its meeting last week the Committee left open for separate discussion the level of investment approval which should be given to the NCB for the same period. It has now been agreed by the Ministers concerned, with the approval of yourself and the Chancellor of the Exchequer, that the relevant

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CONFIDENTIAL

investment approval should be £805 million. The other decisions of the Committee, including the EFL of £1,100 million remain unaltered.

5. There are two other points which you could (but need not) mention:-
- (a) The suggestion was made at your ad hoc meeting that the Monopolies and Mergers Commission might be asked to report on the NCB. The Secretary of State for Energy thought this a good idea in principle, but wanted to defer a decision until the NUM conference was out of the way. You could invite him to bring forward a paper on the subject at the appropriate moment.
- (b) In his minute to you of 13th May, the Chancellor of the Exchequer suggested that consideration should be given to mounting a publicity campaign designed to bring home to the public the real state of the NCB's finances. I doubt whether it is appropriate for this particular suggestion to be discussed in any detail in E Committee but you could, if you wished, simply invite the Secretary of State for Energy to let you, the Chancellor of the Exchequer and the Chancellor of the Duchy of Lancaster have proposals for the sort of publicity campaign which might be helpful.
6. The conclusion of the meeting need be no more than a simple 'take note'.



(Robert Armstrong)

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

20th May 1981

SECRET

SUBJECT



10 DOWNING STREET

cc: Hunt
CO

14

bc: CPRS
Mr. Hoskyns

CDL 19 May 1981

From the Private Secretary

As you know, the Prime Minister held a meeting with your Secretary of State, the Chancellor of the Exchequer and the Chief Secretary this morning to discuss further the question of NCB finances. Sir Robert Armstrong and Robin Ibbs were also present. They had before them your Secretary of State's minute of 14 May.

Mr. Howell recalled that E Committee had decided that the NCB's EFL for 1981/82 should not exceed £1100 million. As regards the figure for capital investment approval, the Committee had been generally sympathetic to the arguments against increasing it beyond the figure of £765 million proposed by the Chief Secretary; but it had been left that agreement on the precise figure should be reached between himself and the Chief Secretary. He had now considered the matter further, and his firm view was that an investment figure of £765 million would involve unacceptable risks. It was substantially less than the investment figure for 1980/81 both in money and volume terms. The NUM took a very close interest in the level of investment in the industry, which they saw as directly affecting the level of employment. If it were to be restricted to only £765 million in 1981/82, the NUM would react sharply; and the prospects for resuming the closure programme and for a reasonable pay settlement in November would be bleak. It was essential to help the moderate elements in the NUM to play a positive role at the NUM's Annual Conference in July by announcing a figure for investment which they would not see as totally unreasonable. He proposed that investment approval should be set at least slightly higher than the figure of £805 million (in money terms) for 1980/81 - at, say, £815 million.

The Chief Secretary said that, contrary to the impression that might have been given at the E Committee meeting the previous week, there was no disagreement between him and Mr. Howell on the basis of the figures. He had proposed an investment figure of £765 million for 1981/82 because that was the level of the existing approval and in the light of all that had happened since that approval was given, he did not believe any addition to it was justified. For it had been expressly agreed the previous autumn when approval for £765 million had been given that it should not be raised unless Ministers were satisfied that the NCB were making satisfactory progress with their finances; it could hardly

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be argued that they were. However, in the light of what Mr. Howell had said, he was now prepared to agree that approval should be raised to £805 million on condition that the EFL should be revised to no more than £1100 million. He recognised that this would be difficult, which made it all the more important that the NCB should take action to improve their performance - for example, by increasing their exports.

The Prime Minister said she agreed that investment approval for 1981/82 should be set at £805 million within an EFL of up to £1100 million, as proposed by the Chief Secretary. The timing of the announcement of these figures should be settled between Mr. Howell and the Chief Secretary.

The following further points were discussed:

- (i) Mr. Howell said that E Committee's decision that the new single grant should be paid after striking profit and loss in the NCB accounts would cause problems with the NUM and would be unnecessarily provocative. He would like to revert to his own proposal that it should be paid before profit and loss are struck. The Prime Minister said that this would mean continuing to mislead the public on the NCB's financial performance, and that the E Committee decision should stand.
- (ii) The Chancellor suggested that the Monopolies and Mergers Commission might be asked to report on the NCB. Mr. Howell said that he agreed this might be a good idea in principle; he would like to consider this as a possible option once the NUM Conference was out of the way.
- (iii) Mr. Ibbs said that, as long as Sir Derek Ezra continued as Chairman of the NCB, he did not believe that the underlying situation would improve. It was important to start thinking about a successor for him now. Mr. Howell said he was already doing so, and he was hoping to start the process of handover in the autumn. He also had it in mind to separate the roles of Chairman and Chief Executive.

I am sending a copy of this letter to John Wiggins (HM Treasury), David Wright (Cabinet Office) and Gerry Spence (CPRS). I am not circulating it to Private Secretaries to other members of E Committee since I believe the Prime Minister will wish to report the conclusions of the meeting very briefly at the meeting of the Committee on Thursday.

Julian West

Tim Leake

Julian West, Esq.,
Department of Energy.

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13

A plea for a
real strategy before we

18 May 1981

finally decide the EFL.

See para 3 in particular.

il

1875

Qa 05370

To: MR LANKESTER

From: J R IBBS

NCB FINANCES

1. I understand that the Prime Minister is having some further meetings on this subject.
2. I believe strongly that the crucial issue is not the immediate fracas about the 1981-82 level of investment and EFL taken in isolation. Rather it is how to move to a situation where vis-a-vis the miners the Government has some degree of control rather than the entire initiative being with the NUM. Because the outcome of each issue involving the miners reverberates right across the economy the present lack of control over the miners leaves a gaping hole in economic policies. For example, workers in other nationalised industries tend to follow the miners lead and the private sector also is considerably influenced; money used to support inefficiencies in coal means less money available for constructive spending elsewhere.
3. The aim should be to devise a plan for progressively regaining some of the initiative; immediate decisions on investment and the EFL should be taken in the light of this. Premature confrontation would be disastrous but bending at the slightest sign of pressure is as bad. Lack of confidence in Derek Ezra's judgement is a very serious weakness in trying to come to the right view on these matters. Personally I doubt whether it is acceptable to live with this until May - a fairly long handover period to a new Chairman might be worth considering.
4. The essential elements in any plan for regaining the initiative should include:



SECRET

- a) how to withstand a strike;
- b) how to get public opinion lined up with the Government rather than the NUM - the Chancellor recently drew attention to the need for a campaign with this objective;
- c) how to undermine the buoyant confidence of the NUM so that they stop feeling invincible; for example, how can the ^{forthcoming} following election of a new NUM president be turned to the Government's advantage.

5. This whole question seems so important that it warrants concentration of all the ingenuity available to the Government and should not just be an interdepartmental quarrel over the immediate money.

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

MR DUGUID

NCB Regionalisation

The Prime Minister read your minute of 15 May, and has noted:

"Forget the whole matter until further notice. Do not mention to the NCB."

T.P.L.

18 May 1981

MR LANKESTER

attached.

1. I have discussed with John Hoskyns the reply from David Howell's office to the Prime Minister's request for a study on how to break up the NCB.
2. We do not think that David Howell's proposal to ask the NCB to undertake a study of the possibilities of decentralisation is the best approach. For practical purposes, the NCB is in the hands of the NUM. This may be an exaggeration, but it is close enough to the truth to run the risk that the NUM will rapidly be alerted to the need to head off any moves towards regionalisation. We could, for example, soon find ourselves faced with a demand to publicly commit ourselves to denying any interest in moving this way.
3. Quite apart from the dangers of asking the NCB for their views, we doubt very much whether this would be effective. We entirely agree with David Howell's views that this needs to be achieved over a long period of time. Devising a strategy for achieving it is about as difficult a task as one could specify. We think its difficulty and importance means that it should not be placed in the hands of those whose motivation is probably half-hearted.
4. Instead, we think the Prime Minister should tactfully suggest that David Howell might consider setting up a small group of his own to advise him on how to achieve the longer-term objective of regionalisation. This group might include an official from the Department of Energy, one or two trusted outsiders and perhaps the CPRS and the Policy Unit.
5. Finally, we think that a deadline should be given to whoever is asked to undertake this work.

Forget the whole matter until further notice. Do not mention to the NCB.

ANDREW DUGUID

mf

Prime Minister

Do you agree with N Howell's advice as set out in the attached letter? Or shall we reply on the basis of the Policy Unit's approach above?

tdw

15.5.

SECRET

NOR in PM's folder.

11E

MR DUGUID

cc:- Mr Lankester ✓

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NCB FINANCES

We had a word yesterday about how we ought to deal with the Chancellor's minute of 13 May to the Prime Minister proposing a major PR campaign on the costs imposed on the taxpayer by the coal industry, and I promised to pass on my comments to you.

On the substance, I agree entirely with the Chancellor's proposal; clearly it will be much more effective if it is not apparent that it is being orchestrated by the Government, so we ought to identify as many stalking horses as possible for this message. Apart from the MMC, which the Chancellor suggests, I suppose we could also discreetly encourage the CBI (who have a strong interest via energy prices) but otherwise I think we are short of ideas on this front. I am not at all keen on launching the Prime Minister into this area - she was drawn into it on Nationwide last night, and I doubt if her "begging and pleading" with the NUM has much effect; and there must be a strong possibility that any attempt to mobilise public opinion through the medium of a PPB, as suggested in John Hoskyns' minute of 12 May, will be counter-productive because it will be seen as confrontational.

On the handling of this, I have had a word with Bill Moyes in the Cabinet Office about the drafting of the paper which I showed you earlier this week. You may recall that at its present stage the draft only addresses the possibility of publicity and information during the contingency envisaged, rather than before it, and I have agreed with Bill Moyes that that section be expanded to incorporate the sense of what the Chancellor is proposing. This all points in the direction of the Prime Minister being encouraged to reply to the Chancellor to the effect that his proposal ought to be taken up in the context of MISC 57.

J. M. M. VEREKER

15 May, 1981

SECRET

MR. WHITMORE

Miss Stephens ch.

Can we please see
Robert Armstrong.

RMW
K.S.V.

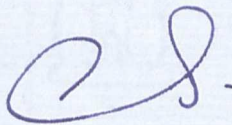
Meeting to discuss NCB Finances : Tuesday
19 May at 1530 hours, House of Commons

Those attending will be:

Secretary of State for Energy

Chancellor of the Exchequer (who has to
leave at 1615 for the Women's Conference)

Chief Secretary (who has to leave at 1600
for the Standing Committee on the Finance
Bill)



15 May 1981



CONFIDENTIAL

PRIME MINISTER

As I told Cabinet this morning, I am very concerned about the decisions reached by E Committee yesterday on NCB finances.

2. The NUM would bitterly resent these decisions and in my view they could well lead to another confrontation with the union before the end of the year. They make sense only on the assumption that we are prepared for such a confrontation, and will see it through. I do not believe that we have decided to follow such a course, and the worst possible outcome would be a confrontation from which we retreated. The financial cost and the cost in terms of public credibility would be very high, as it was in February.

3. I believe that the NUM's reaction to these decisions would threaten our immediate objectives on coal during the remainder of the year. We have two such objectives:

- The first is to get closures resumed, and manpower run down, so as to reduce the industry's calls on public expenditure. Some progress is already being made in these areas. Two closures have recently been agreed by the unions - the first since February - and others are under discussion. Total redundancies are running at a much higher rate than last year. This is a start on the road back to sanity. It would be directly threatened if we play into the hands of the union militants. Industrial action over closures would become much more likely.

The second objective is to get a reasonable pay settlement on 1 November. This is all the more important

*How would
united help -
this?*



CONFIDENTIAL

-2-

to us this year for general economic and industrial reasons since the miners' settlement will come near the beginning of the public sector pay round and will set the standard for what follows. In my judgment, the 'E' decisions as they stand would make it far more likely that in the autumn we should be faced with a choice between an excessive settlement and a national strike.

Why?

4. I am especially concerned about the decision to hold the investment approval at £765m, which is a big cut - both in money and much more in volume on what they spent last year. It would force a stop to projects already in progress in the most obvious way in the coal fields. I would expect a very strong reaction to this decision, which the union would regard as inconsistent with the spirit of the undertakings given at the Tripartites. It cannot make sense to lay ourselves open to a charge of breach of faith at this point, and if this decision is confirmed I would be in an impossible position at the next Tripartite.

Play!
see them.

5. I also know that the union would react very strongly against presenting the main grant to the Board, which would cover the cost of the undertakings we gave them, as a deficit grant. This may be irrational but it is the way they think. A concession on this point would add nothing to public expenditure, but make it easier to resist other concessions which did.

6. I urge therefore that we should reconsider these decisions. There is no point in further discussions with the Board first. I am already more than fully aware of their views as they are of mine. My proposals were drawn up only after detailed discussions with them. We now have to tell the Board firmly of our Government



CONFIDENTIAL

-3-

decisions. The 'negotiating' has to stop. Even what I proposed in my paper is far from risk free. What 'E' decided guarantees, in my view, disruption and difficulty from which we would extract no gain whatsoever.

7. I am sending a copy of this minute to the Chancellor of the Exchequer.

D14.

Secretary of State for Energy

14 May 1981

Prime Minister 2

This came in just before E. I thought the Chancellor would make the point in it. In the event, he did not; but he has asked me to show it you ~~now~~

Deputy
Verde

The Chancellor did not raise this in E



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

PRIME MINISTER

~~Prime Minister~~ 12

~~This has just come.~~ 13/5

NCB FINANCES

12
13/5

In our discussion of NCB finances at E Committee tomorrow I hope that we can discuss further the case for mounting - not attributably - a major PR campaign on the costs imposed on the taxpayer by the coal industry. I understand that the No.10 Policy Unit are already considering such a campaign. Its aim would be to bring home to the British public that the inefficiencies of the NCB, together with the attitude of the miners to such questions as closing down the high cost uneconomic pits, despite the extremely generous redundancy benefits available, are imposing a real and growing burden on the economy. It is relevant here that the MMC concluded in their CEEB report that the denial of the CEEB's access to cheap imports, mainly as a result of Government policy, has had the effect of raising the Board's costs because of the extent to which it has had to use more expensive home produced coal. The Commission comment that barriers to imported coal could have even more important consequences in the future.

2. I certainly recognise that such a campaign would need careful handling if we are to avoid confrontation with the miners. But the NCB and the NUM will be able to continue to hold the nation to ransom unless the pressure of public opinion can be brought to bear upon the industry to modernise itself by phasing out the uneconomic capacity and by generally getting

/its costs down.



its costs down. A change of public attitude might also help create a better climate for moderation in miners' pay.

3. We clearly could not expect quick results from such a campaign since attitudes will take time to change. But unless we start now, the results will be even further delayed. A useful step in such a campaign would be to refer the NCB in the near future to the MMC. Their report ought to provide useful evidence for the campaign. Indeed, apart from any campaign, an MMC reference of the NCB would be a useful follow up to the CEEB reference in view of the Commission's comments in their latest report on costs imposed on the CEEB by the NCB.

4. I am sending a copy of this minute to David Howell and John Biffen. A copy also goes to Sir Robert Armstrong.

G.H.

(G.H.)

13 May 1981



Ref. A04875

PRIME MINISTER

NCB Finances(E(81) 57 and E(81) 58)

BACKGROUND

gjk

The EFL for the National Coal Board for 1981-82 is £886 million. This limit was set before the events of February/March (arising from the NCB's attempt to implement a faster colliery closure programme) when Mr Howell, on authority, said to the NCB and the mining unions that:

- (a) The Government stood by Plan for Coal.
- (b) The Government would look at what could be done to reduce coal imports to the irreducible minimum.
- (c) The Government was prepared to discuss with both sides of the industry the financial implications of abandoning the closure programme and reducing imports "with an open mind and also with a view to movement".

2. The NCB were authorised in the continuing tripartite discussions to make known that their estimate of the cost of withdrawing the closure programme and replacing imports was in the range of £100 to £200 million.

1406

3. Mr Howell's latest paper (E(81) 57) reports that the NCB have now re-worked their figures and asked for an EFL for 1981-82 of £1,406 million. This request is based on assumptions that:

- (a) Capital investment of £924 million should be undertaken in 1981-82 as against the £765 million for which the NCB have investment approval (given in autumn 1979 and relating to 85 per cent of the capital expenditure which Ministers then envisaged under the financial strategy).
- (b) A wage increase of 13 per cent from 1 November 1981.
- (c) An assumed price increase for coal sales to the CEGB (much the largest customer) of 6.3 per cent from 1 November.



4. Mr Howell suggests that the Board's requested £1,406 million EFL should be cut back to £1,200 million by:

- (a) Reducing their call for investment funds by £99 million.
- (b) Assuming a 7 rather than a 13 per cent wage increase (saving £60 million).
- (c) Reducing production from continuing pits (without pit closures) and thus shedding some men. The saving in cash terms might be about £50 million.
- (d) Acceptance of the NCB's proposals on coal prices - while recognising that there may be an unquantified extra call for cash to meet any help given to electricity consumers through discounts in the price of coal, any costs required in reducing the price of coke to foundries and any additional costs in moving coal stocks to power stations. The first and second of these factors are due to be discussed by MISC 56 under your chairmanship on Thursday.

5. In addition to setting a capital expenditure figure of £825 million and increasing the EFL to £1,200 million (the use of the word "cut" in paragraph 11(b) of E(81) 57 is a little odd) Mr Howell suggests that the proportion of grant to loan finance to the NCB should be increased; that the grants (other than "social grants") should be consolidated into a single "revenue support grant" which would be paid to the NCB before profit and loss are struck; and that "better use" should be made of the existing provision for making deferred interest loans to the Board. The last two measures are designed to improve the appearance of the balance sheet.

6. In his paper (E(81) 58) the Chief Secretary objects to most of these proposals. In particular he argues that:

- (a) The NCB's capital approval should be £765 million (ie the level of the "existing approval").
- (b) That the EFL should be £1,100 million (in effect that already agreed plus the upper end of the announced cost of deferring closures and backing out imports).



- (c) That the new grant should be paid after profit and loss have been struck so as to give a true account of the Board's performance in its books.
- (d) That deferred interest loans can be accepted, and indeed should extend to the deferment of repayments of principal as well as interest, but that payments of interest deferred should count against the EFL which should be reduced accordingly.

7. The fact is that the NCB, in its present form, is to all intents and purposes bankrupt. The loss this year is likely to exceed £600 million (see Annex B-I which shows an operating loss of £255 million plus an interest charge of £371 million). Moreover even these figures are struck before allowing for the cost of further price concessions on electricity coal or foundry coke. In addition there must be a substantial uncertainty about the level of this year's wage increase (though at £20 million for each 1 per cent on the wage bill the figures are swamped by the other adverse elements: if big money is to be saved in a hurry it has to come from investment and the running down of coal stocks).

8. Underlying the whole of the Secretary of State for Energy's approach to the problem was an overriding anxiety to avoid another confrontation with the NUM and an acceptance of the NCB's own assessment of its inability to either cut costs or to win a propaganda battle designed to show the individual mine-worker (especially in the continuing pits) where his best interests lie. It may be that this fatalism is justified. If so, your colleagues may feel that the Chief Secretary's proposals are about as far as they dare go, and Mr Howell will no doubt argue that the Chief Secretary goes too far. The alternative is a radical reconstruction of the NCB which has been mentioned before in Ministerial discussion and again now in the Secretary of State for Energy's paper but which would no doubt itself provoke a confrontation with the NUM and on which no specific proposals have so far been made.



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HANDLING

9. You will want to invite the Secretary of State for Energy to introduce his paper and the Chief Secretary to introduce his. As it is probably unrealistic to think that better results than the Chief Secretary's proposals can be achieved in the short term, the choice then comes down to inviting colleagues to choose between the views of the Secretary of State for Energy and those of the Chief Secretary, Treasury. You might however also want the Committee to come to a conclusion on whether it is prepared to go on with the NCB in its present form or under present management or whether it wants early and urgent proposals for a radical shakeup.

CONCLUSIONS

10. These will follow from the discussion but might be

Either -

(i) endorse the Secretary of State for Energy's proposals in E(81) 57;

or

(ii) endorse the Chief Secretary, Treasury's proposals in E(81) 88;

and

(iii) invite the Secretary of State for Energy to bring forward early proposals for the reform of the NCB, the NCB's management, or both.

Robert Armstrong

(approved by Sri R Armstrong and signed on his behalf)

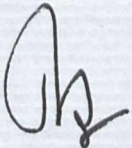
12th May 1981

PRIME MINISTER

NCB: E DISCUSSION TOMORROW

1. We agree with the two CPRS recommendations:
 - (i) To take steps to strengthen our negotiating position and reach decisions on our attitude to standing up to the NUM.
 - (ii) To review investment before the EFL is settled.

2. There are several points to note on (i) above:
 - (1) You have already instructed Department of Energy to maximise CEGB's coal stocks, at your meeting of 14 April. It is not clear whether CPRS are aware of this. Not all E members know about it.
 - (2) Mobilising public opinion against excessive demands must start soon. We shall be proposing speech material and other action before and after the NUM Conference. (Your own PPB on 8 July coincides with the NUM Conference.)
 - (3) You do not have to decide now that the Government will take on the miners. That must depend on the circumstances. But if you continue to plan on the basis that you are willing to do so, that itself will have the right impact on their expectations. It will help to ensure a more moderate outcome. It's just like the nuclear deterrent: we cannot afford to look like unilateral disarmers.



JOHN HOSKYNS



2
Pmi March

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SWIP 4QJ
TELEPHONE: 01-211 3000

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15/5

✓ ca to Douglas
Mr Walker
Mr Walker

Tim Lankester Esq
10 Downing Street
Whitehall
London
SW1

12 May 1981

Dear Tim,

My Secretary of State has seen your letter of 10 April, in which you passed on the Prime Minister's request for a study to be made of the possibility of breaking up the National Coal Board into regional Boards with a view to establishing some competition within the UK coal industry.

In Mr Howell's view there could well be arguments for moving towards a more decentralised structure for the Board. It could be of great advantage to us if the loyalties of the miners, and the union, were to become more local and less national. But we would be unwise to take rushed or dramatic decisions to achieve this. Indeed to do so would jeopardise the advantages we might gain from a more carefully judged move in this direction. National solidarity is at present an article of faith in the union. An overt threat to the unity of the industry would be bitterly opposed by the union and in fact only reinforce this feeling of solidarity. The danger would be all the greater since we should need legislation to break up the NCB. Moreover, if the NCB were broken up while the NUM remained in its present form, the power of the NUM might actually be increased, since they would be able to pick off the regional boards in turn.

A slower movement towards a more decentralised structure, with perhaps a gradual change in the focus of the industry's loyalties, need not however carry these disadvantages. Mr Howell certainly thinks this possibility should be considered further. He proposes as a first step to ask the Board to undertake a study of the possibilities of decentralisation and report to him. He will then consider how best to proceed.

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

Yours ever,

J D WEST

Closures.

CONFIDENTIAL

Qa 05365

To: MR LANKESTER
From: J R IBBS

Prime Minister

I think it would be
well worth asking Mr
[bbs to raise these
points at the meeting.

12 May 1981

NCB FINANCES

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12/5

1. I have not circulated this note as a CPRS collective brief to E Committee because of the sensitivity of the issues covered. But I assume (unless I hear to the contrary) that there would be no objection to my raising the points orally at the meeting.
2. The Secretary of State for Energy's memorandum (E(81)57) raises wider issues than the specific decisions recommended relating to the 1981/82 EFL. The withdrawal of the accelerated closure programme has greatly weakened the Government's position. It has left the NUM with the initiative on all fronts and the NCB presiding over an admittedly inefficient industry. The damage is not confined to coal. It is undermining the credibility of the Government's whole stance on economic and industrial policy. The position is unlikely to get easier in the short-term. With the miners having now moved to the beginning of the wages round, they will have a larger influence over pay bargaining in the public, and probably also the private, sector. It is therefore essential in the medium-term that policies should be developed which clearly restore the initiative to the Government.
3. However the Government must accept that the balance of power has been seen to have moved against it in recent months and it should take care, before adopting any stance which is likely to lead to a confrontation that the underlying balance of power is in its favour. The worst possible situation would be to take on the NUM and be seen to lose again.
4. The NCB's financial position is admitted to be serious; indeed, it may be that it is now effectively out of control. During 1980/81 the NCB was increasing stocks at the rate of 1m. tonnes a month (an increase of working capital of £30-£40m. a month). In 1981/82 a further

Over ~~run~~ ^{run}
High Prices

Closures.
Imports

Wages Investment

CONFIDENTIAL

6m. tonnes of stocks are planned, on the basis of sales of 120m. tonnes:
any shortfall of sales below this figure will worsen the financial position correspondingly. There must be serious doubt whether the EFL of £1.2 bn. proposed by the Secretary of State for Energy will be achieved in practice in view of the risks from accumulating yet further stocks and of being unable to hold a wage increase of 7 per cent. If the effect of such factors is to give yet more confidence to the NUM even greater financing may well be expected in 1982/83. Therefore the Government is presented with a very severe medium-term financing problem.

5. Of the remedial options on cash, an accelerated closure programme has been deferred, at least for the time being. The curtailing of imports, which in the long-term are essential as a means of bringing competitive pressure on the industry, has also been conceded, and anyhow unblocking ^{imports} would not be immediately relevant in a period when supply outstrips demand. Therefore the two principal components of the cash requirement that the Government should aim to influence are wages and investment.

6. For the 1981/82 wage round Ministers must decide soon whether they are prepared to risk confrontation. The arguments are finely balanced. It may be that a softer line on pay would minimise the cash required, both because it would avoid the cost of confrontation and provide maximum flexibility to reduce investment without industrial action, as proposed in paragraph 8 below. However the knock-on effects would be serious. The Government's negotiating hand is not at all strong and to improve its position it needs now to begin preparations. Since the NCB's EFL did not in the event influence the closure issue it does not seem likely to influence the pay round. The Home Secretary is, of course, considering the possibilities for withstanding a strike but the real steps open to the Government seem to be:

- (i) to maximise stocks at the power stations;
- (ii) to mobilise public opinion against excessive demands by the miners and erode the NUM's confidence against the background of surplus production (this would be to avoid a strike rather than to withstand one);
- (iii) the Government must satisfy itself that, if a confrontation is to be risked, it is ready both to finance the short-term costs and to sustain the political consequences.

In the view of the CPRS, unless such preparations are made now, the Government will again find itself rushed into an impossible negotiating position in the Autumn.

CONFIDENTIAL

7. Apart from wages, the NCB's substantial investment programme offers the main opportunity to constrain its call on the PSBR. As the Secretary of State for Energy's paper says it is necessary to reconsider the size and shape of the coal industry. It would plainly be foolish to continue with a large investment programme until the problem of closing inefficient capacity has been resolved and supply (of low-cost coal) brought into line with demand. In deciding priorities preference should be given to those major schemes which should ensure low-cost production in the 1990s.

8. The CPRS believes that the reduction in the proposed investment programme should be deeper than the Secretary of State for Energy has recommended. An increased EFL for the coal industry will damage other parts of the national economy. Government should, therefore, be unwilling to raise the existing EFL without an urgent interim review of the NCB's investment programme to determine how quickly, where and with what consequences reductions could be achieved. We are not convinced that a cut below the level suggested by the Secretary of State would provoke a confrontation as he implies, but this is clearly a point to which Ministers should specifically address themselves. We believe the Secretary of State for Energy should be asked to bring forward new proposals for a reduced investment programme before the EFL is approved and before the next Tripartite meeting.

Conclusion

9. The CPRS recommends that -
- (i) as set out in paragraph 6, the Government must take steps now to put itself in the best negotiating position possible for the Autumn wage-claim, and reach decisions as to its attitude to a confrontation with the NUM;
 - (ii) before the next Tripartite meeting, a rapid interim review of the current NCB investment programme be undertaken, and the new EFL should not be settled until this is available.
10. I am sending a copy of this Minute to Sir Robert Armstrong.

AD
JV
PW

10.

COVERING SECRET

Qa 05364

*I entirely agree: this is dynamic
and would probably have been looked
at in the context of the study of the
11 May 1981
12.*

To: MR LANKESTER

From: J R IBBS

*I have told David CPAs that
this must not be circulated, and
have suggested they ~~send~~ revise it
as a PM brief.*

NCB FINANCES

I attach a draft collective brief which I believe would assist a
balanced discussion of the question of NCB Finances at E on Wednesday,
as it presents some of the central issues in a broader context than the
paper from the Secretary of State for Energy. However, I am conscious
of the sensitivity of the aspects covered and would welcome guidance on
whether the Prime Minister would consider circulation of this paper to
members of E Committee appropriate.

JR

COVERING SECRET

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

E(81)59

11 May 1981

COPY NO

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

NCB FINANCES

Note by the Central Policy Review Staff

1. The Secretary of State for Energy's memorandum (E(81)57) raises wider issues than the specific decisions recommended relating to the 1981/82 EFL. The withdrawal of the accelerated closure programme has greatly weakened the Government's position. It has left the NUM with the initiative on all fronts and the NCB presiding over an admittedly inefficient industry. The damage is not confined to coal. It is undermining the credibility of the Government's whole stance on economic and industrial policy. The position is unlikely to get easier in the short-term. With the miners having now moved to the beginning of the wages round, they will have a larger influence over pay bargaining in the public, and probably also the private, sector. It is therefore essential in the medium-term that policies should be developed which clearly restore the initiative to the Government.

2. However the Government must accept that the balance of power has been seen to have moved against it in recent months and it should take care, before adopting any stance which is likely to lead to a confrontation that the underlying balance of power is in its favour. The worst possible situation would be to take on the NUM and be seen to lose again.

3. The NCB's financial position is admitted to be serious; indeed, it may be that it is now effectively out of control. During 1980/81 the NCB was increasing stocks at the rate of 1m. tonnes a month (an increase of working capital of £30-£40m. a month). In 1981/82 a further 6 m. tonnes of stocks are planned, on the basis of sales of 120m. tonnes: any shortfall of sales below this figure will worsen the financial position correspondingly. There must be serious doubt whether the EFL of £1.2bn. proposed by the Secretary of State for Energy will be achieved in practice in view of the risks from accumulating yet further stocks

and of being unable to hold a wage increase of 7 per cent. If the effect of such factors is to give yet more confidence to the NUM even greater financing may well be expected in 1982/83. Therefore the Government is presented with a very severe medium-term financing problem.

4. Of the remedial options on cash, an accelerated closure programme has been deferred, at least for the time being. Imports, which in the long-term are essential as a means of bringing competitive pressure on the industry, have also been conceded, and anyhow would not be immediately relevant in a period when supply outstrips demand. Therefore the two principal components of the cash requirement that the Government should aim to influence are wages and investment.

5. For the 1981/82 wage round Ministers must decide soon whether they are prepared to risk confrontation. The arguments are finely balanced. It may be that a softer line on pay would minimise the cash required, both as regards financing a confrontation and obtaining maximum flexibility to reduce investment without industrial action, as proposed in paragraph 7 below. However the knock-on effects would be serious. The Government's negotiating hand is not at all strong and to improve its position it needs now to begin preparations. Since the NCB's EFL did not in the event influence the closure issue it does not seem likely to influence the pay round. The real steps open to the Government are:

- no return to Home Sec's study.*
- (i) to maximise stocks at the power stations;
 - (ii) to mobilise public opinion against excessive demands by the miners and erode the NUM's confidence against the background of surplus production;
 - (iii) the Government must satisfy itself that, if a confrontation is to be risked, it is ready both to finance the short-term costs and to sustain the political consequences.

In the view of the CPRS, unless such preparations are made now, the Government will again find itself rushed into an impossible negotiating position in the Autumn.

6. Apart from wages, the NCB's substantial investment programme offers the main opportunity to constrain its call on the PSBR. As the Secretary of State for Energy's paper says it is necessary to reconsider the size and

shape of the coal industry. It would plainly be foolish to continue with a large investment programme until the problem of closing inefficient capacity has been resolved and supply (of low-cost coal) brought into line with demand. In deciding priorities preference should be given to those major schemes which should ensure low-cost production in the 1990s.

7. The CPRS believes that the reduction in the investment programme should be deeper than the Secretary of State for Energy has proposed. An increased EFL for the coal industry will damage other parts of the national economy. Government should, therefore, be unwilling to raise the existing EFL without an urgent interim review of the NCB's investment programme to determine how quickly, where and with what consequences reductions could be achieved. We are not convinced that a cut below the level suggested by the Secretary of State would provoke a confrontation as he implies, but this is clearly a point to which Ministers should specifically address themselves. We believe the Secretary of State for Energy should be asked to bring forward new proposals for a reduced investment programme before the EFL is approved and before the next Tripartite meeting.

Conclusion

8. The CPRS recommends that -

(i) as set out in paragraph 5, the Government must take steps now to put itself in the best negotiating position possible for the Autumn wage-claim, and reach decisions as to its attitude to a confrontation with the NUM;

(ii) before the next Tripartite meeting, a rapid interim review of the current NCB investment programme be undertaken, and the new EFL should not be settled until this is available.

Cabinet Office

11 May 1981



10 DOWNING STREET

Nat hnd

Taken by
Ea 13th
Discussion
with CST
on 6/5

Chief

~~Mike~~

Yes.

MW

16w

Energy say (in guarded
terms) that their thinking
has "gone beyond" the
points on NCB raised
in Tim's letter below.

They want an extension
beyond April 27, to
allow a fuller paper.

Can we give them
another week or so?

Energy will be
in touch again
by May 5.

MW 16/4

MW 16/4

4

SECRET.

9



10 DOWNING STREET

Sir Robert Armstrong.

We spoke.

This is the record
of yesterday's meeting on coal
stocks. I will not send it out
until I hear from you.

RM.

15 iv

Mr Whitman

I have had a word
with the Home Secretary;
but is reflected in the
last of the suggested
measures.

RA 15 iv



Nat ml

4

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).)

BSG

SUBJECT



4

10 DOWNING STREET

From the Principal Private Secretary

15 April 1981

cc. Minister set.

Dear John,

COAL STOCKS AT POWER STATIONS

The Prime Minister held a meeting yesterday with the Home Secretary, the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, and the Secretaries of State for Industry, Scotland and Energy to discuss the possibility of transferring more coal from pithead stocks to power stations. Sir Robert Armstrong was also present.

The Prime Minister said that work which had been set in hand following the meeting of the Ministerial Committee on Economic Strategy on 5 March, 1981 had shown that it would be possible to transfer 4-5 million tons of coal from NCB stocks to CEGB power stations over a period of about four months, without the CEGB having to acquire new land. An increase in CEGB holdings of coal of this order would raise endurance from an estimated 7-7½ weeks on 1 November 1981 to 9-9½ weeks. Her own view was that arrangements should be made to increase the amount of coal at the power stations in this way as soon as possible. At the moment the large stocks of coal at the pitheads were being financed out of the NCB's External Finance Limit. If some of the stocks were transferred to the CEGB, it would provide the railways with work and revenue; it would reduce the calls on the NCB's EFL; and the coal would be in the right place. It might be necessary for the NCB to offer the CEGB the coal at a slight discount. We ought also to take such other steps as were open to us to improve endurance. For example, we should get as many existing and new nuclear power stations as possible into service; and we should also be ready to make more use of oil-fired power stations than was perhaps planned at present.

In discussion it was argued that we should make arrangements to transfer as much coal as possible from the pitheads to the power stations. Every week of increased endurance would strengthen the Government's ability to withstand a miners' strike. We should also ensure that, in parallel, stocks of ancillary but equally vital supplies such as flashing oil were also built up. There were plainly political and industrial risks in taking this course, but there was every argument for moving ahead quickly.

/ It was pointed out

JS

It was pointed out on the other hand that the Government should be quite clear what contingency it was seeking to plan for. To prepare to withstand a miners' strike was one thing: to try to help the NCB over their EFL was quite another. We should not delude ourselves into thinking that merely by increasing the endurance of the power stations by two weeks we were preparing the ground for a battle with the NUM. Moreover, the endurance of the power stations was only one consideration in a complex of inter-related factors. If contingency action of the kind proposed was to be taken, a comprehensive study was required which looked at not only the size of coal stocks in the hands of the CEGB but also other factors such as the availability of landing facilities for imported coal and transport problems.

The Prime Minister, summing up the discussion, said that on balance they agreed that the Secretaries of State for Energy and for Scotland should take steps, in conjunction as necessary with the Secretary of State for Transport, to arrange for the endurance of power stations to be increased as far as possible by the beginning of next winter. One way of doing this was to transfer more coal than at present was planned from the pitheads to power stations. Another possibility was to improve the availability of nuclear and oil-fired power stations. The meeting agreed that the political and industrial risks following this course were manageable, but nonetheless discussions with the industries concerned should be conducted as discreetly as possible. The Secretaries of State for Energy, Scotland and Transport should discuss with the Chancellor of the Exchequer the financial implications of transferring additional coal from the NCB to the CEGB, using British Rail. The Home Secretary should commission and oversee a comprehensive study of how to withstand a coal strike as effectively as possible. ||

I am sending copies of this letter to John Wiggins (HM Treasury), David Heyhoe (Chancellor of the Duchy of Lancaster's Office), Ian Ellison (Department of Industry), Godfrey Robson (Scottish Office), Richard Dykes (Department of Employment), Julian West (Department of Energy), Anthony Mayer (Department of Transport) and David Wright (Cabinet Office).

Yours ever,

Alvin Whinnam.

John Halliday, Esq.,
Home Office.



10 DOWNING STREET

From the Principal Private Secretary

15 April, 1981

Coal Stocks at Power Stations

The Prime Minister held a meeting ^{yesterday} ~~this morning~~ with the Home Secretary, the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, & the Secretaries of State for Industry, Scotland and Energy to discuss the possibility of transferring more coal from pithead stocks to power stations. Sir Robert Armstrong was also present.

over a period of about four months

The Prime Minister said that work which had been set in hand following the meeting of the Ministerial Committee on Economic Strategy on 5 March, 1981 had shown that it would be possible to transfer 4 - 5 million tons of coal from NCB stocks to CEGB power stations without the CEGB having to acquire new land. An increase in CEGB holdings of coal of this order would raise endurance from an estimated 7-7½ weeks on 1 November 1981 to 9-9½ weeks. Her own view was that arrangements should be made to increase the amount of coal at the power stations in this way as soon as possible. ~~Time was at present on our side, and we should look ahead.~~ At the moment the large stocks of coal at the pitheads were being financed out of the NCB's External Finance Limit. If some of the stocks were transferred to the CEGB, it would provide the railways with work and revenue; it would reduce the calls on the NCB's EFL; and the coal would be in the right place. It might be necessary for the NCB to offer the CEGB the coal at a slight discount. We ought also to take such other steps as were open to us to improve ~~the endurance of the power stations.~~ For example, we should get as many existing and new nuclear power stations as possible into service; and we should also be ready to make more use of oil-fired power stations than was perhaps planned at present.

d

In discussion it was argued that we should make arrangements to transfer as much coal as possible from the pitheads to the power stations. Every week of increased endurance would strengthen the Government's ability to withstand a miners' strike. We should also ensure that, in parallel, stocks of ancillary but equally vital supplies such as flashing oil were also built up. There were plainly political and industrial risks in taking this course, but there was every argument for moving ahead quickly.

/It was pointed out

It was pointed out on the other hand that the Government should be quite clear what contingency it was seeking to plan for. To prepare to withstand a miners' strike was one thing: to try to help the NCB over their EFL was quite another. We should not delude ourselves into thinking that by increasing the endurance of the power stations by two weeks we were preparing the ground for a battle with the NUM. Moreover, the endurance of the power stations was only one consideration in a complex of inter-related factors. If contingency action of the kind proposed was to be taken, a comprehensive study was required which looked at not only the size of coal stocks in the hands of the CEGB but also other factors such as the availability of landing facilities for imported coal and transport problems.

merely/

The Prime Minister, summing up the discussion, said that on balance they agreed that the Secretaries of State for Energy and for Scotland should take steps, in conjunction as necessary with the Secretary of State for Transport, to arrange for the endurance of power stations to be increased as far as possible by the beginning of next winter. One way of doing this was to transfer more coal than at present was planned from the pitheads to power stations. Another possibility was to improve the availability of nuclear and oil-fired power stations. The meeting agreed that the political and industrial risks following this course were manageable, but none-the-less discussions with the industries concerned should be conducted as discreetly as possible. The Secretaries of State for Energy, Scotland and Transport should discuss with the Chancellor of the Exchequer the financial implications of transferring additional coal from the NCB to the CEGB. The Home Secretary should ~~arrange for the Civil Contingencies Unit to undertake~~ a comprehensive study of how to withstand a coal strike as effectively as possible.

Commission and oversee

I am sending copies of this letter to John Wiggins (HM Treasury), David Heyhoe (Chancellor of the Duchy of Lancaster's Office), Ian Ellison (Department of Industry), Godfrey Robson (Scottish Office), Richard Dykes (Department of Employment), Julian West (Department of Energy), and David Wright (Cabinet Office).

Anthony Munn (Dept of Transport)

Wing Finance Panel

A. WHITMORE

John Halliday, Esq
Home Office



SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK, LONDON SW1P 4QJ

01 211 6402

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1C 6RB

R
13/4

13 April 1981

Dear Keith

COAL IMPORTS BY BSC

Thank you for your letter of 7 April.

I accept that quality is relevant as well as price and I understand that the two Boards are in contact about it. I agree that we should first see how their discussions go. When we know this, we can consider whether there is anything more we should do.

I am copying this letter to the recipients of yours.

Yours ever

D A R HOWELL

Howell



7a.

PRIME MINISTER

COAL STOCKS AT POWER STATIONS

I am making an official visit to Germany next week and am unable to attend the meeting foreshadowed in your Principal Private Secretary's letter of 7 April.

It is clear that the arrangements for the transfer of an additional 4/5 million tons of coal to power stations would become public and that the objective could not be disguised. This would be portrayed as a clear readiness on our part to face out a miners' strike and even perhaps of our intention to court it, either to attempt to enforce a low pay settlement or help the NCB to secure pit closures. I am in no doubt that this would prove highly provocative and would be successfully used by some leaders in the NUM to foster militancy over a period of months. The risks of a confrontation would be increased.

The gain in endurance would be very marginal. And there would need to be planned interruptions to the supply of electricity sometime before the limits of endurance neared. I cannot believe that if a miners' strike continued for six or seven weeks that there is good reason to believe that it might begin to collapse in the next two or three weeks. Nor do I believe that miners would view as critical to a strike decision the difference between an endurance period of seven or nine weeks. They are well informed of the stock position.

Whilst, short of overt action, we should certainly encourage the CEGB to stock prudently, it is my firm view that we should not contemplate the discussions with the two industries which would be

SECRET



necessary to achieve a significant (in tonnage and financial terms) transfer of coal.

I am sending copies of this minute to Geoffrey Howe, Sir Keith Joseph, Francis Pym, David Howell and Sir Robert Armstrong.

A handwritten signature in blue ink, consisting of several loops and a vertical stroke, positioned above the typed name 'J P'.

J P

13 April 1981



10 DOWNING STREET

Prime Minister.

I am all in favour of building up Coal stocks at the Power stations but it should not be done by Ministerial Committee!

NCB should decide to reduce their surplus stocks by offering CEGB a small discount to take some more coal off NCB hands. Having surplus production this would be a commercial decision.

CEGB should decide to take advantage of this bargain after seeking permission to increase their EFL accordingly. This permission might well be given by David Howell on the basis that the CEGB increase would be matched within his department by an NCB reduction.

An additional 4Million Tons might be reached over one or two years. But without a public discussion and provocation of the NUM.

If a completely private meeting between David Howell and The Chairmen of NCB and CEGB could reach a decision to move in this direction, it would surely be better than a Ministerial decision.

DW.

13 4 87

CONFIDENTIAL

File 505

Noted
J.D.



BF 27/4/81

5/5/81

10 DOWNING STREET

From the Private Secretary

10 April 1981

See
MAPKCAW
16/4

At several recent meetings attended by your Secretary of State, including the one on 31 March on nationalised industries generally, the Prime Minister has mentioned in passing that consideration should be given to breaking up the National Coal Board into regional boards. The purpose of this would be to establish some competition within the UK coal industry.

The Prime Minister would be grateful for a note on the possibilities of pursuing this course. Could this reach me please by 27 April?

I am sending a copy of this letter to John Wiggins (HM Treasury), David Wright (Cabinet Office) and Gerry Spence (Central Policy Review Staff).

T. P. LANKESTER

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

CONFIDENTIAL

Copy No 2 of 8 copies
Maitland

SECRET AND PERSONAL



DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ

7

OT 211 4391

SIR DONALD MAITLAND GCMG OBE
PERMANENT UNDER SECRETARY OF STATE

9 April 1981.

Dear Robert,

The attached letter from Clive Whitmore reports a request from the Prime Minister for a meeting with a small group of colleagues to discuss the question of the transfer of coal from pithead stocks to power stations.

My Secretary of State believes that it would be highly desirable if the Home Secretary could be invited to the meeting.

As your letter of 3 April originally suggested the idea of such a gathering I am writing to you to seek your agreement to this suggestion.

I am copying this letter to Clive Whitmore.

Yours ever,

Donald

Sir Robert Armstrong KCB CVO,
Cabinet Office,
70 Whitehall,
London SW1A 2AS.

NR

With Sir R. Armstrong's
agreement I invited the
Home Secretary to attend the
meeting yesterday.

NR

10/4



Next hel

B/K

10 DOWNING STREET

Miss Stephens.

From the Private Secretary

Mr. Wickmore

He wants to
Younger + send his
after a copy of my
letter. ✓
K
Swi

Meeting on Coal
next Tuesday

① Treasury say that S/Scotland
knows more about it
than S/Energy & should be
invited through letter not
copied to him.
agree?

② S/Employment will be in
w. Germany. Can someone
else from Employment
come? Not now required.
E. 9/4 E.



10 DOWNING STREET

please file
28.9/4

Caroline

D/Emy don't want to
find a replacement for
P/oi on Tue (coal): he will
give her his views in
advance.

MP
8/4



10 DOWNING STREET

Miss Stephens.

Can you please fix this
merry. RTA should be taken as
well as the Minister concerned.

I should like to ring
you up this afternoon
to allow time for the letter to
come.

1/2

1000 TUE.

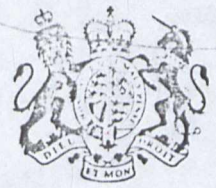
RW

SW

S/ Rotterdam?

6

EXCHEQUER	
REC.	-8 APR 1981
ADDRESSEE	Mr WICKS
OFFICE	CST
OFFICE	FST
TO	SIR D. WASS
	MR RYRIE
	SIR A. RAWLINSON
	MR BURCHARD
	MR BUCKLEY



10 DOWNING STREET

From the Principal Private Secretary
MR RIDLEY

7 April 1981

Mr Wicks

*An enclosure 2/7/81 to you is being very much
to the way as well as power to give what's possible
in existing CEB land?*

*Under the EFL the very significant we know how to EFL
with change from within EFL industries. The NCB's EFL
of course to negotiate energy.* JB 3/4

Dear John,

During the discussion on coal at the meeting of the Ministerial Committee on Economic Strategy on 5 March 1981, Ministers agreed that, as a contingency measure against a possible miners' strike in the future, steps should be taken to encourage the National Coal Board and the Central Electricity Generating Board to transfer as much coal as possible from pithead stocks to power stations. It was suggested that the CEBG should be authorised to buy land, if necessary, to accommodate additional stocks. Because of its sensitivity the committee's conclusion on this part of their discussion was not recorded, but the Secretary of State for Energy was asked to follow the matter up.

The Department of Energy's assessment of the situation, without consulting the industries concerned, is that it should be possible to transfer 4 to 5 million tons of coal from pitheads to CEBG stockyards, within about four months of a decision to do so. This would raise endurance from an estimated seven to seven and a half weeks on 1 November 1981 to over nine weeks. It is thought that the CEBG has the capacity to hold this stock without acquiring new land and that British Rail could carry the additional coal. There would be some financial implications. Strictly speaking, the amount by which the CEBG's costs, and therefore its EFL, would be increased would be offset by a corresponding diminution of the costs and EFL of the NCB. The costs of the actual movement of the coal would presumably constitute a net increase in public sector borrowing requirement. The Department of Energy would need to discuss with the industries how the stock should be financed; the CEBG would probably want to go for some form of deferred payment, though that would be less acceptable to the NCB. The holding and financing of vital ancillary materials (industrial gases, etc) would also need to be discussed with the CEBG.

/The matter

SECRET AND PERSONAL

-2-

The matter has now been taken as far as it can be without discussion with the industries. Ministers now need to decide whether to invite the industries concerned to arrange for the movement of these stocks of coal, with a view to extending the period of endurance in the event of industrial action in the coal mining industry, or whether the advantages of doing so are likely to be outweighed by the possible political disadvantages of what could be seen as a highly provocative operation. The Prime Minister would now like to discuss this question with the Chancellor of the Exchequer, the Secretary of State for Industry, the Secretary of State for Employment, the Chancellor of the Duchy of Lancaster and the Secretary of State for Energy. I am accordingly sending copies of this letter to their Private Secretaries as well as to David Wright. We will be in touch with you and them to arrange a time for the meeting.

Yours ever,

Alvin White.

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

SECRET AND PERSONAL

2



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

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

Secretary of State for Industry

7 April 1981

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

Prime Minister

*12/1
8/1*

ms

Ian Baird

COAL IMPORTS BY BSC

Thank you for your letter of 25 March.

2 I am sorry that the question of BSC's use of imported coal should still be causing difficulty. The problem appears to be one of quality as well as price. Ian MacGregor made it clear when we spoke about this question that BSC was achieving improvements in its product through the use of better quality imported coal and he would view a return to domestic coal as a backwards step.

3 I accept that the prospect of industrial action over this question is worrying. But, as you recognise, it is important that BSC should be free to decide on purchases which are in their commercial interest. I should be interested to know whether the problem has been discussed by Ian MacGregor and Sir Derek Ezra. The obstacle to reducing BSC's imports seems to me to be essentially technical and one which is more likely to be overcome by contact between the two Chairmen than by exhortation on my part.

4 I am copying this letter to recipients of yours.

E. Carr
Kew



S 4

Ref. A04655

MR WHITMORE

Thank you for your minute of 6 April about possible measures to increase stocks of coal at power stations.

2. I think that it would be right to give the Ministers concerned some idea of the issue to be discussed, and I suggest that your draft letter might be expanded on the
--- lines of the attached.

REA

ROBERT ARMSTRONG

7 April 1981

DRAFT LETTER FROM THE PRIME MINISTER'S
PRINCIPAL PRIVATE SECRETARY TO THE PRIVATE
SECRETARY TO THE CHANCELLOR OF THE EXCHEQUER

During the discussion on coal at the meeting of the Ministerial Committee on Economic Strategy on 5 March 1981, Ministers agreed that, as a contingency measure against a possible miners' strike in the future, steps should be taken to encourage the National Coal Board and the Central Electricity Generating Board to transfer as much coal as possible from pithead stocks to power stations. It was suggested that the CEGB should be authorised to buy land, if necessary, to accommodate additional stocks. Because of its sensitivity the committee's conclusion on this part of their discussion was not recorded, but the Secretary of State for Energy was asked to follow the matter up.

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form of deferred payment, though that would be less acceptable to the NCB. The holding and financing of vital ancillary materials (industrial gases, etc) would also need to be discussed with the CEGB.

The matter has now been taken as far as it can be without discussion with the industries. Ministers now need to decide whether to invite the industries concerned to arrange for the movement of these stocks of coal, with a view to extending the period of endurance in the event of industrial action in the coal mining industry, or whether the advantages of doing so are likely to be outweighed by the possible political disadvantages of what could be seen as a highly provocative operation. The Prime Minister would now like to discuss this question with the Chancellor of the Exchequer, the Secretary of State for Industry, the Secretary of State for Employment, the Chancellor of the Duchy of Lancaster and the Secretary of State for Energy. ©

*I am accordingly sending
this copy of this letter
to their (min) Secretaries,
as well as to David
Wynne.*

you and them
We will be in touch with ~~the offices concerned~~ to arrange a time for the meeting

~~SECRET~~ AND PERSONAL



File A.H.
4

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

The Prime Minister has seen your minute A04617 of 3 April 1981 about possible measures to increase stocks of coal at the power stations and she agrees that the next step is for her to have a meeting with the five Ministers whom you mention in paragraph six of your minute.

Given the sensitivity of this subject, we shall need to arrange the meeting with some care, and I thought that I might give the Ministers' offices concerned notice of it with a brief letter on the lines of the attached draft. Are you content with this, or would you prefer a fuller letter which draws upon your minute ?

JW.

6 April 1981

~~SECRET~~ AND PERSONAL

1

SECRET

DRAFT LETTER FROM THE PRIME MINISTER'S PRINCIPAL PRIVATE
SECRETARY TO THE PRIVATE SECRETARY TO THE CHANCELLOR OF THE
EXCHEQUER

SECRET AND PERSONAL

During the discussion on coal at the meeting of the Ministerial Committee on Economic Strategy on 5 March 1981, Ministers agreed that, as a contingency/^{measure}against a possible miners' strike in the future, steps should be taken to encourage the National Coal Board and the Central Electricity Generating Board to transfer as much coal as possible from pithead stocks to power stations. It was suggested that the CEGB should be authorised to buy land, if necessary, to accommodate additional stocks. Because of its sensitivity the committee's conclusion on this part of their discussion was not recorded, but the Secretary of State for Energy has been following it up since then, and the Prime Minister would now like to discuss the findings of Mr Howell's further work with him, the Chancellor of the Exchequer, the Secretary of State for Industry, the Secretary of State for Employment, and the Chancellor of the Duchy of Lancaster. We will be in touch with your office to arrange a time.

SECRET

PRIME MINISTER

Ref. A04617

Agree X overleaf?

PRIME MINISTER

Yes not

MS
314

During the discussion of coal at the meeting of the Ministerial Committee on Economic Strategy on Thursday, 5th March, Ministers agreed that steps should be taken to encourage the National Coal Board and the Central Electricity Generating Board to transfer as much coal as possible from pithead stocks to power stations. It was suggested that the CEGB should be authorised to buy land if necessary to accommodate additional stocks. The Secretary of State for Energy was invited to pursue this remit, which was not (for obvious reasons) recorded in the minutes. I communicated it privately to Sir Donald Maitland after the meeting.

2. Sir Donald Maitland has now reported to me the Department of Energy's assessment of the situation. Their assessment, made without consulting the industries, is that it should be possible to transfer 4 to 5 million tons of coal from pithead to CEGB stockyards, within about four months of a decision to do so. This would raise endurance from an estimated seven to seven-and-a-half weeks on 1st November 1981 to over nine weeks. It is thought that the CEGB has the capacity to hold this stock without acquiring new land, and that British Rail could carry the additional coal.

3. There would be some financial implications. Strictly speaking, the amount by which the CEGB's costs, and therefore its EFL, would be increased would be offset by a corresponding diminution of the costs and EFL of the NCB. The costs of the actual movement of the coal would be a further additional cost upon the CEGB's EFL; but that should be the only net increase in the Public Sector Borrowing Requirement. The Department would need to discuss with the industries how the stock should be financed; the CEGB would probably want to go for some form of deferred payment, though that would be less acceptable to the NCB. The holding and financing of vital ancillary materials (industrial gases etc.) would also need to be discussed with the CEGB.



4. The matter has now been taken as far as it can be without discussion with the industries. The Secretary of State for Energy is reluctant to discuss the subject with the industries, or to give instructions for the transfer to take place: he is concerned lest, for the sake of raising notional endurance by a week or two, a major opportunity could be lost, through what could be seen as a highly provocative operation, of moving the NUM in the direction of moderation and responsibility.

5. The counter argument to this is that it is only prudent for the Government to take whatever measures are open to it to enable the country and the economy to withstand the effects of a miners' strike for longer than they would otherwise be able to do. But the Department of Energy fear that, the moment there is any discussion with the industries, there will be high risk of a leak which, particularly coming in advance of the NUM Annual Conference, could not only be provocative but could also lead to the development of counter-contingency planning by the militants in the NUM. In other words, they might be able to frustrate the use of the coal, even if it had been moved.

x | 6. There is a difficult balance of political considerations here. The Secretary of State for Energy will not want to proceed to discussions with the industries unless and until he has discussed these matters further with you and other colleagues. It may need eventually to go back to the Ministerial Committee on Economic Strategy, but I think that it might be preferable to have a discussion with a smaller group of colleagues in the first instance: I suggest with the Chancellor of the Exchequer, the Secretaries of State for Industry, Employment and Energy and the Chancellor of the Duchy of Lancaster.

ROBERT ARMSTRONG

3rd April, 1981

CONFIDENTIAL

2 April 1981

MR LANKESTER

cc Mr Whitmore
Mr Wolfson

REGIONALISING THE NCB

1. Of course you are right that it would be extremely difficult to regionalise the NCB. The problem is not just to break up the management side of the industry into several competing units, but to ensure that the union does not remain rock solid as a single national unit, despite these changes.

2. I don't for a moment claim that this could be achieved quickly. But it could be possible if the men in different regions came to see their regional self-interest as diverging from the interests of miners in other regions. I don't think this is impossible, The fact is that the interests of men in one region are different from others'. For example, miners in a profitable and expanding region could earn substantially more if the losses in South Wales could be reduced. (Of course, if we refuse to allow them to earn wages which reflect their high productivity, they will not perceive their self-interest as it really is.) In the long run, there could be smaller numbers of extremely well-paid miners operating very productive pits on a highly capital intensive basis. The truth is that deferring closures in South Wales will slow down these developments.

3. Of course miners don't necessarily see it this way yet. But that could change as the structure of the industry changes and if management makes a determined effort to explain it. This may sound very theoretical but, after all, most industries - eg the car industry - work on the basis that different units compete with one another. There are several pieces of evidence which convince me it would be possible to devise a plan to achieve regionalisation - perhaps over quite a long period of time:
 - (a) The very wide regional variation in the voting pattern during recent ballots. (I attach the last one. The differences are striking.) This suggests the basis for a different perception of self-interest already exists.

CONFIDENTIAL

CONFIDENTIAL

- (b) The much higher cost of striking, now that a large proportion of earnings rests on overtime. (An effective strike in the past has required at least 10 week's overtime ban, followed by a 6-week strike. The overtime ban did not previously involve much sacrifice.)
- (c) The fact that the incentive scheme was successfully introduced a couple of years ago. When it was first rejected - after fierce campaigning by the Left - the conventional wisdom was that it would be impossible to get it accepted. In fact, the "impossible" happened, with embarrassingly successful increases in productivity and reductions in absenteeism.
4. In short, I don't believe regionalisation of the NCB is a non-starter - if it was approached with sufficient determination.

AJ.

ANDREW DUGUID

CONFIDENTIAL

LABOUR

Finance union claims 20%

failure of the two unions so far to agree how a national council for technical staff should operate.

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The banks' settlements over the past two years, however, have been relatively high. The last settlement, together with London weighting improvements and other features, is thought to have raised their wage bills by 25 to 30 per cent.

Newspapers 'trading at heavy loss' warning

By John Lloyd, Labour Correspondent

THE PRINTING and maintenance unions working for national newspapers were yesterday warned that Fleet Street was in "a parlous state."

The warning, which will be reinforced with a letter to all unions detailing falling revenues and circulations coupled with steeply rising costs, was a prelude to detailed negotiations over pay levels for next year.

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The unions have made a joint claim for increases to match the rate of inflation, and an extra week's holiday.

In what was seen by both sides as skirmishes, albeit serious ones, before the main pay battle is joined later this month, the employers claimed unequalled poverty while the unions claimed unrivalled unemployment.

Mr. John LePage, the director of the NPA, said that in a letter to be sent to the unions in the next few days, he would explain the reasons why national papers were trading at a heavy loss in the current year (and why it would be "infinitely worse" in 1981).

Mr. Bill Myles, national officer of the Society of Graphical and Allied Trades, the chairman of the union side, told the NPA that the claim for an extra week's holiday was aimed primarily at reducing the level of unemployment in Fleet Street.

expects wage deal

"barely begins to meet our demands for substantial rises in the basic and overtime premium rates... the shipowners are in fact asking us to accept a cut in members' standards of living."

The employers' side has denied the accusation that it is influenced by the Government, and stressed its view that higher wage rises would seriously damage international competitiveness of British shipping.

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Colliery Officials & Staff	16,644	14,859	88.1	1,985	11.9
Durham	13,483	8,252	61.2	5,231	38.8
Scotland	12,825	3,468	27	9,357	73
Midlands	12,268	9,454	78.7	2,614	21.3
Derbyshire	9,791	4,180	42.7	5,611	57.3
North West	6,747	4,359	64.6	2,388	35.4
Northumberland	5,933	4,134	69.7	1,799	30.3
Durham Mechanics	5,446	3,857	71	1,589	29
Cokemen	4,257	3,412	80	845	20
Power Group	4,138	3,629	86.9	509	13.1
Scots Enginemn	4,060	1,534	37.8	2,526	62.2
South Derby	2,836	2,436	86	400	14
Leicester	2,831	2,276	80.4	555	19.6
Kent	2,342	953	40.7	1,389	59.3
Northumberland Mechanics	1,985	1,505	75.8	480	24.2
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It denied reports that about 400 workers were involved, and said that only some 40 staff, about 20 train crews, took part.

2 April 1981

Not sent
coal

MR LANKESTER

Thi
I don't know whether Andrew's own
handwriting or XI or YI are likely to be
capable of fulfilment in the near future.
But we will be asking the NCB or the by land
to cut its own losses and to take the
NVM what a good thing it was too? I don't
see this happening unless Keynes is the answer.

cc Mr Whitmore
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MS 201

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CONFIDENTIAL

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Prime Minister ^{cc. A. Inquid}
To note

PRIME MINISTER

mb
2
s/s

As my colleagues know, I told the last coal industry Tripartite that there would be discussions between the Government and the National Coal Board about the Board's general financial problems. There is to be a meeting today between the Board and the unions at the coal industry's consultative body, the Joint Policy Advisory Committee (JPAC), at which Sir Derek Ezra has told me that he expects to come under pressure from the unions to give details of these discussions. The NUM have in fact asked the Board to consult them before putting any proposals to the Government. Ezra wanted in particular to be able to give the unions details of the Board's proposals on grants and capital investment.

I told Ezra that it was my strong view that the Board should avoid giving details on matters on which the Government has not yet reached a decision. It was particularly important that we should retain flexibility on anything, such as the Board's capital investment, which would affect their external finance requirement. Ezra said he would try to maintain this line, although he might come under great pressure from the unions.

The Board therefore now know that they cannot prejudice our decisions on these matters. But we must recognise that the NUM are very interested in the subject of the discussions and will want to learn about progress before their Annual Conference in July, no doubt at another Tripartite. We also will want to settle quickly the Board's external finance limit and capital investment allocation for 1981/82 and take a view on how we deal with their longer-term problems. I shall bring proposals on these matters before my colleagues.



I am sending a copy of this minute to the other members of
E Committee, the Secretaries of State for Scotland and Wales
and to Sir Robert Armstrong.

JA
2

SECRETARY OF STATE FOR ENERGY
31 MARCH 1981

CONQUEROR

27 March 1981

Policy Unit

*Not Fed
112*

HW

PRIME MINISTER

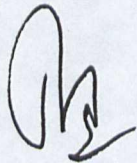
LESSONS OF THE NUM STRIKE THREAT

Last year, at your request, we produced a note (9 May 1980) on lessons learned from the steel strike. The attached note draws several parallels between that event and the recent threat of a miners' strike. Its main emphasis is on the need to prevent such confrontations or prepare for them where necessary.

This note may appear critical of David Howell; that is not its purpose. Our sole aim is to try and learn lessons for the future.

You are due to discuss future work on how we might improve our handling of the nationalised industries with Geoffrey, Keith, David, Norman Fowler and Robin Ibbs next week. We hope this note provides some useful background. In view of the risk of misinterpretation, I am sending personal copies to Geoffrey, Robin, and Sir Robert Armstrong only.

*on
Tuesday
1.7*



JOHN HOSKYNS

LESSONS OF THE NUM STRIKE THREAT

1. It was clear last July that our financial strategy for coal had to be abandoned; modified; or pushed through against NUM resistance. We argued then that we had to devise a strategy to achieve our objectives. D/Energy seem to have left this to the NCB.
2. Even before the Election, it was clear to anyone that the NUM posed a serious threat to this Government: we always needed a strategy to cope with them. The Policy Unit had advised this in December 1979 and April 1980. We failed to copy these earlier notes to David Howell; in July we circulated our note to E.
3. Meanwhile, the NUM militants clearly did have a strategy. They have now won a major battle to relax financial discipline, weaken the Government's authority, assert their power and limit future competition from imports. Our own trade union contacts tell us that the NUM militants had been preparing for such an opportunity for 9 months.

BSC Parallel

4. Keith Joseph first set financial targets for BSC in July 1979. It was increasingly clear as December approached that these could not be met without a nil pay increase and large redundancies. But it was clear that this combination would lead to a strike which would both weaken BSC and cost a great deal of money. Our original objectives were no longer achievable, but we 'stood firm' instead of attempting to seek the best achievable solution. This problem too was left in the hands of the BSC Board, who apparently did not feel able to approach Ministers to discuss it. The result was a very expensive strike, with a higher pay settlement and much larger losses than were really necessary.

Relationships

5. In both cases, the Boards faced a rapidly deteriorating position which made their financial objectives increasingly unrealistic.

/But instead

But instead of working with them to produce the best available response to these changes, we stuck blindly to our guns and ended up paying much more. Why?

6. The answer must lie in the existing personalities and the relationships between them. Either the NI Chairmen and Boards are unable to see the problem; or else unwilling to discuss it frankly with their sponsor Departments; or Departments are unwilling to bring these problems forward to colleagues - which means the Treasury and the Prime Minister.

7. We are not suggesting that Ministers should be so flexible that BSC or NCB need only explain their problems in order to be given further finance. But the policy of laying down firm targets and refusing to listen to "excuses" has been taken too far. The proof of this is that in both cases we ended up spending more than we had to. Running a business is not a simple parade-ground activity, a matter of procedure and obedience to orders. It is real war - a world of change, probabilities, uncertainties and risks.

Events in 1981

8. We do not know the details of all contacts between Department of Energy and the NCB. But on 15 September 1980, E Committee recognised that more generous redundancy terms would be needed if the NCB were to carry out an enhanced closure rate.

9. In January, NCB put specific proposals for enhanced redundancy terms to Department of Energy. At first, NCB hoped to break the news of closures bit by bit. Later a national meeting with the unions on 10 February was conceded. At that stage, it should have been clear that NCB would need advance approval of the redundancy package if they were to have any hope of selling the closures. Ezra asked for this, but David Howell told him he would have to wait until late February. Why did Energy, or Treasury, or E not realise that the carrot of better redundancy terms had to be available when the stick of closures was being raised? Why were Ministers pretending that we could treat redundancy "concessions" as a separate matter, while we could insist on closures?

10. If Government had given the NCB some negotiating flexibility - on redundancy terms and perhaps some other issues - the NUM might have been less able to mobilise such solid support. In fact, we gave them nothing. Then we ended up having to concede nearly everything.

11. On 13 February, David Howell still thought these issues could wait until E Committee on 24 February, with a Tripartite meeting afterwards. On 16 February, the date of the Tripartite discussion was advanced to 23 February. The next day the strike was gathering such momentum that it had to be advanced for a second time. From then on, the NUM knew they had won.

Were we prepared for a strike threat?

12. It has been suggested that Department of Energy always knew a confrontation with the miners was inevitable. But David Howell's minute of 27 ^{January} ~~February~~ did not say he was prepared for one (though it did refer to the possibility). Is it seriously suggested that Energy knew a national strike was likely and was prepared for it? In that case, why had we not raised the level of stocks at CEGB premises? There was plenty of coal available. What was the stock level of (equally vital) ancillary materials?

13. Were Energy going to fight this battle alone, or was the rest of the Cabinet going to be involved? There had been no meetings to discuss this. For example, the impact of the new employment legislation had not been discussed with Jim Prior. The main value of a willingness to take on the miners is its deterrent effect: just like the nuclear bomb, you hope never to have to use it. But did we let it be known that we were ready to face a strike if necessary? The truth is, surely, that we were not prepared for it.

14. During those last few days, Ministers were right to move swiftly to head off a strike. But with some thinking in advance, it would have been possible to reduce the risks (not eliminate them) that we would ever reach this situation.

Communication

15. Once the strike was averted, we were not ready with the right messages to explain the position to the public. (Disputes between Jim Prior and David Howell were featured widely in the press giving an impression of Government in disarray; several days later John Biffen gave the interpretation which received most publicity. He explained that some groups of people had the power and needed to be persuaded not to use it.)

Conclusions

16. Everyone involved in an affair like this will draw different conclusions, reflecting his own experience. We draw several:

(a) Advanced planning against predictable events is essential. It is still not too late to start. If Scargill becomes the leader, he will be a formidable opponent, but also an unpopular one with the country. There could be circumstances in which a strike threat - or even a strike - could be turned to our advantage. (The quote at Annex A from Gormley shows that he sees this.)

(b) A much closer working relationship between NIs, "sponsoring" Departments and key colleagues is necessary if these problems are to be headed off. This is now being recognised, but will we be ready to make changes when recommendations are made?

(c) We need to be ready with the right communication messages - preparing people to see events our way beforehand and interpreting events quickly when they are taking place. If we really want to start winning these crucial propaganda battles, instead of being hit for six with monotonous regularity, we will have to overcome our squeamishness about Ministerial broadcasts. We cannot win a war of economic survival by pretending it's peacetime.

"I am suspicious about several things. I accept that there may well be people on my own side - even some in my union - who would rather see this closure thing as a wider conflict.

"Not because of what is happening in coal, but the whole of industry. Yes, unemployment. This could be the spark they've waited for . . . and it's such an emotional matter it could spread like holy hellfire. To those industries that are hurting, and have only been waiting for a lead.

"I, as the miners' president, want no part in leading any pressure groups whose sole object is to bring down the Government. Oh yes, I want Maggie Thatcher out. And I'll fight to remove her. At the right time, and the right way. That means with an election.

"Listen, I know it would be no problem to get something started with the mining industry. We are well-regarded by the working people. But I am not leading the trade union movement into a conflict with the avowed intention of causing chaos, to change the Government.

"Some people may have this in their minds. But if we get involved in THAT little exercise it can only lead to Britain having a Government that will in turn destroy the trade union movement as we know it." . . .

"Oh, I know, I know. We forced one Government to the country. We can't get into the way of thinking that this is something we can do again and again.

"For next time, whatever Government we end up with - Left or Right - they are going to have to take action to make sure it can't happen a third time.

"This is the danger as I see it. That we start getting carried away with the idea we can use our industrial strength to change Governments. But what'll get changed is the constitution . . . and the role and place of our trade union movement."

Joe Gormley's interview with Brian James.
Daily Mail, Thursday, 19 February 1981



cc: Mr. Dignid
26/3

✓ IPL
26/3

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

Tel: 211 6402

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

25 March 1981

Dear Keith

Thank you for your letter of 16 March about coal imports by the BSC.

I am grateful to you for raising the subject with Mr MacGregor. I am afraid however that the BSC have invited the NCB to tender in 1981/82 for only one new contract displacing imports, and this is for only about 300,000 tonnes. The NCB may be able to make some additional sales to BSC but it is clear that the displacement of imports will fall short of the 1m tonnes which was mentioned at the Tripartite as possible on quality grounds. (The NUM accepted only with reluctance that the figure was as low on this). Imports are of course a highly emotive issue in the mining unions, and it would be most unfortunate if our success in containing the industrial action in the coal industry was threatened by maintenance of imports at a high level. I am particularly concerned about the situation at Port Talbot, where on present plans the BSC will still use about 700,000 tonnes of imported coal. As you know, it is in the South Wales coalfield that the danger of industrial action is greatest, and indeed it was there that the unofficial strikes started last month.

I know the difficulties with the BSC and I emphasize that I am not asking them to take action contrary to their commercial interest on price or quality grounds. But the danger of further industrial action at Port Talbot is worrying, and if there was anything you could do to persuade Mr MacGregor to look again at the possibility of displacing more imports at Port Talbot, without loss, I would be grateful.

I am sending copies of this letter to the same recipients as before.

*Yours
David*

D A R HOWELL



DEPARTMENT OF INDUSTRY
 ASHDOWN HOUSE
 123 VICTORIA STREET
 LONDON SW1E 6RB
 TELEPHONE DIRECT LINE 01-212 3301
 SWITCHBOARD 01-212 7676

Secretary of State for Industry

16 March 1981

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

Dear David.

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17/3*

COAL IMPORTS: BSC

Thank you for your letter of 3 March.

I am sorry if some misunderstanding has occurred on this important question. I had assumed from your earlier letter that one of your concerns was that BSC's existing import contracts allowed import substitution at too slow a rate to satisfy the NUM and that Mr MacGregor should break some of these contracts in order to accelerate import substitution. I understand that the Australians were concerned by this possibility and have sought reassurances that contracts would be honoured.

Your latest letter is more reassuring on this point. NCB will receive additional subsidies to enable it to match the import price paid by BSC and should be able to win contracts for those grades of coal which are competitive on price and quality. Mr MacGregor and I have discussed this issue since my reply to your earlier letter on this subject. He doubted whether he could do very much to help in view of the improvements in the quality of BSC's steel which had been achieved, using imported coal. Improving quality is vital to BSC's recovery and, as you may have seen, BSC is taking advice from Nippon Steel on furnace technology. I suggest that if he has not already done so, Sir Derek Ezra should get in touch with Mr MacGregor to discuss the quality aspect further.

I am copying this letter to recipients of yours.

Alan Keir

SECRET



10 DOWNING STREET

W Lankester
Andrew Dupin *AD 13/3*

You should see
RTA's letter on this

13 March 1981 file (min 1

Let's see !)

Not bad

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13/3

Robin Ibbs Esq
CPRS
Cabinet Office
70 Whitehall
LONDON SW1

Dear Robin,

MINERS' STRIKE THREAT

I am in strong agreement with paragraph 4 of your note of 4 March on "Coal Tripartite Discussions" to Tim Lankester.

As you know, we were involved in preparing papers last summer for E discussions, with particular emphasis on coal stocks and steps to deter the use of the strike threat by the NUM. I would like us to be involved in any contingency work you are doing.

We have argued, on appropriate occasions since the Election, that the NUM are virtually certain to seek confrontation at some stage during this Parliament, and that, by the time that happens, it is simply too late for the Government to start trying to work out what its position is, how it would deter a strike, whether or not it can fight and win a strike, and then take the necessary logistical steps for doing so.

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

John Hoskyns

JOHN HOSKYNs

SECRET

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~~Mr. Hutton~~
Mr. Davies
Mr. Hyslop



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Prime Minister 2

Mr. Hutton seems, by and large, to have headed off further demands from the NUM.

PRIME MINISTER

I held another meeting of the Coal Industry Tripartite yesterday.

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We touched first on the commitments I had already given on the cost to the Board of withdrawing the accelerated closure programme and buying out imports. Ezra said that the Board calculated the cost of these as £100-200m, the figure agreed by E Committee last week. The unions did not press further on the figures. I mentioned briefly the oil substitution scheme announced in the Budget and the improvements in redundancy payments on which an order has now been laid before Parliament.

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The unions then asked about some of the other items on their Shopping List. I gave no commitment on any. I said that those directly concerning the NCB's finances could be covered in the discussions on the Board's general financial position which would now be necessary between the Board and the Government. There was no further discussion of the general position. The only item on the Shopping List which the NUM pressed at this meeting was Government support for the proposed liquefaction plant at Point of Ayr. On this Gormley argued that the Government could accept the principle of support in such a way as to involve minimum commitment for itself while encouraging others to participate. But I gave no commitment on this.

The union side accepted that there was no need for another meeting soon. But they made clear that they would like to have one on the outcome of the discussions on the Board's general financial position. I said that we would arrange another Tripartite when we had something to report on this subject. In terms of heading off future discussions arising from our two commitments of February 18 the outcome was therefore satisfactory, although the serious underlying problems of the NCB remain to be handled.

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

Secretary of State for Energy

JH

12 March 1981



File AA 2
Maitland

10 DOWNING STREET

From the Principal Private Secretary

11 March 1981

Dear Robert,

Thank you for sending me a copy of your letter of 10 March 1981 to Donald Maitland about the paper which Mr Howell has been asked to prepare on contingency plans to deal with any industrial action which might arise in the coal industry later in the year.

I have shown this to the Prime Minister, and she is very content with the arrangements for the preparation of the paper outlined in it. She has particularly endorsed what you say about the need to preserve the confidentiality of this exercise.

I am sending copies of this letter to Douglas Wass (Treasury), Brian Cubbon (Home Office), Donald Maitland (Department of Energy), and Ken Barnes (Department of Employment).

Yours m

Heri Whinn.

Sir Robert Armstrong KCB CVO

SP

C. A. Whitmore, Esq.



Com. Minister.
TW
10/11

CABINET OFFICE

With the compliments of
Sir Robert Armstrong KCB, CVO
Secretary of the Cabinet

ms.

70 Whitehall, London SW1A 2AS
Telephone: 01-233 8319

SECRET AND PERSONAL

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CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

Ref. A04429

10th March, 1981

During the discussion of coal at the meeting of the Ministerial Committee on Economic Strategy on Thursday, 5th March, it was noted that, if the militant elements in the mining unions were frustrated in their attempts to secure industrial action now on the closure issue, they could well try once again to precipitate a confrontation with the Government on their next pay claim in the autumn of 1981. Your Secretary of State was asked to prepare, in consultation with other Ministers directly concerned, and circulate by Easter a memorandum on contingency plans to deal with any industrial action which might arise in the coal industry later in the year.

The other Ministers immediately concerned are, I think, the Home Secretary, as Chairman of CCU, the Chancellor of the Exchequer, and the Secretary of State for Employment. I am therefore sending copies of this letter to Brian Cubbon, Douglas Wass, and Ken Barnes; and to Clive Whitmore.

For the time being, it seems to me that for security reasons it would be prudent to keep knowledge of this contingency planning limited to these Departments alone. At some later stage, it will be necessary for the full CCU machinery to be involved and particularly the Ministry of Defence, the Departments of Industry, the Environment and Trade as well as the Scottish, Welsh and Northern Ireland Offices. But this is a point which could, I think, be considered once your Secretary of State's memorandum is available. In the meantime, of course, it would be helpful for the Cabinet Office to receive papers so that we can keep an eye on the progress of planning. In this regard, your people might find it useful to have a word with Robert Wade-Gery, the Deputy Chairman of CCU here, before they begin work.

ROBERT ARMSTRONG

Sir Donald Maitland, GCMG, OBE

SECRET AND PERSONAL

PART 2 ends:-

4. 3. 87

PART 3 begins:-

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~~10~~. 3. 87