Financial Position of the Coal Industry.

Mineworkers Pay.

PART 4

NATIONALISED INDUSTRIES.

Pt 1 : June 1979

Pt 4 : July 1981.

| Referred to | Date | Referred to | Date | Referred to | Date | Referred to | Date |
|---|---|---|---|---|---|---|---|
| ~~5-8-81~~ | | ~~23-10-81~~ | | | | | |
| ~~6.8.81~~ | | ~~30-10-81.~~ | | | | | |
| ~~7.8.81.~~ | | ~~30-10-81~~ | | | | | |
| ~~13.8.81~~ | | ~~3-11-81~~ | | | | | |
| ~~21.8.81~~ | | ~~13-11-81~~ | | | | | |
| ~~28-8-81~~ | | ~~19-11-81~~ | | | | | |
| ~~11-9-81~~ | | ~~24-11-81.~~ | | | | | |
| ~~1.10.81~~ | | 30-11-81 | | | | | |
| ~~5.10.81~~ | | ENDS | | | | | |
| ~~12.10.81~~ | | | | | | | |
| ~~16-10-81~~ | | | | | | | |

PART 4 ends:-

Ch of Ex to S/S Energy of 30/11/87

PART 5 begins:-

S/S Energy to Ch of Ex of 1/12/87.

CONFIDENTIAL

cc A Duguid
J Vereker

Prime Minister

Not a very helpful response to earlier letters - but Mr Lawson now agrees (see attached letter).

MCS 1/12

PM has seen

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

30 November 1981

The Rt. Hon. Nigel Lawson, MP.,
Secretary of State for Energy

Dear Nigel

ANNOUNCEMENT OF NATIONALISED INDUSTRY EFLs

We agreed at Cabinet last week that we would consider further the question of whether it was necessary or possible to postone from Wednesday the announcement of the Nationalised Industry EFLs because the mineworkers wage negotiations were not yet concluded.

On feasibility, our examination shows that postponement for more than a day or two would be very difficult. And, having given the matter further thought I am bound to say that I see little point in a very brief postponement. A number of decisions which Cabinet agreed will have a direct effect on mineworkers take-home pay and might therefore influence the outcome of the negotiations. The NCBs EFL has no such direct effect. (Of course we cannot rule out the possibility that someone might raise it during the negotiations, but the NCB can say that it is their market and financial position that constrains their pay offer, not the EFL.) Since we are announcing all other decisions on Wednesday, I cannot see that there would be anything gained by holding back on the individual EFLs.

I recognise that this will not make it any easier to bring the mineworkers negotiations to a successful conclusions. But that, as I say, is the effect of the announcement as a whole, much more than the EFL figure. It does however lend weight to the point that you yourself have recently made that, given the earlier timetable for wage negotiations that applies to the mineworkers, we should consider whether there is any way in which this particular problem can be avoided in future years.

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

This is by way of sequel to our talk after Monday's 'E'

Geoffrey

GEOFFREY HOWE

CONFIDENTIAL

CONFIDENTIAL

cc JV BI

LO

# 10 DOWNING STREET

*From the Private Secretary*

30 November, 1981.

NUM Wage Negotiations

The Prime Minister has seen a copy of the Secretary of State for Energy's letter to the Chancellor of 25 November about the NUM wage negotiations.

She has commented that, since the NUM have "come close to grasping" the fact that the offer amounts only to 7.3% on earnings, there seems to be a strong case for our being more realistic about mentioning that figure alongside the 9.1% basic rates figure. She has also commented that she very much agrees that the position of the negotiators will be made harder by Wednesday's public expenditure announcement. She concludes, therefore, that the more that can be held back, the better.

I am sending copies of this letter to the Private Secretaries to the members of E, Muir Russell (Scottish Office), John Craig (Welsh Office), David Wright (Cabinet Office), Gerry Spence (CPRS), and David Watts (Department of Energy).

M. C. SCHOLAR

John Kerr, Esq.,
HM Treasury.

B

Prime Minister ①

Accept?

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MR. SCHOLAR

cc. Mr. Hoskyns Agree
Mr. Duguid
Mr. Ingham (i) and
(ii) ?

NUM Wage Negotiations

Yes 27/11

Three points on Nigel Lawson's attached letter of 25 November to the Chancellor:

(i) Since the NUM have "come close to grasping" the fact that they have only been offered 7.3% (and it always seemed likely that they could work it out) we could be that much more relaxed about mentioning that figure alongside the 9.1% basic rates figure.

(ii) I very much agree that the position of the negotiators is going to be made harder by next week's announcemnts: as you know, we shall cope with that as best we can in the presentation, but the more that can be held back - such as the EFL or council house rents - the better.

(iii) The pithead ballot may well not now take place until mid-January; no one really knows.

If the Prime Minister agrees, the first two of these points could be fed into the Treasury.

Yes

MT

J. M. M. VEREKER

27 November, 1981

CONFIDENTIAL

Not Sud Coal 1c4

Ec A Duguid
A. Walters
J. Vereker

(2)

Prime Minister

Treasury Chambers, Parliament Street, SW1P 3AG

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

27 November 1981

MF

Nigel,

THE NATIONAL COAL BOARD'S EFL IN 1981-82

As you know, the NCB has been predicting an overspend on its EFL since early Summer. Your predecessor pressed the Board then to take remedial action but their forecast overspend remains substantial. Earlier in the Autumn, the Board put forward for discussion three devices for bridging the gap but I understand that these are not being pursued for this year, although one - sale of coal as a commodity investment - may be of help next year. The Board now say that they will avoid an overspend of the order of £60m only if the CEGB increases its purchases of coal this year by about $1\frac{1}{2}$m tonnes.

This is most unsatisfactory. I understand that extra sales to the CEGB might form part of a scheme aimed at providing discounts to large industrial electricity consumers. However, we have not yet decided to introduce a scheme of that sort and I share the Prime Minister's doubts, expressed in the No. 10 letter of 24 November, that we should go ahead with this scheme in the current difficult public expenditure situation. In any case, any improvement that such sales would bring this year would be mathed by a corresponding loss of income to the NCB next year for which no provision has been made in its EFL.

raised at the meeting with the Chancellor, Chief Secretary and Mr Fowler on 23/11 MCS

It may well be difficult for the NCB to take other action in the next few months to keep within its EFL. However, the Board should not simply plan on the assumption that Ministers will decide to boost coal sales and that "something may turn up" to make good any consequent loss of income next year. At the least, the Board should be asked to set out immediately what steps would be necessary to meet its EFL if no additional sales to the CEGB took place. I hope you will be able to report to E(NI) next week on what would be involved.

I am sending copies of this letter to members of E(NI) and to Sir Robert Armstrong.

Yours ever,

Leon

LEON BRITTAN

CONFIDENTIAL

(4)

Prime Minister

MUS 26/11

01-211-6402

cc JV ✓

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

25 November 1981

Dear Chancellor

NUM WAGE NEGOTIATIONS

Today's negotiations started with a short plenary session, at which it soon became obvious that the NUM had not agreed their position in advance. The meeting was then adjourned for 1½ hours in order to agree a position.

When the morning session was resumed, Joe Gormley said that the Union needed more money on the table. He claimed that the money the Board were saving through high redundancies should be added to the £100m on offer. The NUM also wanted more movement on non-wage items. The so called moderates also called for increased sums of money, while the left remained silent. No interest was shown in re-jigging the £100m to increase the offer on basic rates at the expense of incentive payments.

James Cowan reiterated that the Board just had no more money to offer. Indeed they had already offered more than the Board could afford. In February the NUM had given priority to maintaining maximum employment in the industry. Now they were looking for maximum wage increases. It was just not possible. How long did the NUM think the taxpayer would be prepared to go on providing substantial funds for investment while at the same time providing for maximum employment and high wages?

On a number of occasions the NUM came close to grasping the fact (or at least acknowledging it openly) that the offer only amounted to 7.3% on earnings. On each occasion Cowan diverted them by saying that they could juggle figures as they liked, but the fact remained the Board only had £99.97m to offer.

At the end of the morning session Joe Gormley asked the Board to consider carefully all that the NUM had said and to respond to the NUM's wish for more money. Cowan closed the meeting by agreeing to give him a response at the afternoon session. However, during the lunch break Gormley again took the line that another meeting was necessary after the Presidential ballot, by which time the moderates would no longer have to behave as extremists.

The Board, therefore, agreed to defer giving their formal response until 8 December. The Board, however, considered the matter over lunch and agreed that they should stick by their present offer.

In debriefing us, Cowan said he was reasonably confident that an offer equivalent to about 9.13% on basic rates would eventually be accepted at a pithead ballot. He reiterated, as I told you this morning, that the position of the negotiators would be very much more difficult if there were announcements about council house rents, National Insurance contributions, etc. before 8 December. The pressure on the Board to increase their offer to compensate for such increases would be intense. If such announcements came between that meeting and the ballot, they could well make all the difference between acceptance and rejection of the Board's offer. The dangers of such an outcome need no stressing. Derek Ezra and James Cowan will no doubt elaborate on these points when they come to see John Moore on 27 November.

Contacts in the NUM have told my officials that the NUM Executive (except for Gormley) all still believe that the Board has not yet reached the limit of what they can offer, and that a new offer equivalent to at least 10% on basic rates (compared with the present 9.1%) will be needed if a settlement is to be reached on 8 December. If there are no further negotiations after 8 December, the NUM believe that a pithead ballot in the week beginning 14 December is likely, with the result announced close to Christmas.

As far as it goes the outcome of the meeting is reasonably satisfactory. The Board did not increase their offer and, other things being equal, do not propose to increase it on 8 December. The NEC may well reject the offer on that day, but such an outcome has always been possible. We must hope that the Board's judgment that the offer will be accepted in a pithead ballot proves correct. All this underlines the crucial importance of the timing and presentation of any announcements you are planning to make before Christmas.

I am sending copies of this letter to recipients of the earlier reports.

Yours sincerely

David Luley

pp NIGEL LAWSON

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

cc D/Ind DOE
HO NIO
FCO CAL
HMT MOT
DES SO
D/M WO
MAFF CO
DOT CPRS
D/N Mr. Moore
PGO Ingham
MOD Angurd
Veneker

file

CONFIDENTIAL

10 DOWNING STREET

*From the Private Secretary* 24 November 1981

Dear Terry,

NUM/NCB Wage Negotiations: EFL Announcements

The Prime Minister has seen Mr. John Moore's letter to the Chief Secretary of 19 November, in which he draws attention to the risk of the adverse impact on the NUM/NCB wage negotiations which might arise from announcing the NCB EFL at an inopportune moment.

The Prime Minister shares Mr. Moore's worries on this score, and hopes that it may be possible either to delay the announcement of the Coal Board's EFL, or to announce only an aggregate figure for all EFLs, in the hope that the NCB's EFL would not become public until after the wage negotiations are completed.

I am copying this letter to the Private Secretaries to Members of E Committee, Muir Russell (Scottish Office), John Craig (Welsh Office), David Wright (Cabinet Office), Gerry Spence (CPRS) and David Watts (Department of Energy).

Yours sincerely,

Michael Scholar

Terry Mathews, Esq.,
HM Treasury.

CONFIDENTIAL

dl

(1)

Prime Minister

This is very difficult. The point at X is a good one. But the announcement of the EFLs cannot be delayed until after the public expenditure announcement (otherwise the public expenditure totals won't be credible). Nor will we be able to get away without disaggregation, since the industries already know their totals.

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MR. SCHOLAR

cc. Mr. Ingham

Mr. Duguid

Miners' Pay Negotiations: Announcement of EFLs

(attached) You will have seen from John Moore's letter of 19 November to the Chief Secretary that the Department of Energy fear that an announcement of EFLs in the course of the continuing negotiations between the NCB and the NUM might enable the latter to claim that the Government is tying the hands of the NCB. I fear there is considerable substance to this, and that such an announcement could enable the new NUM President (presumably Scargill) to turn this year's pay negotiations into a dispute with the Government, rather than with the NCB, if he chose to do so.

No doubt the Treasury will not welcome the prospect of having to change their plans for the EFL announcement: but unless there are overriding reasons either for having to announce EFLs together with the public expenditure decisions, or for having to announce the details rather than the overall cost of nationalised industry support, I think we ought to put off the EFL announcement, or at least the disaggregation within it.

J.

Suggest I write ~~to~~ asking that you be consulted before any final decision is reached. Agree?

MLS 20/11

I agree with J.V. Perhaps the whole announcement should be delayed. It used not to come until later [illegible]

20 November 1981

CONFIDENTIAL

cc A Duguid
J Vereker

CONFIDENTIAL

PARLIAMENTARY UNDER SECRETARY OF STATE

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

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

19 November 1981

Dear Leon,

You will have seen from Nigel Lawson's letter of 13 November to Geoffrey Howe that the NUM wage negotiations are unlikely to be completed until some time in December. We may have a clearer picture of when the ballot is likely to be after the NUM/NCB meeting on 25 November, although this is by no means certain. At the moment the Board's best guess is that the NUM will want a further meeting with the Board on about 7 December, ie after the Presidential ballot, and the NEC will decide on 10 December what recommendation to make to NUM members for a pithead ballot.

As you know, the Board have repeatedly expressed the hope that the Government will not take any action during the negotiations, which might make a satisfactory outcome more difficult. In particular the Board have emphasised the need to avoid any action which might enable the NUM to claim with some credibility that they were not really negotiating with the NCB, but with the Government, who were imposing financial limits on the Board, which prevented the Board agreeing to a satisfactory settlement. It was for this reason that Derek Ezra urged us not even to inform him of the NCB's 1982/83 EFL and grant limits until the negotiations had been completed and certainly not to announce them. We have, of course, informed him confidentially of his 1982/83 EFL, but have not announced it publicly.

I realise that in the normal course of events you would wish to announce all the nationalised industries' EFLs towards the end of this month or early in December. In view of the delay in the timetable for the NUM negotiations I would, however, urge you to consider delaying the announcement at least until after the NEC have decided on what recommendation to make to their members. As indicated earlier this could be on 10 December.

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This would prevent the NUM being in a position to draw attention to the reduction in the EFL of some £90m and claiming that it was this reduction which effectively tied the hands of the Board in the wage negotiations (as indeed it is intended to do). I realise this will present problems for you. On the other hand it would be a great pity if the premature announcement of the NCB's EFL by Treasury Ministers put at risk the chances of a reasonable settlement, the importance of which you and Geoffrey Howe have rightly stressed. In any case I hope you will agree to delay a final decision on the date of publication until we see what happens on 25 November.

I have considered the possibility of asking you to omit publication of the NCB's EFL from the full list of Nationalised Industry EFLs. The purpose of such a device would be transparent. I do not think we should pursue such a course.

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

Yours ever
John

JOHN MOORE

cc A Duguid
J Vereker (2)

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

PARLIAMENTARY UNDER SECRETARY OF STATE

Nat Coal Board
Nat Ind

Prime Minister

MCS 20/11

CONFIDENTIAL

Rt Hon Sally Oppenheim MP
Minister of State for Consumer Affairs
Department of Trade
1 Victoria Street
London
SW1

19 November 1981

Dear Sally,

REFERENCE OF NATIONAL COAL BOARD TO THE MONOPOLIES AND MERGERS COMMISSION

Your Private Secretary's letter of 25 September conveyed your agreement to Nigel Lawson's proposal (in his Private Secretary's letter of 24 September) that we should defer the formal reference until the completion of the present NUM wage negotiations. Since these are taking longer than we then thought (the next meeting is fixed for 25 November, but we cannot be sure that a settlement will be achieved then), it may be helpful if I explain how Nigel Lawson and I see the position and the way forward.

— will request if required

First, we both still believe, for the reasons already explained, that the reference should not be made formally while the wage negotiations are as uncertain and as finely balanced as they are now. Therefore, it will best be made when the negotiations are concluded. I recognise that this delay will mean that we receive the Commission's report later than we had envisaged, but I hope that we shall still be able to deploy it next Summer. In the interim, detailed discussions are proceeding between the Board and MMC officials.

Second, we shall, of course, make the reference, as we have decided, whatever the outcome of the negotiations. But we shall need to consider the handling very carefully. If the final settlement is acceptable, I am sure that we shall want to stress the routine and fact-finding nature of the reference, as David Howell suggested. If, the outcome of the wage negotiations is not satisfactory, the handling of the reference will need to fit in with the rest of the Government's public reaction. Even then it may be in our longer term advantage to avoid the suggestion that making the reference is in any sense a punitive act. There must always be some risk that

CONFIDENTIAL



to do so might devalue the Commission's eventual report, or make it less easy to use them elsewhere.

I am sending copies of this letter to those who received the earlier correspondence.

JOHN MOORE

SECRET AND PERSONAL

Nat Ind Coal

MR DUGUID

cc Mr Hoskyns
Mr Scholar

MISC 57

This morning's meeting of MISC 57 got, almost for the first time, right to core of the argument that has been simmering beneath the surface of the group, between those who want to build up endurance for the sake of the deterrent effect and those who fear that almost any action by the Government will provoke the miners into pre-emptive industrial action. The do-nothing brigade were seen more clearly than usual in their true colours. I am sending Michael Scholar a copy of this note because I think he should be aware of the timetable for Ministerial decision making: I am conscious that a lot of very difficult and complicated issues are building up for decision before Christmas.

On the timing, Ivor Manley reported that the ballot could not take place until after the next meeting between the NUM and the NCB on 25 November, so that no settlement was possible until December. It is quite possible that the Presidential ballot, on a single transferable vote system on 2-3 December, may take place before or in parallel with the pay ballot; in which case the negotiations would not be completed until the second week of December. In the light of all this it is apparent that, first, the best part of a month of stock building time will be lost, because nothing will be done until the New Year, and second, that the group must plan on putting its report to Ministers in the week beginning 7 December, with a view to decisions being taken in the week beginning 14 December. Robert Wade-Geary said that the report will have to be in the Home Secretary's box by Friday 27 November. I am quite sure that the Prime Minister will need to have a meeting with her colleagues principally concerned to decide among the options which will be presented.

/The group

The group this morning otherwise concentrated on the draft ~~and~~ cover note, which is of course virtually a summary and recommendations, and the final tidying up of the other two papers is being left to the Secretaries (I have made orally our reservations about the alarmist references to Tony Pandy). The principal developments this morning were:-

1) We have decided not to present as an option advance purchase of oil, since it is very probable that the necessary oil endurance can be purchased on day 1 of the strike, which will be much cheaper and much lower profile.

2) Robert tried to achieve a consensus on the visibility threshold, and suggested that it stood at 27 m.t. Manley needless to say disputed this on the grounds that even the present stock building (which if continued would lead to 22 m.t.) was attracting suspicion. Nigel Wicks pointed out that there should be no difficulty in explaining that away, and I said that visibility was not the same thing as provocation. Douglas Smith said (helpfully) that we could go as far as 22 m.t. without provocation.

3) We had another go at deterrence. I said, with support - to my surprise - from Douglas Smith, that the paper needed to make it clear that the object of the 20 weeks endurance demanded by Ministers on 4 August was deterrence rather than ability to win a strike, and that was agreed. Ivor Manley then tried to argue that deterrence would not work with the miners, which led to my usual short lecture on the concept of deterrence at the margin under circumstances of a reasonable offer. Douglas Smith agreed that it was "indisputable" that at the margin longer endurance would deter some miners from taking industrial action under some circumstances.

4) We have clarified the relations between stocks and endurance and the paper will assume 2 m.t. a week throughout.

5) Robert suggested that we slanted the treatment of the use of servicemen towards keeping them in reserve until a strike started, but that willingness to use them for movement of ancillaries and remaining pithead stocks should be made explicit. Following our discussion yesterday, in which we agreed that we ought not to let the report set too much store on the servicemen because it would tempt Ministers to accept advice that they need not build up endurance through stocks, I agreed on the understanding that the report would make it clear that closing off the wider servicemen option (i.e. high profile reconnaissance of pits, construction of facilities etc) put more weight on stock building if the 20 week target was to be met.

6) Robert then unveiled his preferred option. You will recall that the 4 August decision presumed stockpiling to a 31 m.t. level, the additional 4 m.t. being achieved by construction of further storage facilities. Robert suggested that we offer Ministers 27 m.t. power station stocks, ancillary materials sufficient for 22 m.t. (beyond that, the provision of ancillaries becomes very high profile, and the extra 5 m.t. worth could easily be found in the early days of a strike), no advance purchase of oil, but willingness to purchase 5 weeks worth on day 1, and the assumption that the servicemen could move enough coal for a further three week. That would provide a total endurance of well over 20 weeks, at minimum cost and medium visibility. There is not a great deal of support for the 27 m.t.. I pointed out that we were being asked not to advise <u>whether</u> to reach a 20 week endurance target, but <u>how</u>; I have little doubt that briefing for most of the Ministers whose Departments are represented in MISC 57 will be in the sense of going back on the 4 August decision. Douglas Smith suggested that we should go for the Wade-Geary option but with only 22 m.t., since the loss of 2 weeks endurance would be

/justified

justified by the lower profile involved. It is I think now clear that the principle point for decision will be whether to go for 22 m.t., which is the do-nothing option because that is what we are already planning, or 27 m.t., which would be a positive move in the direction of deterrence and greater endurance. I reminded the group that willingness to go for oil and servicemen on day 1 did not contribute to deterrence.

18 November 1981

CONFIDENTIAL

cc ~~A Duguid~~ J Vereker

Prime Minister (2)

MLS 13/11

Nat Ind

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

01-211 6402

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

13 November 1981

MT

Dear Chancellor

MINEWORKERS' PAY NEGOTIATIONS

I am writing to let you have an account of the NCB's pay offer to the NUM on 11 November and the NUM's rejection of it on 12 November.

During the course of 11 November, the NCB improved their offer from £71 million to £99.97 million. The package comprises:

| | | Cost, £ million (Rounded) |
|---|---|---|
| i. | 7.8% increase in all basic rates (this takes the lowest paid surface worker from £80.85 per week to £87.15, and a face worker from £111.95 to £120.65): | 85 |
| ii. | An increase of 3.3% from £30 per week to £31 per week in the standard rate of incentive pay (men receive different proportions of this according to their work and performance): | 7 |
| iii. | Provision of holiday bonus on an increasing scale for men with 5 years' or more service: | 8 |
| | TOTAL | 100 |

The offer of nearly £100m is equivalent to an increase of 9.1% on base rates. It represents an increase of 7.3% on average earnings. The Board's total pay bill would go up by even less, some 4%-5%, as a result of existing and planned reductions in manpower. The Board's offer is thus at the lower end of the bracket mentioned in previous reports, which is satisfactory.

For the time being attention will focus on the 9.1% figure. Indeed it has already attracted a good deal of attention in the press. From earlier exchanges, I know that you and other colleagues will be very concerned about the presentational aspects of this figure. In the light of the NEC's rejection of the offer, I believe it is most important that we do nothing to undermine the figure of 9.1% until after the pithead ballot. As indicated in earlier reports, any attempt by the Government to try to substitute now the figure of 7.3% for 9.1% would only heighten the chances of the pithead ballot rejecting the Board's offer. We are all agreed that this is an eventuality that must be avoided if at all possible. The Board are continuing to keep their counterparts in other Nationalised Industries, notably the water industry, fully informed about the offer and all its implications. In addition, John Moore will be discussing the presentational aspects with Derek Ezra and James Cowan in the next few days.

Despite Joe Gormley's strong support for the offer and his confidence on Wednesday evening that it would be accepted, the NEC in fact rejected it on 12 November. As foreshadowed in paragraph 2 of John Moore's letter of 10 November to you, the "maverick right" came out against the offer in order to prove their toughness in the context of the Presidential campaign. Chadburn described the offer as "totally inadequate" and Bell said it was "inadequate". Joe Gormley invited the NEC to recommend against the offer and put it to a pithead ballot. The left rejected this.

The NEC therefore proposed a further meeting with the NCB after Joe Gormley's return from holiday on 25 November. In accepting this the Board stated that "The Board have agreed to meet the NUM Executive Committee on November 25 but have made it clear that there can be no increase in the sum available. This is the most that can be found without jeopardising markets and investment and causing irreparable damage to the industry".

Derek Ezra has told my officials that the Board are adamant that they will not offer "another penny piece". They would prefer to maintain the present offer exactly as it is. If really pressed they would be prepared to agree to some of the £7m for the incentive payments being transferred to basic rates, but without increasing the total of £99.97m. The Board remain reasonably confident that if the existing or a slightly amended offer is put to a pithead ballot the likelihood is that it will be accepted regardless of whether the NEC recommend its acceptance or rejection. Sentiment in the coalfields is moderate at the moment. There are no signs of immediate industrial action.

The NCB are unclear about the likely timetable after 25 November. After a further NEC meeting the proposal could be put to an immediate pithead ballot, the result of which would be known within 10 days. It is just possible the Presidential ballot and wage ballot could take place simultaneously, which would save the union money. Alternatively the ballot could be delayed, perhaps involving further meetings between the Board and NUM, until after the Presidential ballot. This would be consistent with Joe Gormley's statement on 12 November that "It might be beneficial to get the election out of the way and get back on an even keel to deal with the problems". The Board are concerned that the process should not be too drawn out, as the miners might begin to get restive, if there is no settlement as Christmas approached. In these circumstances, some industrial action could not be ruled out. We are thus faced with a period of uncertainty.

It is important that throughout this period the Government should remain at a distance from the negotiations. At present there is no pressure from within the NUM to seek a confrontation with the Government, or to pursue the possibility of increased aid to the industry to allow a higher settlement. I would therefore repeat the request made in previous reports for you and other colleagues to continue to keep me informed, in advance, of any announcements, speeches, or other developments that might in any way affect the mood of the miners or the climate of the negotiations. Needless to say, we must all keep to the minimum possible our comments on the negotiations, and in particular avoid mentioning figures or percentages.

I am copying this letter to the recipients of previous reports.

Yours sincerely

David Lumley

pp NIGEL LAWSON
(Approved by the Secretary of State
and signed in his absence)

c. A. Duguid.
A. Walters.
J. Vereker.

CONFIDENTIAL

(PARLIAMENTARY UNDER SECRETARY OF STATE)

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

2

Prime Minister

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London
SW1P 3AG

MCS 11/11

10 November 1981

Dear Geoffrey,

NUM WAGE NEGOTIATIONS

As foreshadowed in my letter of 22 October to you I am writing to let you know about the NCB's plans for the negotiating meeting with the NUM on 11 November. Nigel Lawson has asked me to reply to your letter of 3 November to him at the same time.

Since I last wrote the Board have had informal contacts with the NUM. There is still a sizeable gap between what the Board are prepared to offer and what Joe Gormley believes the Union's National Executive Committee (NEC) will be prepared to accept. Whilst both Joe Gormley and Arthur Scargill, for their different reasons, seem to want a settlement without a strike, Scargill's right-wing opponents in the leadership campaign show signs of adopting an intransigent line. If the right persist in such an approach, certain members of the left on the NEC will doubtless encourage them. The Board consequently think there is a real danger that the NEC will recommend against the settlement they have in mind.

Even if this happens, however, the Board are still reasonably confident that the settlement will be accepted in a pithead ballot, as there are still no signs of a militant mood in the pits. The outcome might thus resemble that of 1979 when, as a result of some right wingers on the NEC endeavouring to outmanoeuvre the left, the NEC recommended rejection of the NCB's offer, and requested a mandate for strike action, but only 49% of the membership supported this (compared with 55% required to call a strike). At this stage the Board cannot be certain whether Joe Gormley will be able to accomplish his wish of avoiding a Delegate Conference.

As foreshadowed in earlier reports, the Board still expect to make a final offer which will be equivalent to 9%-10% on the base rates or 7%-8% on earnings. The points in the Prime Minister's Private Secretary's letter of 30 October have been made to the Board. To the extent possible the Board will increase the incentive element in the package. Their room to do so is limited by the fact that

attached

the incentive scheme benefits faceworkers more than other underground workers. But only about 25% of mineworkers are faceworkers; consequently if the Board wants to win a pithead ballot the offer must benefit all workers, and not only faceworkers. On the non-wage elements in the package, the only material concession the Board have in mind is to offer a limited lump sum for increased holiday pay for long service members (perhaps workers of 20 years' standing).

Turning to your letter of 3 November, the Board have come to the firm conclusion, with which you do not seem to dissent, that it is better to present their offer in the best light so as to maximise the chances of it being accepted by the NUM. Jimmy Cowan and his colleagues are very conscious of the presentational problems which concern us all. He is in close touch with his counterparts in other nationalised industries both to keep them in touch with developments and to consider how the Board might help with the presentation of any settlement after it has been accepted by a pithead ballot. I also propose to discuss this matter with Derek Ezra and Jimmy Cowan after the NEC meeting on 12 November.

As you will have seen from press reports, the first step in the closure procedure in respect of Coegnant colliery in South Wales was announced on 2 November. The initial reaction has been muted and the men at the pit have now agreed to its closure. Although there are a number of further steps in the closure procedure, the Board remain of the view that it will have no effect on the wage negotiations.

I am sending copies of this letter to the other recipients of our earlier reports.

Yours ever

John

JOHN MOORE

# Cabinet / Cabinet Committee Document

The following document, which was enclosed on this file, has been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES.

Reference: L(81) 20th Meeting, Minute 2

Date: 3 November 1981

Signed OWayland Date 24 May 2011

**PREM Records Team**

cc J. Vereker
A. Duguid.

CONFIDENTIAL

Nat Ind

(2)

Prime Minister

The Chancellor is on the same point you have made.

MLS 3/11

MT

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

3 November 1981

The Rt. Hon. Nigel Lawson MP
Secretary of State for Energy

Dear Nigel

MINEWORKERS' PAY NEGOTIATIONS

I was grateful for the further report on the mineworkers' pay negotiations contained in John Moore's letter of 23 October.

Of course, I see the case for letting the Board put their offer in its most attractive light before the ballot. But there is obviously a danger that the 10 per cent figure will get into general circulation, even though the intended effect on earnings - at 7-8 per cent - is no more than previously was in mind. This could have a very unhelpful effect on the pay round generally, and for this reason I think we should be quite clear that there really is no way of avoiding the presentation proposed by the Board. And if there is not, it is important that we should move to stressing the effect on earnings as soon as it is safe to do so.

I am sure it is not necessary for me to stress again how vital it is that the substance of the offer should not be allowed to increase.

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

GEOFFREY HOWE

CONFIDENTIAL

Nat Ind HL

cc HO DOT DOT
FCO CSD SO
HMT PGO WO
DOI MOD CO
DES DOE CPRS
D/M NIO D/N
MAFF CDL

10 DOWNING STREET

*From the Private Secretary*

30 October 1981

Mineworkers' pay negotiations

The Prime Minister has seen a copy of Mr. John Moore's letter of 23 October to the Chancellor of the Exchequer on the progress in the pay negotiations between the National Coal Board and the National Union of Mineworkers.

The Prime Minister has commented that she hopes that the main focus of attention will be on the increase in earnings rather than on the increase in basic rates.

I am sending copies of this letter to the Private Secretaries to the Members of E Committee, Muir Russell (Scottish Office), John Craig (Welsh Office), David Wright (Cabinet Office), Gerry Spence (Central Policy Review Staff) and to Mr. John Moore's Office (Department of Energy).

M. C. SCHOLAR

Julian West, Esq.,
Department of Energy.

ds

CONFIDENTIAL

CONFIDENTIAL Nat Ind 1

Treasury Chambers, Parliament Street, SW1P 3AG

John Moore Esq MP
Parliamentary Under-Secretary
of State
Department of Energy
Thames House South
Millbank
London SW1

30 October 1981

Dear Mr. Moore,

CLOSURE OF COEGNANT COLLIERY

Thank you for your letter of 28 October about the NCB's proposal to inform NUM representatives on 2 November that the Board sees no alternative to the closure of Coegnant colliery. This would be the first step in the procedure for colliery closures re-established following the unofficial action in February. — with MCS.

I note from your letter that both you and the Board believe that the announcement would present only a very slight danger for the pay negotiations. The Board also do not think that there is any possibility of serious industrial action before the expected ballot. They also see serious disadvantages in delaying the announcement by a few weeks.

I am scarcely able from my position to form any view about the risks to the pay negotiations of the course which is proposed. But in view of what you have told me about the Board's view and your own, I would not press you to intervene.

I am sending copies of this letter to the Prime Minister, the Secretaries of State for Employment and Wales, Sir Robert Armstrong and Mr Ibbs.

Yours sincerely

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

CONFIDENTIAL

Nat Ind Coal

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Prime Minister

I assume you agree with X?

Yes no

MLS 30/10

(1)

MR SCHOLAR

cc Mr. Duguid
Mr. Hoskyns
Mr. Ingham

Closure of Coegnant Colliery

We had a word about Mr. Moore's letter of 28 October to the Chancellor about the closure of this small colliery in Wales.

X This is to confirm that I see no case for the Prime Minister intervening in this correspondence, nor for the Government to question the NCB's judgement that it would be right to inform the NUM on 2 November of the intention to close Coegnant Colliery. We would have to have a very good reason not to back the NUM's judgement, and if Cowan does not expect the announcement adversely to affect the wage negotiations, then I think we should trust his judgement. The postponed closure would not only be wrong in itself, but (since the NUM would certainly guess the reason) would make them feel that the Government and the NCB are even more frightened of their industrial power than we really are.

J.

Note/ Told David Lumley that the PM had seen and not objected.

MLS 3/11

29 October 1981

CONFIDENTIAL

og

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PARLIAMENTARY UNDER SECRETARY OF STATE

cc Mr Duguid
Mr Verecker

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

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

28 October 1981

Dear Geoffrey,

CLOSURE OF COEGNANT COLLIERY

I am writing to let you know that Phillip Weekes, the NCB's Area Director in Wales, is planning to inform NUM representatives on 2 November that he sees no alternative to the closure of Coegnant Colliery. This is the first step in the procedure for colliery closures re-established following the unofficial action in February.

Coegnant is one of the smallest collieries in Wales. It employs about 400 men and produced 42,000 tonnes in 1980/81, when its Output per Manshift (OMS) was 0.502/t compared with NCB's average OMS of 2.32/t. The colliery was on the Board's list of 23 collieries in February, when it was stated that it produced coal at £132/t and lost £97 per tonne - the average cost of producing NCB coal in 1980/81 was about £35/tonne. It was in fact the largest lossmaker of the 23 pits in terms of loss per tonne.

Since February the Board has managed to close a number of pits in other areas and the number of redundancies has been higher than expected. But there has hitherto been virtually no progress on either front in Wales. The NUM in Wales have prevented their members from accepting the improved redundancy terms and until recently have been resisting even general discussions about closures. At a recent meeting with the Area Director the NUM, as was to be expected, took a strong line against any closures. Other areas have become increasingly restive about this lack of progress in Wales and more than one Area Director has told the Board that it would be difficult to implement further closures unless there is a closure in South Wales, where the largest losses are encountered.

Phillip Weekes recently told the Board that he now wanted to take the first step in the agreed procedure for closures. The Board agreed to support Weekes subject to Jimmy Cowan, the Board's Member for Industrial Relations and chief wage negotiator, going to Wales to assess the position for himself. On his return from Wales on 27 October Cowan told my officials that his considered view is that, if the procedures are followed, he can see no reason why Weekes' preliminary announcement to the NUM on 2 November should in any way adversely affect the wage negotiations. The second stage, when the Board in London decide whether to endorse Weekes' proposal formally, will not be completed until after the expected ballot on 18/19 November. All steps in the procedure will not be completed until December or even January.

Cowan also does not think there is any possibility of serious industrial action at this juncture. If there was any such action it would only take place <u>after</u> the Board have considered the NUM's inevitable appeal, ie well into December. The Welsh NUM are unlikely to get support for early action from other areas if they do not even go through the agreed closure procedure. There will inevitably be a certain amount of posturing, as happened in the case of the recent closures of Orgreave, New Hucknall and Houghton. Cowan points out McGahey, who is likely to agree this week to a major closure at Bedlay, would certainly be in no position to support action in Wales. Nor does Cowan expect any trouble from Joe Gormley, who apparently referred to the size of the Board's losses in Wales in a recent speech. Even Scargill has accepted some closures in Yorkshire this year.

The Board have considered asking Weekes to delay his announcement by a few weeks. They have decided against doing so for a number of reasons. First, the Board feel that a start to closing uneconomic capacity in Wales is long overdue. As the NUM probably already know informally about the proposal, it will be much more difficult to get them to accept it, if it is again postponed, as the NUM's assessment of their own power will be enhanced. Cowan considered this a serious danger. The Board also feel that if there is a postponement the Presidential ballot at the beginning of December and the Christmas holiday in effect means that the initial announcement will have to be postponed until the New Year. This in turn will make it very difficult for the Board to carry out closures in other areas, thus jeopardising the Board's aim to carry out 10 closures this year and reduce productive capacity by 2 mt pa. This would, of course, have repercussions on the Board's results, although these cannot be quantified at this stage.

In order to sweeten the pill the Board are prepared to provide funds for investment in the nearby St John's colliery which is a long-life pit and which is one of the pits where jobs will be found for men from Coegnant. The Board expect to be able to find alternative employment for the majority of men employed at Coegnant.

We have considered carefully whether we should ask the Board to delay their announcement by a few weeks in case it jeopardises the pay negotiations. We cannot altogether rule out the possibility that the preliminary announcement will adversely affect the pay negotiations or lead to serious industrial action. But I accept Cowan's considered view that the risk is very small. I therefore think it would be wrong for us to intervene. We should rather let the Board get on with their job of reducing the losses in Wales by applying the closure procedures which were re-confirmed between the Board and the Unions earlier in the year. If we were to intervene we can be sure that the Board would ask us to compensate them for any financial consequences. If, as I hope will not be the case the Board fail to meet their financial targets this year as next year, Derek Ezra will be only too happy to have an excuse that he could use publicly to help explain away any shortfall.

overtaken

As Nigel Lawson will be lunching with the Board on 30 October, I should be most grateful if you would confirm by close of play on 29 October that you agree that there is no need for us to intervene with the Board's plans because of the very slight danger that Weekes' announcement will affect the pay negotiations.

I am sending copies of this letter to the Prime Minister, the Secretaries of State for Employment and Wales, Sir Robert Armstrong and Mr Ibbs.

Yours ever

John

JOHN MOORE

CONFIDENTIAL

cc:- Mr Hoskyns
Mr Duguid - on return

Prime Minister
Content I write as proposed at X?
MRS 28/10

Yes

MR SCHOLAR

MINERS' PAY NEGOTIATIONS

There are no surprises in Mr Moore's letter of 23 October / attached to the Chancellor, reporting likely further developments in the miners' negotiations. Mr Lawson indicated in his letter of 30 September to the Chancellor that Sir Derek Ezra would probably be prepared to go up to an offer which increased earnings by 7%: this has now been weakened to "7% - 8%", some 2% below the basic rate increase. As you will know from my note of 23 October, I agree that the press reporting of the 19 October offer was satisfactory. The main point to watch now is that an increased offer on 11 November is not widely perceived as 9 - 10% (i.e. the basic rate increase). If the Prime Minister agrees, it might be appropriate for you to follow-up your letter of 12 October - in which you warned Energy that she was doubtful about the wisdom of letting the settlement be presented as more generous that it really is - with a letter saying that she hopes the main focus of attention will be on the increase in earnings. X

27 October,1981

CONFIDENTIAL

CONFIDENTIAL

PARLIAMENTARY UNDER SECRETARY OF STATE

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

Copy to A Dignid
J Vereker

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1P 3HE

23 October 1981

Dear Geoffrey,

MINEWORKERS' PAY NEGOTIATIONS

As reported in my letter of 15 October, the tempo of the negotiations between the National Coal Board and the National Union of Mineworkers has slowed down. Before the meeting on 19 October, the Board knew that the NUM did not wish to conclude the negotiations immediately. They therefore decided to offer no more money at the meeting, but simply to indicate how the £71 million, which had already been offered for increased payments to mineworkers, could be divided up. The example they gave was:-

> £58 million for increases in basic rates ranging from £4.25 on the lowest rate of £80.85 to £6 on the highest of £111.25 (an average of about 5.3%).
>
> £7 million to increase the standard rate of incentive pay (£30) by £1.
>
> £6 million to finance improvements in other benefits.

Once again Cowan stressed that the amount of money available was constrained by the NUM's decision to give priority to maintaining employment by opposing the Board's closure proposals last February. The consequent need to clear stocks of coal by sales overseas at low prices meant that the cash available for pay increases was very limited.

The NUM's rection was that the Board's offer was totally inadequate. Joe Gormley said that the NCB should go away and think very carefully before the next meeting. In response the Board indicated that there might be some scope for further movement, but this could not be anything substantial.

There was some discussion of the 'non-pay' elements of the NUM's claim and in particular the NCB agreed that the question of shorter hours should be examined by a Working Party, and that the Board would look at the question of paying miners on a salaried basis, but without commitment. The Board emphasised there was very little money available for non-pay items.

The two sides agreed to a further meeting on 11 November. That meeting is likely to be the final and crucial one. On 12 November there will be a regular monthly meeting of the NUM's National Executive Committee. There will be strong pressure at that meeting for the NEC to move to a ballot as quickly as possible (probably on 18/19 November), so as to avoid interfering with the NUM Presidential ballot which is already arranged for 2-4 December. If the NUM keep to this timetable the potentially disruptive intermediate step of a Special Delegate Conference will be avoided. In agreeing to a meeting as late as 11 November Joe Gormley was probably less concerned with the BL negotiations than with being able to move rapidly to a pithead ballot.

The outcome of the meeting on 19 October was satisfactory as far as it went. The NCB did not offer more money or agree to further negotiating meetings at which concessions could be wrung from them in stages. The press accurately reported the level of the NCB offer and the earlier erroneous reports of initial offers of 8%, 9% or even more have been corrected.

The Board have now to decide on the level at which to pitch their final offer on 11 November if it is to stand a reasonable chance of acceptance in the ballot. As indicated in earlier reports their current view is that they will have to make an offer which is equivalent to about 9%-10% on basic rates, but which increases earnings by only 7%-8%.

The Board will not finalise their plans, including how any money will be split between increases and basic rates, incentive payments and non-wage items, until much nearer 11 November. The final package could still be influenced by a number of external factors, in particular the outcome of the British Leyland negotiations, about which Patrick Jenkin will no doubt be keeping us informed. Any 'politicization' of those negotiations into a confrontation between unions and Government would make a satisfactory settlement in coal more difficult to achieve. Another factor which may have some influence is the NUM leadership struggle. As you know, two more candidates have entered and this may make Arthur Scargill more anxious to prove his mettle.

The fact that the whole Government has hitherto maintained a low profile on the NUM wage negotiations has enabled the Board to continue to rebut effectively accusations by Arthur Scargill and others, which have been referred to in the press, that the Board is negotiating under pressure from the Government. It is essential that we should maintain this low profile during the next 3-4 weeks until the ballot is over. It would also be helpful if you and other colleagues could continue to keep us informed of any announcements, speeches or other developments which could have a bearing on the negotiations. We shall, of course, continue to keep you and other colleagues informed as the situation develops.

I am sending copies of this letter to the recipients of our previous reports.

Yours

John

JOHN MOORE

RESTRICTED

PROOF: IN CONFIDENCE UNTIL PUBLISHED

Nat Ind

# Coal Industry Bill

## EXPLANATORY AND FINANCIAL MEMORANDUM

The Bill raises the limit on borrowings by the National Coal Board (" the Board "). It extends the periods during which the Secretary of State may pay grants under section 3 of the Coal Industry Act 1980, and increases the limit on such grants and on grants paid under sections 2 and 3 of the Coal Industry Act 1977 and section 8 of the Coal Industry Act 1973. It raises the limits on grants and payments under sections 6 and 7 of the Coal Industry Act 1977 and enables the Secretary of State to reimburse the Board certain payments to redundant workers.

*Clause* 1 increases the limit on the aggregate amount of borrowing by the Board and their wholly owned subsidiaries to £4,500 million which may be increased by order to £5,000 million.

*Clause* 2 extends the period in respect of which the Secretary of State may pay grants to the Board under section 3 of the Coal Industry Act 1980 (grants to eliminate or reduce group deficit). It also increases the limit on the aggregate amount of grants which the Secretary of State may pay under that section, sections 2 and 3 of the Coal Industry Act 1977 (grants for promoting the sale of coal to Electricity Boards, and in connection with stocks of coal and coke) and section 8 of the Coal Industry Act 1973 (grants in respect of coking coal) to £1,000 million, which may be increased by order to £1,750 million.

*Clause* 3 enables the Secretary of State to reimburse the Board the amount of payments in respect of loss of superannuation and employment prospects of persons who on or after 11th March 1981 become eligible under a scheme under section 7 of the Coal Industry Act 1977.

*Clause* 4 sets a new limit of £200 million for grants under section 6 of the Coal Industry Act 1977 (in connection with pit closures), and of £280 million for payments under section 7 of the Coal Industry Act 1977 (to or in respect of redundant workers).

*Financial Effects of the Bill*

The increase in the borrowing powers of the Board (clause 1) will give rise:

(*a*) to payments from and into the National Loans Fund if the Board borrow from the Secretary of State and he finances the loans from this source;

(*b*) to a charge on Votes if the Board borrow from the Secretary of State and he finances the loans in this way, pursuant to section 2(1) of the Coal Industry Act 1980;

(*c*) to payments into the Consolidated Fund in respect of receipts of interest and repayments of principal in relation to loans under (*b*); and

(*d*) to a contingent liability on the Consolidated Fund if the Board borrow from other persons and those borrowings are guaranteed by the Treasury under section 27(4) of the Coal Industry Nationalisation Act 1946, as amended.

Charges on Votes may arise in respect of:

(*a*) payments in connection with the promotion of the sale of coal, in connection with stocks of coal and coke and in respect of the production of coking coal (over the financial years of the Board from 1979–80 to 1982–83), and payments to reduce or eliminate any deficit remaining on the consolidated profit and loss account of the Board and their subsidiaries at the end of any given year (over those financial years and 1983–84). These payments are subject to an overall limit of £1,000 million, which may be raised by order to £1,750 million.

(*b*) payments in respect of loss of superannuation and employment prospects of certain persons eligible under the Redundant Mineworkers Payments Scheme. The estimated cost is about £2 million a year.

(*c*) payments to the Board in connection with pit closures. These are subject to a limit of £200 million to cover the financial years of the Board from 1978–79 to 1983–84.

(*d*) payments under the Redundant Mineworkers Payments Scheme and in connection with concessionary coal. These payments are subject to a limit of £280 million to cover the financial years of the Board from 1978–79 to 1983–84.

*Effects of the Bill on Public Service Manpower*

The Bill is not expected to have any effects on public service manpower.

DRAFT

OF A

# BILL

TO

Increase the limit on the borrowing powers of the National Coal Board; to extend the period during which grants may be made under section 3 of the Coal Industry Act 1980; to increase the limits on such grants and on certain other grants and payments by the Secretary of State in connection with the coal industry; and to enable the Secretary of State to reimburse the Board the amount of certain payments to or in respect of redundant workers.

**A.D. 1981**

BE IT ENACTED by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

**Borrowing powers.**

**1.** In section 1(3) of the Act of 1965 (which as amended by section 1(1) of the Act of 1980, provides for a limit, which may be increased by order, on the borrowing of the Board and their wholly-owned subsidiaries), for "£3,400 million" (the initial limit) substitute "£4,500 million" and for "£4,200 million" (the highest limit which may be set by order) substitute "£5,000 million".

**Deficit and operating grants.**

**2.**—(1) In section 3 of the Act of 1980 (under which the Secretary of State may make grants in respect of group deficits of the Board and their subsidiaries for financial years of the Board up to and including 1982–83), at the end of subsection (1) add "or for the financial year of the Board ending in March 1984".

(2) In subsection (3) of section 4 of the Act of 1980 (which provides for a limit on the aggregate amount of grants under section 3 of that Act together with certain other grants), for "£525 million" substitute "£1,000 million"; and in subsection (4) of that section (which enables the limit to be increased by order, subject to a maximum) for "£590 million" substitute "£1,750 million".

Reimbursement of certain payments to redundant workers.

**3.**—(1) The Secretary of State may out of money provided by Parliament make payments to the Board reimbursing the Board the amount of any payments in respect of loss of superannuation and employment prospects made to or in respect of persons who on or after 11th March 1981 become eligible to receive payments under a scheme under section 7 of the Act of 1977 (payments to redundant workers).

(2) The amount of any payments qualifying for reimbursement under subsection (1) shall be determined in such manner as may be agreed between the Secretary of State and the Board with the approval of the Treasury and shall be certified by the Board's auditors.

(3) In Schedule 2 to the Act of 1977 (definition of "relevant expenditure" for the purposes of grants under section 6 of that Act), after sub-paragraph (1) of paragraph 1 insert—

"(1A) Head (ii) above shall not include payments in respect of loss of superannuation and employment prospects where those payments are reimbursed by the Secretary of State under section 3 of the Coal Industry Act 1981.".

Grants and payments in connection with pit closures and redundancies.

**4.**—(1) In section 6 of the Act of 1977 (grants by the Secretary of State in connection with pit closures), in subsection (5) (which, as amended by section 6(1) of the Act of 1980, provides for a single limit on the aggregate amount of such grants), for "£170 million" substitute "£200 million".

(2) In section 7 of the Act of 1977 (payments by the Secretary of State to or in respect of redundant workers), in subsection (5) (which, as substituted by section 7(3) of the Act of 1980, provides for a single limit on the aggregate amount of such payments) for "£220 million" substitute "£280 million".

Interpretation.

**5.** In this Act—

1965 c. 82. "the Act of 1965" means the Coal Industry Act 1965;

1977 c. 39. "the Act of 1977" means the Coal Industry Act 1977;

1980 c. 50. "the Act of 1980" means the Coal Industry Act 1980;

"the Board" means the National Coal Board.

Citation and extent.

**6.**—(1) This Act may be cited as the Coal Industry Act 1981, and the Coal Industry Acts 1946 to 1980 and this Act may be cited together as the Coal Industry Acts 1946 to 1981.

(2) This Act does not extend to Northern Ireland.

# Coal Industry

DRAFT

OF A

# BILL

To increase the limit on the borrowing powers of the National Coal Board; to extend the period during which grants may be made under section 3 of the Coal Industry Act 1980; to increase the limits on such grants and on certain other grants and payments by the Secretary of State in connection with the coal industry; and to enable the Secretary of State to reimburse the Board the amount of certain payments to or in respect of redundant workers.

CIX—B (3)

*28th October*, 1981

161—3 (52380) 48/2

CONFIDENTIAL

cc Mr. Hoskyns
Mr. Duguid

MR. SCHOLAR

MLS p.a.
note I have made
these points on Mr Lawson's
letter.
MLS 23/10

Noted [illegible]

Presentation of the Miners' Pay Offer

I think the Prime Minister should see Mr. Lawson's letter of 22 October to the Chancellor. You will recall that you wrote on 12 October warning the Department of Energy about our doubts on presenting a settlement as higher than it really is. Mr. Lawson's latest letter strongly re-inforces these doubts, because he is now telling us that there will be difficulties in presenting the true picture even after a ballot. This is exactly what happened last year, when the prospect of pit closures was adduced as a reason for not provoking the miners. Now it is said that there would be a danger of the negotiations having to be re-opened. And Mr. Lawson does not seem to have taken on board the almost overwhelming importance of public presentation of the miners' settlement for other pay negotiations.

I think, however, that it would be wrong to intervene again in the correspondence, because

(i) Mr. Lawson does undertake to consult the Prime Minister about the presentation of the outcome of the negotiations; and,

(ii) Presentation of the NCB's detailed offer made on 19 October did seem to me to be fair: of the major national newspapers, only the Sun failed to put a figure on the offer, the majority correctly described it as 6½%, two (the Guardian and the Times) as 7% and one (the FT) as 6-8%. If the media starts off on the right footing in this way, it is likely to interpret any increased offer reasonably accurately.

J. V.

23 October 1981

CONFIDENTIAL

CONFIDENTIAL

cc Duguid
Vereker
Walters

Prime Minister

Both the NCB and Mr Lawson seem bent on presenting a settlement as higher than it is notwithstanding your comments.

But you will have an opportunity to intervene decisively - see X overleaf.

MLS 23/10

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

01 211 6402

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

22 October 1981

Dear Geoffrey

MINERS' PAY

Thank you for your letter of 8 October on this subject. I have also seen the Prime Minister's comments which are recorded in her Private Secretary's letter of 12 October to my Private Secretary.

I am sure that it is common ground between us all that the miners' pay settlement should be as low as possible. David Howell made this point to Ezra and I also made it to him, as you will have seen from my letter of 30 September to you. I know that Ezra and his Board are also anxious to reach as low a settlement as possible. The important question is how this can best be achieved.

I believe it is also common ground between us that a settlement without a confrontation would almost certainly be lower than a settlement reached after a confrontation. The key judgment, which the Board itself must make, is therefore the lowest settlement offer that can be put to the ballot with a reasonable chance of it being accepted in the coal-fields, if necessary against the recommendation of the NUM's Executive Committee or Delegate Conference. If the offer is rejected the outcome could well be confrontation with the Board eventually being forced to make an even higher offer.

It is against this background that both David Howell and I have advised you and other colleagues on a number of occasions that, in order to enhance the chances of gaining acceptance of an offer in the pithead ballot, the Board would present their offer in the most attractive light. (For ease of reference I enclose copies of the relevant papers).

CONFIDENTIAL

We are in close touch with the Board about the development of the negotiations, while avoiding giving the impression that the Government is attempting to dictate their course. We have specifically asked the Board to consult us about the presentation of the outcome of the negotiations. I will, of course, also consult the Prime Minister, yourself and other colleagues. We shall have to think very carefully before attempting to restrict the Board's ability to present their offer in the most attractive light before it is put to the ballot. On the other hand, unlike last year, we could take steps to present any offer in its true light after it has been accepted in a ballot. But even here our room to manoeuvre must be limited, if we are to avoid the short term danger of the NUM trying to re-open the negotiations and the longer term and more important danger that we would probably be pre-empting the NCB adopting similar tactics in future years.

I hope, however, that your understandable concern about certain press reports following the meeting on 6 October has to a large extent been allayed by the comments in John Moore's report of 15 October to you and the article on coal in last week's Economist as well as by the more accurate Press reporting of the second negotiating meeting between the Board and the unions. John Moore will report on that meeting in a separate letter.

I am copying this letter to the recipients of yours.

Yours ever
Nigel

NIGEL LAWSON

CONFIDENTIAL

1 Mr Davey

RCO/6/01/41

cc Mr Moore
PUS
Mr Manley
Mr Gillis
Mr Whaley
Dr Mycrocough
Mrs Brown
Mr Carter.

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

01 211 6402

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

30 September 1981

Dear Geoffrey

MINERS PAY

I discussed this subject with Derek Ezra on 22 September in the course of an introductory meeting. It also came up when Joe Gormley and Lawrence Daly called on me at their request on 25 September. This letter reports on both meetings and on the position generally.

When I saw Derek Ezra I drew attention to the serious financial position of the coal industry and the key importance of a reasonable settlement with the NUM. Ezra said that in his view the workforce did not want trouble on the wage front, though some of the union leadership would obviously take a militant line. The Board's aim would be a settlement which was only just high enough to avoid industrial action. At the end of the day, he thought it might be possible to get a settlement which was just in single figures on basic rates but which resulted in a considerably lower increase on overall earnings, perhaps of the order of 7 per cent. But he emphasised that it would be quite unrealistic to aim for a 4% settlement. I reiterated the importance for the economy generally of a settlement that was low and could be presented as low, and expressed the hope that the Board would be more flexible on incentive payments than on increases in basic rates.

X Other members of the Board, in particular James Cowan, the member who will lead the negotiations, have confirmed Ezra's view and suggest that overall the chances of a settlement along the line described by Ezra are slightly better than evens; though they have also warned us that it may be necessary to present the settlement as higher than it really is (as they did last year).

As you will have seen from the press, the NUM were not able to finalise their claim on 24 September, although its broad outline will follow the decisions taken at the Conference. While I avoided any discussion of pay issues with the NUM, Joe Gormley stressed their interest in certain non-pay

CONFIDENTIAL

items, in particular in a reduction in weekly hours worked. It is too early to predict what part these might eventually play in the negotiations. The Board are already considering the possibility of offering a trial reduction in hours at a few pits, which would have to be entirely self-financing. Joe Gormley and Lawrence Daly also mentioned the union's desire for improvements in holiday pay and for 'salary status' for mineworkers.

I shall be keeping in close and regular touch with the Board about the negotiations in the coming weeks. The NUM will present their claim on 6 October when the Board will say how much money is available in total. The NUM will then ask for this figure to be converted into a formal offer. This offer, perhaps of the order of 6-7% on basic rates, will be tabled at a second meeting about a fortnight later. The Board will try to hold the offer as far as basic rates are concerned (though as noted above they may have to go higher eventually) and negotiate on incentives and non-pay items. As indicated above, the NUM may be receptive to this approach though their initial claim will stress cash.

Part of the Board's negotiating tactics this time round will be to announce an increase in coal prices early in October rather than, as previously, after a settlement. They will then argue that any further increase would be damaging. The details of the increase are still under consideration, but it is likely to be relatively modest and certainly below the current rate of inflation.

It is, of course, vital that the Board should not only remain in the driving seat in the negotiations, but should be seen to remain there. We must be particularly careful to avoid giving the inaccurate impression that the Board is under pressure from the Government to enforce some particular norm on the NUM. Initial misunderstanding in the Press about the scope of the 4% wage factor in public sector cash limits has not helped towards the attainment of a reasonable settlement. I think we must also be very careful in the next few weeks to avoid statements or actions which might unnecessarily exacerbate the position. For this reason we have written to Sally Oppenheim suggesting that the public announcement about the MMC reference, although not the start of work, should be postponed until after the pay settlement. It would also be very helpful if during the coming weeks colleagues could give me advance warning of any speeches or announcements which might have a bearing on the negotiations.

The information of the Board's negotiating position as described in this letter is of course extremely sensitive, and I would be grateful if colleagues could treat it accordingly.

I am copying this letter to the Prime Minister, the members of 'E' committee, the Secretaries of State for Scotland and Wales, Sir Robert Armstrong and Mr Ibbs.

Yours
Nigel

NIGEL LAWSON

CC Mr Moore
PUS
Mr Manley
Mr Guinness
Mr Whaley

PRIME MINISTER

(13 AUGUST)

NATIONALISED INDUSTRY PAY - COAL

I have seen a copy of the Chancellor's minute of 4 August to you, enclosing a paper by Treasury officials on this subject. I have also seen a copy of your Private Secretary's letter of 5 August.

2. We are all agreed that our objective on miners' pay is that the NCB should reach the lowest possible agreement with the NUM without, however, pursuing a course of action which could bring with it a significant risk of a national miners' strike this winter. I believe this points to the conclusion that we should go along with the NCB's approach to the negotiations as set out in the Annex to the Treasury paper. Derek Ezra has already told me that the Board will, of course, be aiming for as low a settlement as possible. As indicated in the Annex to the Treasury paper he is aiming to settle for an increase of some 7%-8% on the Board's wages bill, although some of his colleagues consider a slightly higher figure (but still below the annual rate of inflation) may be needed to reach a settlement. It is, however, early days and much depends on avoiding disturbance of the negotiations by outside issues. However, the Board will no doubt again wish to present the increases as somewhat larger so as to enhance the chances of the miners accepting it. I realise this approach has presentational difficulties for other industries. But it is clearly preferable to the Board having to settle for a larger real increase, bearing in mind that as last year, the NCB can be expected to keep other industries fully briefed on the real nature of any settlement.

X

14/200

3. At the moment the NUM seem unlikely to submit a claim before the second half of September. They are particularly anxious that their claim should not become mixed up through the 'Triple Alliance' with any national railway strike. Substantive negotiations will therefore probably not begin until October and are unlikely to be completed by the settlement date, 1 November, as any deal will almost certainly have to go to a ballot. In the interim Derek Ezra has set up a negotiating committee on which Norman Siddall and James Cowan (Board Member for Industrial Relations) will serve.

4. The Board are also aware that there is inevitably a link between our willingness to continue investment in the industry on a large scale and their ability to contain wages and thus pave the way for a return to profitability. Indeed, Derek Ezra explicitly acknowledged the link at the Chancellor's meeting with NICG on 9 July.

5. In the light of my earlier discussion with Ezra and the points on pay which the Chancellor made at his meeting on 9 July, I find it difficult to see any advantage in my meeting Ezra in the near future to discuss the forthcoming miners' claim. Indeed, I believe it could be disadvantageous if, as is likely, news of the meeting were to leak out and it were to be seen as a sign of renewed Government pressure on the NCB. This would almost certainly lead to a hardening of attitudes in the NUM.

6. Whilst there are those in the NUM, particularly Arthur Scargill, who would undoubtedly like a political confrontation with the Government at an opportune moment, the Board do not believe that the NUM are likely to try to mount such a confrontation this year. I agree with this assessment. There are, however, a number of developments which could possibly act as a flashpoint. For example the Board

successfully reduced the workforce by over 10,000 men over the past year (or some 5%) and plan a similar reduction this year. NUM pressure for a vigorous recruitment campaign, notably of juveniles, is mounting and could lead to trouble. Again, we are considering the Board's investment programme and EFLs in a separate context. If the NUM believed that investment in the Plan for Coal was being seriously called into question, at the very least this could lead to a hardening of their attitudes in the wage negotiations and to wider difficulties. There is increasing awareness in the NUM that we have cut back the Board's investment programme in real terms this year, as well as growing resistance to the Board's laudable efforts to cut down on investment in high cost mines, which the NUM consider to be closure by the back door. All these problems should be manageable if the Board and the Government play their hands carefully.

7. The Board have undertaken to keep me in close touch with developments and, as in previous years, I shall keep you and other colleagues fully informed.

8. I am sending copies of this letter to those attending your meeting on nationalised industry pay on 7 September and to Sir Robert Armstrong.

DH

SECRETARY OF STATE FOR ENERGY
13 August 1981

The NCB's tentative appraisal is that provided they are not evidently negotiating under pressure from the Government (other than the limitations on finance which are already known), and provided the negotiations take place in a conducive atmosphere, they may be able to settle at around 7%. But if the atmosphere is less conducive they think that at least 10% may be necessary. Items which ~~must~~ might make the atmosphere less conducive include

a) Signs of overt Government pressure on NCB management;

b) Measures that would have the effect of increasing the cost of living (the NCB feel that last year's acceptance of their offer in ballot was made markedly more marginal by the announcement of council house rent increases just before the ballot);

c) Outright rejection of Belvoir or other signs that the Government is less than fully committed to the future of the industry.

X NCB emphasize that the extent of their freedom to negotiate must be made clear to them in advance. They also feel very strongly that it may be vital to be able to present a settlement in a way which makes it look larger than it really is (the fact that the settlement date is only 10 months after the last settlement may offer some scope for this).

2.2 NON-PAY FACTORS RELEVANT TO NEGOTIATIONS

The existing incentive arrangements give an increase relating to productivity. Productivity is currently running 3-4% above last year's levels and this will increase the average level of wages by a little under 1% on average (a higher percentage for faceworkers, lower on the surface).

The NUM ~~are~~ may also ~~likely to be~~ pressing for an extension of the Voluntary Early Retirement Scheme which presently allows men with certain durations of underground service to retire at age 60 on two-thirds of previous pay to age 65 (followed by pension as earned). A year's reduction in this age is equivalent to about 1.5% on wages. The reduction in the retiring age is likely to be regarded as a less immediate issue than pay in the short-term, Nat find Co



Michael Scholar

22 October 1981

Policy Unit

22

PRIME MINISTER

NUM

1. We have studied the report submitted by Sir Robert Armstrong on 20 October. We suggest you only need to read the summary. There is no reason to doubt the report's general conclusion that there is not a well-planned, subversive strategy on the part of the NUM's present or likely future leadership.

2. However, the lack of such a plan gives no grounds for comfort. Scargill will look for opportunities to confront the Government. We remain certain that our best defence against an opportunistic Left-wing leadership is to convince a majority of rank and file opinion that strike action would be long and costly - and therefore not worth undertaking unless they feel their vital economic interests are threatened.

3. Robert Wade-Gery's group will be reporting shortly on deterrence measures - both building up stocks and increasing our known capacity to replenish stocks during a dispute. This report does not diminish their importance.

JH

JOHN HOSKYNS

CONFIDENTIAL

Prime Minister

cc J. Vereker
A. Duguid
A. Walters

(4)

CHIEF SECRETARY TO THE TREASURY

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

20 October 1981

MS

COAL INDUSTRY BILL

Thank you for your letter of 9 October.

I agree that the Bill should provide for grants to the NCB until March 1984 and that the limits on the amounts of both these grants and the Board's borrowing should be sufficient to last at least until that date. I am content with the figures you propose on the understanding that, as you say in your letter, they are not commitments to expenditure nor do they prejudice our decisions on the Board's medium-term plans and future financing.

I am grateful for your agreement to refer explicitly to deficit grants in the rubric to the appropriate clause in the Bill. I think there would be advantage in distinguishing clearly - as the NCB does in its accounts - between deficit grant, which is payable after profit and loss have been struck, and "operating grants" which serve to reduce their accounting losses. I suggest, therefore, that the rubric might read "Deficit and Operating Grants". I hope that you will find that minor change acceptable.

I am sending copies of this letter to the Members of E Committee, the Secretaries of State for Transport, Scotland and Wales, the Lord President, Sir Robert Armstrong and Mr Ibbs.

LEON BRITTAN

CONFIDENTIAL

Nat Ind 2

25/PM

21B

Prime Minister

SECRET

PARLIAMENTARY UNDER SECRETARY OF STATE

cc J Vereker
A Dryard

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

3 pp's

N Tebbit MP
Secretary of State
Department of Employment
Caxton House
Tothill Street
London SW1

16 October 1981

Dear Norman,

NEW EARNINGS SURVEY

During the last few days our officials have discussed the NCB and NUM's request for early release of data from the New Earnings Survey. Some figures from this will be published at the end of October. But the key figures which would allow comparison of the earnings of mineworkers with those of other groups are due to be published in mid-November, with a target date of about 19 November. These would be available in proof (at which stage they were last year released to the NCB and NUM on request) around 2 November.

Final figures are not yet available but the indications are that whilst mineworkers' earnings have fallen back only marginally in comparison with the general level in industry, the earnings of another group in the league table, Coal and Petroleum Products (mainly refinery workers and tanker drivers), have moved from being rather below mineworkers to substantially ahead. Though this is a small, specialised group, the mineworkers will be able to argue that they are no longer 'top of the pay league' in the sense generally recognised.

My officials and yours will keep in touch nearer the time about the handling of the release of the information. In view of the sensitivity of this matter and its bearing on the pay negotiations I am copying this letter to the Prime Minister and the Chancellor.

Yours ever
John

JOHN MOORE

SECRET

Nat Ind

CONFIDENTIAL

cc:- Mr Ingham
Mr Duguid

MR SCHOLAR

1. Mr Pattison
2 p.a.

Mus 16/10

Miners' Pay

I think you are aware of the forthcoming difficulty over the publication of figures from the New Earnings Survey showing that the miners' settlement last year, widely portrayed as around 13%, led to a rise in average earnings of only about 8%. I am now a little clearer on when and how this news will become publicly available, and you and others may wish to be forewarned.

The TUC and the CBI have already been given, as is normal practice, advances of most of the material that will appear in the Department of Employment gazette on 29 October as "Part B" of the New Earnings Survey. Part B contains an analysis of wage movements by agreement, and it is difficult to calculate the effect on actual wages. What matters is a table (Table 4) of Part A of the NES, which is an industry-based league table of average earnings, which will be available in mid-November. That table will, if I understand it correctly, not only indicate how much lower than expected last year's miners' settlement was, but also that the miners' wages have moved adversely relative to those of gas, water and electricity manuals.

The significance of this is, of course, that the figures may well end up being published when the negotiations between the NUM and the NCB are active, and possibly even during the period of an NUM ballot. Mr Lawson will be writing to Mr Tebbitt very shortly, with copies to the Chancellor and to the Prime Minister, drawing his attention to this. There may well be a temptation to find ways of avoiding this potentially embarrassing timing. Subject to what Mr Lawson may say, my own feeling is that there are considerable dangers in trying to interfere with the process: it would backfire badly on the miners' negotiations if it were known, it would risk the reputation for impartiality of the Government's statistical service, and it would simply build up further trouble for the future.

J.

16 October, 1981

CONFIDENTIAL

Nat Ind Coal

SECRET

Prime Minister

21A

(already copied to A Duguid)

01 211 6402

Peter Jenkins Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street
London
SW1

16 October 1981

Dear Peter

PUBLICITY CAMPAIGN ON COAL

I wrote to you on 13 August enclosing a selection of press cuttings about the coal industry. I am now writing to bring you up to date on a number of aspects of the coal publicity campaign.

During the past two months, Ministers and officials have spoken to a number of journalists to put over the facts about the coal industry. I enclose a selection of cuttings which have resulted from these meetings as well as other sources.

We have suggested that the BBC undertake a major TV programme on the coal industry. Provided the BBC agree, this programme would, given the time needed for preparation, not be shown before 1982. We are also in touch with the CBI.

With the help of officials from the Treasury and other Departments we have updated the factual background notes which were circulated earlier. We have, of course, drawn heavily on these in our contacts with the media referred to above. We are currently turning these notes into speaking notes which can more readily be incorporated in Ministers' speeches. Our Ministers would not propose to circulate these speaking notes until after the current wage negotiations are completed.

The new session of Parliament will also provide opportunities in the form of further Parliamentary Answers. The debates on the Coal Bill should also enable us to hammer home our message on the coal industry.

Our Ministers hope that your officials and ours can continue to keep in touch on these subjects.

I am copying this letter and enclosures to Michael Scholar (No 10), David Heyhoe (Privy Council Office), Richard Dykes (Department of Employment), David Wright (Cabinet Office) and Gerry Spence (CPRS).

Yours ever

David Hurley

pp J D West
Private Secretary

# Why the industry still depends on the Government

HE NCB's prospects for the ming year are far from bright. e recession has hit the ish market for coal hard d there are no signs of an rly recovery.

The Board has seen its UK ales fall from nearly 123m onnes in 1979-80 to 113m onnes last year and 1981-82 is xpected to be even lower— bout 111m tonnes.

The drop has been offset to ome extent by a sharp increase n exports, which have risen rom just 2.5m tonnes in 1979-0 to an expected 10m tonnes his year, thanks to a strong ales drive and supply problems n the U.S. and Poland.

To meet international compe-tion, much of the export olume has been sold below the oard's average costs. However, justifies the sales on the grounds that they bring in much needed cash and avoid the expense of stocking coal—now running at nearly £6 a tonne a year.

Even with exports, some 4m tonnes of coal will be added to stocks this year, taking the UK total to 42.5m tonnes—equivalent to a third of annual production. This figure could be even higher if the Board announces particularly high price increases this winter—increases which will depend largely on the NUM pay settlement, since wages account for about 50 per cent of its costs. In the midst of a recession, all its markets are acutely price sensitive.

In view of this over-supply, it might seem logical for the NCB to cut its production—the action most private sector companies could be expected to take. However, the Board is reluctant to do so at its so-called "long life" mines—new or modernised pits which it sees as providing the backbone of an expanding and profitable industry when demand for coal recovers.

Some £3bn has been poured into modernising the coal industry since 1974 and this investment is just starting to show returns, with a substantial upturn in productivity at the long life pits (although overall industry productivity is only marginally better than in 1972). The Board does not want to interrupt this momentum, even though financial constraints have forced it to cut capital investment by about £86m in real terms this year.

But matters are very different at its oldest, most exhausted pits which represent a severe financial drain and on purely economic grounds would have been shut down long ago.

The difficulties of closure were underlined last February when the Board announced plans to slash capacity by some 8m to 10m tonnes over the coming few years. In 1981-82 alone, 23 pits would close with a combined capacity of 4.3m tonnes.

Faced with unofficial strikes in several coalfields and the threat of a national stoppage, the Government performed a remarkable U-turn and bailed the NCB out, promising additional aid to keep the old pits open and meet competition from coal imports.

The NCB's operating grants for 1981-82—essentially the money used to balance its losses—have been raised by £300m to £550m. Its external financing limit (EFL), the total it can raise in loans and grants, has been increased by £231m to £1,117bn.

The joker in the poker game which has just begun between the NCB and NUM is the Government's attitude to grants and EFL's in the 1982-83 financial year—seven months of which will overlap with the pay settlement period.

The level of Government support will have a vital impact on the amount of money the NCB has for investment in modernisation, for keeping old pits open, for holding its market and thus for jobs and wages.

The Department of Energy is keeping very quiet about its plans. But unless it wants to risk a clash with the miners, like February's, the level of aid is likely to be broadly similar to this year's.

The Government's position should become clearer when it unveils a new coal industry Bill during the next few months. Its previous Act, which envisaged the progressive reduction of grants until the NCB broke even in 1983-84, was scuppered by February's U-turn.

With few signs of growth in the UK coal market until at least the mid-1980s, with the international market temporarily softening, and with the NCB moving only slowly to close its heaviest loss-making pits, the industry is likely to be dependent on Government aid for much longer than the next three years.

**Martin Dickson**

FT 7-10-81

Friday Aug

August 21

Financial Times

# Ezra tells miners of need to limit costs

BY MARTIN DICKSON, ENERGY CORRESPONDENT

A THINLY-VEILED call for wage restraint by miners came yesterday from Sir Derek Ezra, chairman of the National Coal Board. The industry had to beware of pricing itself out of the market, he warned.

"We must avoid any action which would throw us off course in our drive to reduce total costs and increase efficiency," he said during a visit to Treeton colliery, near Rotherham.

Sir Derek made no direct reference to wages, which make up about 50 per cent of the NCB's costs. But his remarks were clearly directed towards the pay negotiations with the National Union of Mineworkers which will begin during the next few weeks.

He pointed out that the industry's UK markets had been hit hard by the recession. This meant they were price sensitive to a greater degree than any time since the Second World War.

"We shall have to be very careful, when the time comes to review our prices, to limit any increases to the minimum. We must do everything we can to absorb costs by greater efficiency."

Thanks to government help, the NCB had been able to get the Central Electricity Generating Board to cut its imports of coal from 3.75m tonnes last year to 700,000 tonnes this year.

The NCB also has a five-year understanding under which the CEGB will take at least 75m tonnes of coal a year provided the NCB keeps price rises within the rate of inflation.

Sir Derek said if the coal board failed to keep its side of the bargain, the CEGB would lift from stocks and again bring in coal from abroad.

There was a similar position with the British Steel Corporation. Government grants had again helped to buy out some imports of coal. The NCB was supplying about 400,000 tonnes to the Port Talbot steel works, which had previously used nothing but imports.

As further BSC import contracts came up for renewal, the NCB hoped it could negotiate more business. But price would be crucial.

Sir Derek said pits were already responding well in keeping costs down by producing coal more efficiently. Productivity was about 4 per cent up on last year and absenteeism was at its lowest for nearly 40 years. Men were turning up for work more regularly and were producing more coal for each shift. The recession made it imperative to maintain the trend.

The Guardian Wednesday September 30 1981

# Lawson takes tough stance

By James Erlichman

The new Energy Secretary, Mr Nigel Lawson, yesterday unveiled the tough stance he intends to take to bring the Government's energy policy further in line with its economic strategy.

He was speaking to businessmen at a CBI conference on energy in his first major policy address since replacing Mr David Howell in the Cabinet reshuffle three weeks ago.

He ruled out any energy price subsidies to hard-pressed industries, warned the British Gas Corporation again that its empire would be curtailed, and promised that the oil-producing business of the British National Oil Corporation would soon be sold to the private sector.

While he was careful to praise his predecessor, Mr Lawson left his audience in no doubt that energy policy under his stewardship would be further refined to reduce state expenditure and bring in more revenue to help cut the borrowing needs of the Treasury.

"The Government's central economic objectives must constitute the framework into which the policies for individual sectors are fitted," he said. "It would be disastrous and self-defeating if economic and energy policies were at odds."

Mr Lawson told the oil companies operating in the North Sea that they "must accept their share of the necessary improvements to the tax base" as their part in helping to control government borrowing.

No that the government-backed £2.7 billion gas gathering project had been aborted, he urged the oil companies "to rise to the challenge" of constructing their own gas gathering projects—as they had done in extracting oil from the North Sea.

The nuclear industry must also accept "its greatest challenge," he said, "in designing and getting licensed a cheap and acceptable pressurised water reactor."

By contrast, Mr Lawson warned the National Coal Board that it must find a way of squaring its record output and high stocks with the low level of demand.

Replying later the NCB's chairman, Sir Derek Ezra, said it would be folly for the coal industry to cut back when its future was so bright. He pointed to a new study which forecasts that the consumption of coal by developed countries could increase seven-fold by the year 2000.

"We are going to aim to provide coal on the market at a price which will diminish over the years in relation to inflation," he said.

August 19

SOUTH WALES ECHO.

LOW COSTS ARE THE KEY - EZRA

**NATIONAL COAL Board chairman Sir Derek Ezra on a visit to South Wales today fired what could be seen as the first shots in a pay battle with the miners.**

On a visit to Newport Docks, which have recently seen a rapid growth in coal trade, Sir Derek said that one way the board were coping with the recession was by pushing exports.

Echo Reporter

NCB doubled export sales last year and are well on the way to doubling them this year, he said.

But, he said: "If we are to continue to do business abroad we shall have to keep out prices down and supply our customers punctually and regularly. That means controlling costs, further improving the industry's efficiency and producing consistently.

"Current trends in the industry are in the right direction. Overall productivity this year so far is four per cent higher than last year. Coal is on the right course but it is vital to keep up current progress.

"The lower our costs the more coal we can sell. The more we sell the more jobs we can maintain. That is the key message which everyone in the industry must bear in mind," he said.

His statements precede pay negotiations due to start shortly in which the National Union of Mineworkers are looking for a 24 per cent increase. And while the board have not announced an offer it is expected to be well within single figures.

Certainly the Government have made it clear that they want public sector pay increases to be kept within five per cent.

Sir Derek, outlining the board's position, said: "The recession has reduced the demand for energy in Britain and coal has had to fight hard to increase its market share.

"The industry has achieved some success, as the overall demand for energy has fallen by six per cent, while coal's share has fallen by four per cent.

"Real improvements can only come when there is an upturn in the economy. But we are not sitting back, simply waiting for the recession to end.

"Faced with a fall in business, we have gone into the export market in a big way — and very successfully."

This year, he said, eight or nine million tonnes of coal which would have been stockpiled will be exported.

From Newport 700,000 tonnes will have been exported by the end of the year. Much of that business has been won because industrial troubles in Poland and America prevented them from filling orders.

Sir Derek praised everyone involved in the Newport operation — Welsh miners, dockers and the British Transport Docks Board.

"International trade in coal is bound to grow as oil becomes more scarce and even more expensive," he said. "Britain can claim a share of the benefit if we carry on responding so well to our opportunity.

"However, because of the world recession and the strength of the competition, mainly from America and Australia, the business has to be won at low prices."

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CHEST. STAR 18.8.81

# Big rises cost jobs — Ezra

By Maggie Brittain, industrial correspondent

A THINLY masked warning to Britain's miners, that a hefty wage rise would be paid for in lost jobs came from National Coal Board chairman, Sir Derek Ezra, this afternoon.

Facing a 24 per cent. demand from the NUM next month, Sir Derek spelled out the consequences.

"The lower our costs, the more coal we can sell. The more we can sell, the more jobs we can maintain."

And he added grimly: "That is the key message which everyone in the industry must bear in mind."

Sir Derek stressed that the industry was fighting the slump by moving into the export market "in a big way — and very successfully."

Overseas sales had doubled last year and could easily double again this year, he said during a visit to Newport Docks, South Wales.

## PRICES

But he went on: "Because of the world recession and the strength of the competition, mainly from America and Australia, the business has to be won at low prices.

"If we are to continue to do business abroad, we shall have to keep our prices down.

"That means controlling costs, further improving the industry's efficiency and producing consistently."

Underlining the need for reliable coal deliveries to overseas customers, Sir Derek hinted that disruption could jeopardise the industry's battle for the future.

He went on: "Current trends in the industry are in the right direction. Coal is on the right course. But it is vital to keep our current progress."

Energy Review: U.K. coal exports

By Martin Dickson, Energy Correspondent

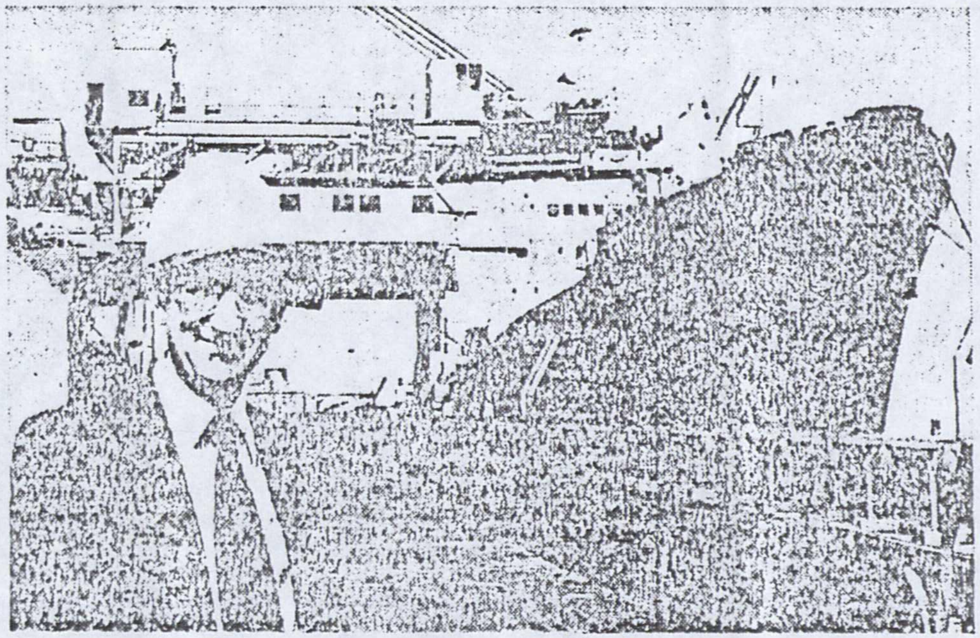
# Weaker coal market threatens NCB's plans

A SOLITARY ray of light has penetrated the recessionary gloom at Hobart House, the headquarters of the National Coal Board, amid the collapsing UK markets of the past 12 months: in a major sales drive, the NCB has managed to double its coal exports to 10m tonnes.

But clouds are gathering in the international coal trade which threaten to dim even that achievement in 1982. The coal market has softened markedly, so the NCB will, at best, find it harder to maintain exports at 10m tonnes next year. At worst, there could be a significant drop in sales.

That would be bad news for an industry which is producing far more coal than the UK market can take. The main force behind the export drive has been a drop in the NCB's UK sales, as a result of the recession, from 123m tonnes in 1979-80 to 113m tonnes last year.

Even with exports of 10m tonnes this year, the NCB will have to add about 3m tonnes to national stocks, which at over 40m tonnes are already the highest on record relative to annual production.



The loading of a bulk carrier at Immingham supervised by the ports general manager, Mr H. Marshall.

## Exports

Recovery from recession will eventually boost domestic demand for coal but the NCB, currently producing about 125m tonnes a year, may still be extracting more coal than the UK needs by the mid-1980s.

It will therefore continue to rely on exports—and even aims to boost its overseas sales to 15m tonnes by 1985. But current market conditions must place a very large question-mark over the possibility of reaching this goal.

In the short term, there seems little doubt that exporting makes economic sense for the NCB, even though the board is reluctant to reveal details of its deals.

To sell internationally, the board has to match the prices of the main international coal exporters—the U.S., Australia and South Africa (though it is claimed that during the tight market conditions earlier this year the NCB could command a premium over their prices because of the security of its supplies into Europe).

Spot cargoes of U.S. coal commanded a cif (cost insurance and freight) rate of some $70 to $75 a tonne into the main European entrepots of Antwerp, Rotterdam and Amsterdam in the first half of this year.

NCB figures suggest that during this period its average production costs were £33-£34 a tonne. To this must be added the costs of getting export coal to UK ports, probably about £2.50 a tonne, bringing the total to some £36-£37 a tonne.

Whether this means the NCB is covering its average costs with export prices depends crucially on exchange rate movements. The dollar-sterling rate prevailing early this year—$2.30-$2.40—indicates that the NCB was not covering its average costs. The more recent improvement to $1.85 suggests that on new deals it may be.

Averages can give only a rough and ready guide to the profit or loss picture, which will depend on precisely which coals are exported from which collieries. The NCB, for example, is exporting low cost open-cast coal through Cumbrian ports on which it makes a very large profit. Some deep-mined exports from South Wales—which contains the UK's heaviest loss-making pits—must be unprofitable.

On balance, however, the exports make sense. They mean the NCB avoids stocking costs on coal, which are now running at about £5.70 a tonne, and gives the industry added cash flow at a time when it most needs it.

Whether the NCB should be producing as much coal as it is — given current UK demand and its production costs — is more debatable. But when the Board announces plans in February to cut production by 10m tonnes over the next few years — coincidentally, the same figure as its current exports—miners' wildcat strikes forced the withdrawal of the scheme. This will have increased the need for exports.

The coal board's exports rose from 2.5m tonnes in 1979/80 to 4.8m tonnes last year. In 1981/1982 it is expecting exports to top 9m tonnes, with coke sales bringing the total up to 10m tonnes.

Britain is now exporting to more than 20 countries. The more exotic destinations include Turkey, Albania and Brazil, but the bulk of the trade is concentrated in the North European market for steam coal—largely used to generate electricity in power stations.

It has increased its toehold in this market because of an unexpected combination of events. First, the political upheavals in Poland slashed that country's coal production at a time when European demand was on the increase.

Imports of Polish coal into EEC countries totalled only 1.1m tonnes in the first four months of this year—down 75 per cent in 1980. The UK picked up some of this business, but much also went to the U.S.—which then began to suffer troubles of its own.

The American East Coast ports could not cope with the sudden demand for steam coal. Queues of ships lengthened and demurrage charges mounted. Then, to cap it all, many U.S. miners went on strike in March and stayed out for 72 days.

All this has given UK exports a sharp boost. But the international position has changed markedly in the past few months, making the outlook far less rosy.

Demand in Europe and Japan is slack, partly because it is summer, partly because of the recession, partly because stocks are high because of pre-U.S. strike panic buying, and partly because high interest rates make stockholding more expensive.

On the supply side, more U.S. coal is becoming available — and at cheaper landed prices in Europe. Port congestion in the U.S. has eased substantially. New loading facilities are coming on stream at New Orleans, Mobile, and Morehead City taking pressure off Hampton Roads and Baltimore, the main East Coast export terminals.

New registration procedures on the East Coast, which mean vessels can join a docking queue without being physically present, have also helped. Some 40 to 50 vessels are now waiting to load at Hampton Roads, compared with more than 150 at the start of the year. Demurrage charges, which add significantly to the delivered price of U.S. coal, have dropped from around $10 to $5 a tonne.

Freight rates have also been falling, further reducing the

(cont.)

**NCB STEAM COAL EXPORTS 1980-81**
Millions of tonnes

| | |
|---|---|
| France | 1.3 |
| W. Germany | 1.3 |
| Netherlands | 0.05 |
| Denmark | 1.0 |
| Ireland | 0.2 |
| Others | 0.95 |

price of U.S. coal in Europe. Fixings for a 50,000-tonne cargo from Hampton Roads to Europe now stand at around $8.75 a tonne compared with $10.50 in June.

The NCB will be hoping for a reversal of this trend as the grain market picks up and poses competition for coal. But the feeling among shipping analysts is that freight rates are likely to remain depressed into next year because of the large volume of new bulk carriers entering the market.

U.S. export volumes, meanwhile, seem to have held up well—despite the strike. Its steam coal exports totalled 13.3m tonnes in the first half of this year, compared with 4.6m tonnes in the same period of 1980 and the National Coal Association is projecting full-year figures of 26m tonnes, compared with 14.5m tonnes in 1980.

With excess production capacity in the U.S. of 100m to 150m tonnes and a major port expansion programme now well under way, there seems little immediate prospect of a new international shortfall.

All this means that the current price trend is downward. Delivered prices next year to Europe are not expected to rise on this year and some dealers suggest they are already falling significantly, with lower quality coals $5 to $10 off peak rates earlier this year.

For the NCB, this means it will be much harder to match 1981 export volumes, and prices are likely to be static or downward while its production costs go on rising.

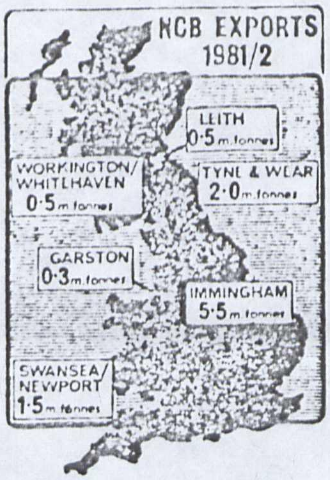
If this trend persists, the Coal Board's plans to raise exports to 15m tonnes, involving additional capital investment at UK ports, will look over-optimistic.

These clouds, however, should not detract from the NCB's achievement in pushing 10m tonnes through UK ports this year with very little spending on new infrastructure. How has it done it?

Much is due to the NCB's export terminal at Immingham on the Humber, the UK's largest coal port, which has trebled its throughput in three years to reach 5.5m tonnes in 1981-82. For the first time since it was built 10 years ago Immingham has been working around the clock and is now at the limit of its capacity.

But smaller ports around the UK have also contributed. Some 2m tonnes will be moved from Tyneside and Wearside, 500,000 tonnes from Leith on the Scottish East Coast and shipments could also be going out from the Clyde.

In Cumbria, Whitehaven and Workington should between




them shift about 500,000 tonnes. Perhaps the greatest success has been at Newport Docks, in South Wales, where 700,000 tonnes will be exported this year, the first time for many years that coal has gone through the port. Swansea will bring South Wales exports to about 1.5m tonnes.

But with existing facilities it would be very difficult for the NCB to export much more than 10m tonnes. The Coal Board is, therefore, considering plans to raise port capacity to about 15m tonnes.

Last month it asked the Port of Tyne Authority to progress to tender stage a project to develop new facilities at Jarrow Slake, Tyne Dock. This would involve building new staithes capable of handling vessels of 25,000 tonnes, twice the size of those now being loaded in the river.

## Capacity

The project, likely to cost over £5m and to be completed in 1984, would boost the North East's annual capacity by over 2m tonnes, giving a total export potential of 4m tonnes in addition to the 6m to 7m tonnes shipped from the region to power stations around the UK.

Any further expansion would probably be concentrated at Immingham. Sir Derek Ezra, the NCB chairman, said earlier this year that its capacity might eventually be raised from 5m tonnes to 8m tonnes.

Sir Derek's overall strategy has been to establish the NCB as a reliable, short-haul supplier of coal to Europe now so that it can take full advantage of the upturn in demand when the recession ends. He has achieved the first goal admirably. But the second will be an uphill struggle. The international coal trade is no less ruthless than any other market and past reliability may count for little if supply remains strong and demand soft.

# Simplicity undecided

Simplicity Pattern Company of the U.S. continues to study the terms of the proposed merger with NCC Energy. Mr Graham Ferguson Lacey, chairman of NCC and also chairman of the executive committee of Simplicity, had promised that the definitive merger agreement would be signed by the end of August.

Yesterday Simplicity announced in New York that it was still considering the merger and would meet again today in a reconvened board meeting. An announcement would be made following the meeting, the statement said.

In the London market NCC's share price continued to decline and closed 6p down at 102p. Mr Ferguson Lacey has said that the merger with Simplicity—a complex mixture of shares and warrants—would value NCC at no less than 150p a share.

## GAS OIL FUTURES

The extremely quiet conditions in the physical market were reflected on the IPE, reports Premier Man.

| Month | Yesterdys close | + or − | Business Done |
|---|---|---|---|
| | $ U.S. per tonne | | |
| September | 302.25 | −0.25 | 302.75-02.00 |
| October | 305.75 | +0.75 | 306.00-05.60 |
| November | 308.75 | +1 | — |
| December | 311.50 | +0.75 | - |
| January | 314.50 | +0.50 | -- |
| February | 317.00 | −0.25 | 318.50-18.50 |
| March | 319.25 | | 319.50-19.60 |
| April | 321.00 | −0.25 | -- |
| May | 324.25 | — | — |

Turnover: 75 (219) lots of 100 tonnes.

## RUNDLE TWINS EXPLORING IN FRANCE

The French Government has granted Australia's Rundle "twins," Central Pacific Minerals and Southern Pacific Petroleum, a permit to explore for oil shale in Montcey, near Vesoul, 290 km south-east of Paris.

The permit covers an area of 132 sq km

# Saga Petroleum strongly ahead

By Our Oslo Correspondent

SAGA PETROLEUM, the Norwegian oil group, almost doubled earnings from petroleum products in the first half of this year, to NKr 105.7m ($17m) from NKr 57.5m. However, Saga Petrokjemi, its petrochemical arm, turned in a loss of NKr 21.2m (including depreciation) compared with a profit of NKr 4.4m in the same period last year.

and servicing rights to the network, which was used for providing water power, and subject to certain consents, can now put other items such as communications cables through the system.

Low and Bonar will retain the remaining 20 per cent interest in its former subsidiary.

# French launch nuclear submarine

CHERBOURG — France yesterday launched a nuclear-powered submarine designed for convoy protection.

The Saphir is the second of a fleet of 10 scheduled to go into service by the year 2000. The French say the 2,385-tonne, 72-metre Rubis-class craft are the world's smallest nuclear-powered submarines.

M Charles Hernu, Defence Minister, speaking after the Saphir's launch, described the submarine class as one of the key elements of French naval strategy.

The first of the class, the Rubis, is undergoing deep-sea trials and is due to go into service next summer. The fleet will be based at Toulon, headquarters of the French Mediterranean fleet, but M Hernu said that if need be, they would also be available for operations in the Atlantic and Indian Oceans.

Mr Arthur Holden, director and manager Pembroke Refinery, has been appointed director, administration of TEXACO LIMITED. Mr Holden is a member of the board of Texaco Limited and of Texaco North Sea UK Company.

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THE SUNDAY TELEGRAPH SEPTEMBER 6, 1981

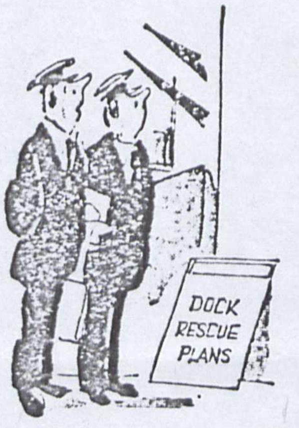
# Coal's triple challenge

## THE CITY EDITOR'S POSTBAG

*From the Chairman of the National Coal Board*

READERS of your article "Coal: the grim pitfalls that face Thatcher" (August 23) will have realised that, like most other enterprises, the coal industry has been severely hit by the recession. They will not have learnt anything, however, of the determined action which the industry is taking to overcome its short-term problems while building for the bright future which most people agree it undoubtedly has.

You stated incorrectly that overall productivity (output-per-manshift at collieries) is no higher than it was in 1973. In fact, productivity is at an all-time record level and is currently 4·5 per cent above a year ago. The other main indicators of productive efficiency—daily output-per-face and output-per-machine shift—are also higher than ever.




"At the present rate, we'll soon have a receiver in every port."

This is a positive indication that investment in new and replacement mining capacity is beginning to pay off as the National Coal Board—with the declared support of the mining trade unions and the Government — continue to rebuild a new coal industry from the old.

Despite the recession, it is essential that investment under Plan for Coal continues, to ensure that Britain has sufficient mining capacity to meet future energy needs and to replace collieries which will inevitably come to the end of their lives. The cost of doing this, which the industry has to meet, is a heavy and rising interest burden which amounted to £256 million in 1980/1 (£71·5 million more than the previous year).

The new Selby coalfield in Yorkshire, which is being developed at a cost approaching £1,000 million, illustrates well why we are determined to maintain the momentum of our substantial investment programme. When in full production at the end of this decade, it will pay off handsomely with productivity about *five times* greater than the current national average for all our mines. But a project of this size takes a long time to complete and the large investment debt has to be financed in the interim.

Coal sales—which, of course, provide the bulk of the industry's income—fell last year to 117·7 million tonnes because of the recession. We are striving and are currently set to increase sales to 121 million tonnes in 1981/2—by intensive effort in difficult home markets and by doubling exports again.

The challenges, therefore, are to continue to increase efficiency, to contain costs and extend sales.

We are making a good deal more headway in meeting these challenges than your gloomy article gives us credit for.—DEREK EZRA.

● Jonathan Davis writes: When the massive investment programme Plan for Coal was launched seven years ago, one of its targets was that productivity should increase by 4 per cent a year. In practice, even allowing for this year's modest improvement, the productivity gains have been virtually non-existent — despite nearly £3 billion of new investment.

If the targets had been met, Whitehall officials calculate that the coal industry's wage bill would be £350 million a year less than it now is. The productivity figures I quoted were given to me by Sir Derek's own officials —through the proper sources.

THE SUNDAY TIMES, 6 SEPTEMBER 1981

# The narrow seams that could depose King Coal

by John Huxley, Energy Editor

IN A couple of weeks' time, the winding gear at Houghton Colliery, Co Durham, will grind to a halt. But the debate over the long-term future of the pit and its workforce of 250 is likely to run on for some time.

The National Coal Board says Houghton is no longer economic and wants to shut it down. Last week, however, the mineworkers' union, which believes that 600,000 tonnes of coal are still to be won there, decided to continue fighting the closure.

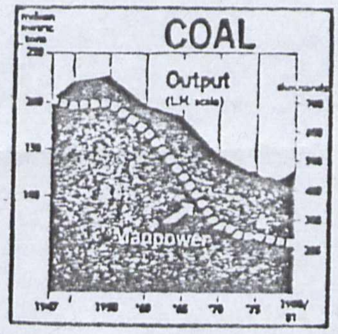
Both sides deny that Houghton will become the battlefield for a crucial test case. But the skirmishing indicates the potential difficulties now faced by the board in chopping off its lengthy "tail" of uneconomic deep mines.

These remain a serious drag on productivity—a factor which will determine whether coal really will become king, over the rest of the century, as widely billed, or merely the perennial pretender to the energy throne.

The elderly, inefficient deep mines are concentrated largely in Scotland, the north of England, and South Wales, where the board last year lost £9.44 on every tonne of coal mined.

Earlier this year the NCB abandoned a programme for the accelerated closure of 23 pits, after the Government had backed away from a confrontation with the miners. Since then the board has reverted to the previous machinery of reviewing pit closures on a local basis with the NUM. So far this year only five have been closed: Morlais, South Wales; Blackhall and Woodhorn, in the north-east; Lady Victoria, in Scotland; and Lofthouse, Yorkshire.

Sir Derek Ezra, chairman of NCB, is confident that about 2m tonnes of old capacity will be removed this year. He points to productivity gains now running at about 4% a year, since the introduction of incentive schemes. This has come at a time when output per man elsewhere in the world is falling.




But ministers are disappointed that progress is not faster. They are not convinced that productivity improvements can be maintained, and are disturbed that despite recent gains and some £3bn of investment since 1974 efficiency is still at 1973 levels.

Failure to tackle rising costs and make productivity gains threatens the ambitious long-term strategy for the mining industry, embodied in the famous Plan for Coal, produced in the aftermath of the 1970s oil price rises. This envisaged a greatly increased role for coal over the rest of the century.

Already the figures produced by the coal planners are looking too big. The recession has cut sales by 7.4m tonnes to 117.7m tonnes last year, when production actually increased by 3m tonnes to 126.6m tonnes. Although coal increased its share of the energy market, the result has been missed financial targets and record stocks of about 41m tonnes.

The board has responded vigorously to a depressed market. Exports have been doubled to about 10m tonnes this year—sales made at prices above average marginal cost, Sir Derek says. Incentives have been offered to domestic and industrial customers.

Sir Derek says: "Things do not go in a straight line in this industry," and adds that the board should not be diverted from its long-term investment plans by short-term difficulties.

The recession has pushed back coal board plans to expand—as opposed to replace—capacity. But the planners have not amended forecasts showing coal demand by the year 2000 within a range 150m to 200m tonnes. These have been criticised in recent months, with one observer, Colin Robinson, of Surrey University, putting demand in the 75m to 110m tonnes range.

Moreover the Department of Energy, a strong advocate of the need to open new and potentially profitable pits like Vale of Belvoir, is also working on new energy projections likely to show estimated coal demand much lower than the NCB's last published forecast of around 170m tonnes.

Ministers can, of course, be excused for appearing bearish about the coal industry now. The miners are expected to submit their pay claim before the end of the month. The starting point—a claim equivalent to about 24%—would cost the industry about £400m.

Whatever the wider political implications of the settlement and the ease of its negotiation, its size will have an important bearing on the board's spending plans.

On top of this there is the prospect of a double change of leadership at the top of the coal industry.

Miners start voting for a successor to NUM president Joe Gormley, in December. A left-turn, resulting in the election of Yorkshire leader Arthur Scargill, is the most likely outcome.

Sir Derek Ezra's present term of office ends next year too, and it is widely assumed that the government will seek a new broom. Finding someone with suitable credentials who actually wants the job will be difficult: Labour politicians Roy Mason and Eric Varley are among the names mentioned.

Sunday Telegraph 23 8 81

# Coal: the grim pitfalls that face Thatcher

BY JONATHAN DAVIS

SIX months after the Prime Minister's humiliating capitulation to the miners over pit closure plans, the coal industry still refuses to lie down and go away — much as Mrs Thatcher and her Cabinet colleagues must wish it would. In the next 12 months, the Government faces a series of politically and economically crucial challenges on issues connected with the mining industry.

These potential flashpoints are:

● The miners' wage settlement this autumn. Last year the Government was happy to get away with giving them 13 per cent. This year the National Union of Mineworkers is going for a 24 per cent increase. It would knock a gaping hole in the Government's plans to keep public sector wage rises to low single figures.

It is also something which the National Coal Board could not afford: wages account for something like 45 per cent of its total costs — and a 24 per cent settlement would cost around £450 million, money which simply isn't there.

● The election of a new miners' leader next January. Joe Gormley, after 11 years as a moderate president of the country's most politically influential union, will bow out.

Although they devoutly wish it won't happen, ministers are privately reconciled to seeing Arthur Scargill elected in his place. Inevitably, that will mean the miners' union taking a more overtly political role—and using their industrial muscle to fight the Government's economic policies.

Any chance of the Government securing an agreed programme for closures of antiquated uneconomic pits can also be ruled out, if Scargill takes over.

● The choice of a new Coal Board chairman next summer. Sir Derek Ezra, who has been running the coal industry since before the Heath election fiasco in 1974, is deeply unpopular with the Prime Minister, who blames him for allowing the pit closure plans to get out of hand earlier this year, thus forcing her into undignified and politically damaging surrender.

Sir Derek is not due to retire for another 12 months, but the Government is already turning its attention to his successor. The issue is a delicate one. The Prime Minister's inclination must be to go for a hatchet man like Ian MacGregor at British Steel. His task would be to trim the coal industry into leaner and more efficient shape — which means cutting out its loss-making pits.

But that's not as easy as it sounds: appointing an outsider who has no practical (or historical or emotional) links with the mining industry would be to encourage a head-on collision with the miners. Ideal candidates — hard-nosed businessmen committed to Tory economic principles but equally in sympathy with mining traditions — just don't grow on trees.

● The Coal Board's finances. This is perhaps the most pressing of all the Government's problems, as it struggles to bring public spending under control. Last year's attempts by the Energy Secretary David Howell to force the NCB into a modernisation programme by the crude expedient of applying impossibly strict financial targets has totally collapsed.

Howell's Coal Industry Bill laid down that the Government would fork out a total of no more than £525 million in deficit and operating grants to the Coal Board between 1980 and 1983/4 — by which time the industry was meant to be breaking even without Government help. That's now a pipe dream: the cost of February's settlement has been so high that the taxpayer will pay out £450 million in grants this year alone.

As NCB chairman, Sir Derek is by no means entirely to blame. Last year, he actually made a trading profit of £69 milion, only to see it wiped out by hefty interest charges of £256 million. But the chances of him ever getting clear of the need for Government support have vanished with the recession — and the survival of those grossly uneconomic pits.

As the table shows, the profitable opencast mining operations and the traditional pits in Nottinghamshire and the Midlands are supporting the heavy losses of the older mining areas in South Wales and Scotland. The 10 million tonnes of least economic capacity under the Coal Board wing lost [illegible] million last year. It will be [illegible] this year. Overall, at least [illegible] third of the country's collieries are chronically unprofitable.

The Coal Board is pressing ahead with massive investment to produce 100 million tonnes of new capacity by the [illegible] 1990s. (Current output is [illegible] million tonnes). Over £2 [illegible] lion of taxpayers' money has been poured into the programme (hardly a penny has come from the NCB's own resources) and the first results are coming through in distinctly better productivity at new and upgraded mines. But the gains are being more than wiped out by the continuing losses at the pre- 1914 operations.

Overall output per manshift in the country's mines is no higher than it was in 1975, despite all the new investment and the recession means there is no market for extra coal, anyway. Stocks are at record levels of 41 million tonnes, and the Coal Board is frantically exporting up to 9 million tonnes this year (at no profit) just to shift them.

The short-term outlook is distinctly unpromising. Having shied away from grappling with the industry's problems head-on in February, the Government is unlikely to return to the fray spoiling for a new fight. But, in the meantime, the political and economic costs of not intervening are inexorably rising.

**The profit earners — the loss makers**

| PROFIT | | | |
|---|---|---|---|
| Area | Output (m. tonnes) | £m | £ per tonne |
| OPENCAST | | | |
| Central West | 2·4 | 35·0 | 14·51 |
| Central East | 3·6 | 40·2 | 11·32 |
| North East | 3·0 | 32·7 | 10·78 |
| Scottish | 2·9 | 29·6 | 10·39 |
| North West | 1·2 | 8·0 | 6·74 |
| South West | 2·2 | 11·0 | 4·90 |
| DEEP MINING | | | |
| North Notts | 12·0 | 60·7 | 5·07 |
| North Derby | 8·2 | 26·5 | 3·21 |
| South Notts | 8·8 | 1·2 | 0·14 |

| LOSSES | | | |
|---|---|---|---|
| Area | Output (m. tonnes) | £m | £ per tonne |
| DEEP MINING | | | |
| South Wales | 7·7 | 72·5 | 9·44 |
| Scottish | 7·7 | 28·9 | 3·73 |
| Doncaster | 7·2 | 21·4 | 2·99 |
| North East | 14·1 | 34·5 | 2·45 |
| North Yorks | 8·5 | 16·8 | 1·97 |
| Western | 11·2 | 17·6 | 1·57 |
| S. Midlands | 8·5 | 11·4 | 1·35 |
| Barnsley | 8·3 | 10·7 | 1·29 |
| South Yorks | 7·4 | 9·5 | 1·29 |

Source: National Coal Board

23.8.81

Sunday Telegraph

# Opec: no news is good news

THE tersest but most telling summary of several days of fruitless bargaining at last week's Opec meeting in Geneva was made by Iraq's Oil Minister Tayeh Abdul - Karim yesterday as he raced for his plane home. "Nothing. As it is." was how he summed up the current world oil scene in the wake of the meeting's unexpected collapse.

No news, in this case, is definitely good news. The overall impact of Opec's failure to agree on a compromise reunification of prices will be to push oil prices generally down —thus continuing the trend that has become so marked all this year.

If Saudi Arabia had increased its price from $32 a barrel to $34 a barrel, as it originally intended, that would have pushed up the overall level of oil prices—even if the producers of the more expensive crudes such as Algeria, Libya and Nigeria had come down from their present grossly over priced levels of $40-$41 a barrel in return (which was the quid pro quo which the Saudis were demanding).

The reason for this is of course that Saudi Arabia, by keeping its output at an artificially high level of over 10 [illegible] barrel, and some other Opec countries such as Nigeria almost certainly about to be forced down by three or four dollars a barrel because of market pressures, the weighted average of Opec crude oil will fall below $34 a barrel—against $34·2 now and $35 a few weeks ago.

Shaikh Yamani's last-minute concession of a 1 million barrel a day cut in Saudi production will take out a little of the current three million barrel-a-day world oil surplus—but not enough to have a significant impact at a time when stocks around the world amount to well over 100 days' supply, whichever of the industry's usually contradictory measures your take.

Yamani is now talking about keeping his price at $32 a barrel until the end of 1982 if necessary. That should be taken with a pinch of salt, but it underlines the fact that the West now has an ideal long time in which to recover from the oil price shocks of the last three years. Yamani even went so far as to hint that a true market price for his oil would be $28 a barrel, and it would not be too surprising if prices continued to fall towards that level.

There will be disappointments. The Chancellor has lost up to £1,000 million in North Sea tax revenue that he would have got if North Sea prices had followed Saudi Arabia's up—as they would have done.

But he has gained already from the sharp appreciation of the dollar, which has pushed up the sterling receipts from the North Sea. The same movements will also keep petrol prices where they are—and maybe lead to further increases. But the overall economic gains are positive.

Not fwd
4

CONFIDENTIAL

Prime Minister

PARLIAMENTARY UNDER SECRETARY OF STATE

cc ~~Mr Duguid~~
~~Mr Vereker~~

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

MCS 16/10

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

15 October 1981

Dear Geoffrey,

MINEWORKERS' PAY NEGOTIATIONS

In Nigel Lawson's absence I am writing to give you a further report on developments on the NUM wage negotiations.

Since we last reported the tempo of the negotiations has slowed down. The next meeting will still be held on 19 October, but the Board expect it to be another "preliminary canter". Joe Gormley is then planning to visit North America for a few days. The following (and perhaps crucial) meeting is likely to be held in the middle of the week beginning 26 October or early in the following week. The Board believe that Gormley's current thinking is that it may be easier to gain acceptance of a reasonable settlement if the ballot takes place close to the Presidential election. On the other hand they are conscious of the danger that the more drawn-out the negotiations are, the greater the danger that somebody will cause trouble and that they will be under increased pressure to go on improving their offers. There are already signs that Mick McGahey wants to make life difficult politically for the Government.

The Board's present plans are to make an offer of about a 6% increase on basic rates on 19 October plus 1% on incentive payments. The latter will cost some £7m pa. The Board will also be prepared to continue talking about the non-wage items. The Board expect Gormley to turn down the offer as insufficient, but be prepared to continue talking at a subsequent meeting. The Board will, however, not be taking a final decision on their tactics until closer to the meeting.

Turning to the question of presentation, you will no doubt have seen that the record has been put straight on the particular misleading reports, to which you referred in your letter of 8 October. The Daily Express picked up Derek Ezra's reference to "the offer that never was made", while the Daily Telegraph referred specifically to a 6½% offer. We hope that other papers will pick up the Daily Telegraph article before the meeting on 19 October. In any case the Press should be in no doubt after that meeting about the level of the Board's offer.

I should add that Jimmy Cowan (NCB Board Member for Industrial Relations) is keeping in close touch with his counterparts in other nationalised industries and keeping them fully informed about the real implications of their offers.

Nigel will be replying to the other points in your letter of 8 October on his return from Blackpool. I am copying this letter to the Prime Minister, members of E, the Secretaries of State for Scotland and Wales, Sir Robert Armstrong and Mr Ibbs.

Yours ever
John

JOHN MOORE

c Mr Duguid

Prime Minister

(2)

MES 16/10

CONFIDENTIAL

DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ
Direct Line 01-211 3932
Switchboard 01-211 3000

PARLIAMENTARY UNDER
SECRETARY OF STATE

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

14 October 1981

Dear Geoffrey,

NCB : 1 NOVEMBER PRICE INCREASES

I am writing in Nigel Lawson's absence to inform you of the increases in NCB list prices for coal, which the Board will announce on Friday 16 October.

Electricity coal

The agreement reached with the CEGB, which reflects the two Boards' Understanding on coal prices, is:-

- the net price to CEGB will rise by 7.3% in all coalfields except South Wales, and by 10.3% in South Wales;
- average price increase will be 7.5%;
- NCB have assured CEGB of their intention to hold these prices for 12 months, subject to any unforeseen problems.

Industrial steam coal

NCB steam coal list prices last increased on 1 January. The increases from 1 November 1981 will be:

- all coalfields except South Wales: 8.5%;
- South Wales: 11.4%.

Prices to industrial customers are in practice negotiated individually. A large number of customers enjoy discounts. The higher price increases in South Wales for both electricity and industrial steam coal go a small way towards reflecting the Area's higher costs of production.

Domestic coal

Domestic coal prices were last increased in January 1981. Discounts of £5/t - £7/t applied from April to July. The increases in NCB's published list prices from 1 November will be:-

| Coal | Increase £/t | New price £/t |
|---|---|---|
| Bituminous house coal | 3.35 | 49.25 |
| Smokeless fuels | 4.15 - 4.90 | 66.85 - 88.25 |

Actual prices vary between areas of the UK. The final price to customers also depends on coal merchants' charges. For most domestic qualities the increases fall between 5½% and 6½%.

Coking coal

Coking coal list prices will be increased by 7½%. Negotiations on prices for 1982 between NCB and BSC under their supply agreement, are not yet completed.

The Board will announce their general levels of steam coal and domestic coal list price increases on 16 October. The terms agreed with CEGB are meant to be confidential and will not be announced, although they were in fact foreshadowed by Martin Dickson in yesterday's Financial Times. With price increases below the rate of inflation except in South Wales, the price of NCB coal is generally competitive with imported coal and with other fuels.

As indicated in Nigel Lawson's letter of 30 September to you, the timing of the announcement is dictated by the wage negotiations. The Board's negotiators intend to make full use of the argument that weak market conditions have enabled them to introduce only modest price increases below the rate of inflation. This will undoubtedly restrict their ability to find funds for wage increases.

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

Yours ever

John

JOHN MOORE

Nation Industries Coal

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cc HO
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10 DOWNING STREET

*From the Private Secretary*

12 October 1981

Dear Julian,

Miners' Pay

The Prime Minister has seen and noted your Secretary of State's letter of 8 October to the Chancellor of the Exchequer; and the Chancellor's reply, also of 8 October.

The Prime Minister has expressed doubts about the wisdom of the proposal that a settlement should be presented as more generous than it really is. She has noted that this will have to be examined very carefully when the outcome of the negotiations is known.

I am sending copies of this letter to the Private Secretaries to the members of E Committee, the Secretaries of State for Scotland and Wales, and to David Wright and Mr. Ibbs.

Yours sincerely,

Michael Scholar

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

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NBPM

c A. Duiguid
A. Walters
J. Vereker

PARLIAMENTARY UNDER SECRETARY OF STATE

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

9 October 1981

Dear Chief Secretary

COAL INDUSTRY BILL

The two outstanding points between us on the Bill are the new limits on borrowing by, and grants to, the Board, and the explicit use of the name "Deficit Grant" in the side heading to the relevant clause.

Limits

I suggest that the Bill should make provision for both grants and borrowings which will last until March 1984. The next Bill would therefore be needed in the Session 1983-84, when legislation would presumably have been needed anyway to renew our existing powers to pay social grants to the Board which expire then. The limits which I suggest are:

i. borrowing by NCB (present limit £4200m): £4500m, increasible by order to £5,000m;

ii. deficit and operating grants (present limit £590m): £1000m, increasible by order to £1750m;

iii. pit closure grants under s.5 of the Coal Industry Act 1977 (present limit £170m): £200m;

iv. payment to redundant mineworkers under s.7 of the Coal Industry Act 1977 (present limit £220m): £280m.

The figures for the pit closure grants and payments to redundant mineworkers are based on NCB's latest estimates. Those for borrowing, Deficit Grant, and other operating grants are based on actual figures to date or the limits which we have already set for 1981-82 and 1982-83. For 1983-84, they are based on the figures in NCB's recent Development Plan, subject to adjustment to reflect lower wage assumptions and further savings in other operating costs, together with containment of capital investment at its 1982-83 level in real terms. The figures also include a contingency element, as is only prudent, given all the uncertainties surrounding the coal industry. They do not, however, include any provision for exceptional measures to increase coal deliveries to CEGB, or to reduce energy prices to industrial consumers. My officials have explained the basis of their calculations to yours.

These figures are large. They are not, however, commitments to expenditure or the figures on which we shall base our control of NCB. It is important, therefore, that they should be robust and not set at a level which could force us to seek new legislation earlier than we wish. In this light, and given all the uncertainties, although it is possible to think of action which we could take to reduce NCB's expenditure, I believe that the limits are reasonable and prudent. I hope that you can agree to them.

Deficit Grants

I know that you have always wanted the side heading to the relevant clause in the Bill to refer specifically to "Deficit Grants". You made this point most recently in your letter of 28 August. I suggest that the wording might be "Deficit and other operating grants". This is explicit, a proper summary of the Clause, and short.

I am sending copies of this letter to the Members of E Committee, the Secretaries of State for Transport, Scotland, and Wales, the Lord President, Sir Robert Armstrong and Mr Ibbs.

Yours sincerely

DJ Watts

JOHN MOORE

Approved by the Minister and signed in his absence.

1

Duguid
Vereker
Wallen

Prime Minister

To note where we are in the NUM/NCB pay negotiation. John Vereker's note (flag A) points to dangers - now highlighted by the Chancellor - of presenting a settlement as higher than it really is. Agree I write as proposed at X in his note?

MLS 9/10

Yes MT

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

8 October 1981

Rt. Hon. Nigel Lawson, MP.,
Secretary of State for Energy

Dear Nigel

MINERS' PAY

Thank you for your letters of 30 September and 5 October about the miners' pay negotiations.

I am sure that you will impress on Derek Ezra the need for as low a pay settlement as possible. No-one knows better than you how a large wage increase, apart from its effect on the finances of the industry - and that would be serious enough - would be bound to set a target for such powerful groups as the gas, electricity and water workers. A settlement in high single figures, let alone anything more, would be well out of line with what we hope to see in both the public services and the public sector, and would lead to even stronger complaints from the CBI and others that, as in the last pay round, pay settlements in the monopoly public utilities imposed an unreasonable burden on the private sector.

This of course applies just as much to concessions on hours, holiday pay, the age of retirement, etc, as to increases in basic pay rates. All would add to costs; and all would be likely to have repercussions on other negotiations.

I realise that it must be left to the NCB how they conduct the negotiations. However, there is one point on which I hope they will consult us further. This is the way in which any settlement is presented. There may well be attractions for the NCB, at least in the short run, in presenting a settlement as more generous than it really is. But the effect on other negotiations is simply to raise the target at which the unions will aim and to produce an exaggerated impression of the "going rate". (Even for the NCB, I should have thought there were risks in giving an exaggerated impression of the likely effects of a settlement on the pay packet: since the true facts will eventually come out, e.g. in the New Earnings Survey, which includes separate figures for coalmining.) My misgivings are strengthened by the presentation in yesterday's press, which gave the impression that the Board had offered an increase of around 9 per cent, whereas the effect on the pay bill, I understand, is of the

/order of

order of 5 per cent. I do not suggest that this is the Board's fault; but the general message is certainly very unhelpful to our stance on pay.

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

GEOFFREY HOWE

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cc J. Vereker
A Duguid
A Walters

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

01 211 6402

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

8 October 1981

Dear Geoffrey

MINEWORKERS' PAY NEGOTIATIONS

The first negotiating meeting between the NCB and the NUM took place on 6 October. The general feeling afterwards on both sides was that it went as well as could be expected.

Following the NUM's formal submission of their claim, the Board made a detailed statement of the resources available to meet it. They pointed out that it would cost around £1200 million in a full year to meet the claim in full (23.7% on basic rates, plus substantial other wage and non-wage items). The Board just did not have such money available. In February the NUM had shown more concern for the preservation of jobs than for wage increases. If the NUM had accepted the Board's closure proposals at that time, there would have been more money available now for pay.

The Board then circulated tables which set out their expected financial position over the next year. These showed that the grants agreed for 1981/82 and anticipated for 1982/83 were largely being swallowed up by the losses incurred on maintaining uneconomic pits in operation and that the potential for further price increases was very limited if markets were to be maintained.

The tables indicated that a sum of £120 million might be available to finance pay increases (including associated costs) over the next year for all the Board's staff - not just mineworkers. This is equivalent to a 6.5% increase on basic rates, or a 5.2% increase in average earnings. The Board did not mention these figures. Joe Gormley initially asserted that the Board were attempting to impose a Government 4% limit, but the Board emphasised that the Government had set no pay target or limit for the industry, and they themselves had assessed how much they could afford. The more money that was made available for pay, the less

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there would be for investment.

The NUM in fact quickly accepted that £120 million would give more than a 4% increase. This greatly improved the climate of the meeting. At the end, Joe Gormley said that £120 million was not enough. Arthur Scargill, who misinterpreted the sum as representing an increase of nearly 8% on basic rates, said that the offer was wholly inadequate. Such reactions were only to be expected at the first negotiating meeting.

Another meeting has been arranged for Monday, 19 October. This may continue on 20 October with both sides aiming to reach a settlement then if at all possible. The Board remain hopeful that they will achieve a settlement that can be presented as equivalent to 9% - 10% on basic rates, but which in fact adds only 7% - 8% to earnings and to the Board's wage bill. Their approach is likely to be an offer, at the beginning of the meeting, of a 6.5% increase in basic rates and then an offer of limited improvement on incentive payments. It may be possible to take the non-pay items in the NUM's claim (eg shorter hours) out of the formal claims machinery and discuss them separately.

Some of the media correctly interpreted the sum of £120m as being equivalent to increases on basic rates of 6% - 7%. The Board have ensured that Joe Gormley and his NUM colleagues know that this is the case. Other newspapers have referred to higher percentage figures, probably drawing on Arthur Scargill's figures. The NUM Executive may itself put the record straight after its meeting on 8 October. If it does not, the Board have indicated that they will take steps to do so.

I will continue to keep colleagues in touch with further developments. Once again I should like to stress the importance of protecting the Board's negotiating position. Our low profile in the wage claim hitherto has enabled the Board to rebut effectively charges that the Government is dictating the terms offered.

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

Yours ever
Nigel

NIGEL LAWSON

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cc J Vereker
A Duguid
A Walters.

Nat Ind

Pl bf with
other pp's
MCS

B/F 8/10/81

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

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

5 October 1981

Dear Geoffrey

MINEWORKERS' PAY NEGOTIATIONS

Since I wrote to you on 30 September, the timetable for the pay negotiations has become clearer.

The NUM have already sent the NCB a draft of their formal claim, which will be presented at the first negotiating meeting on 6 October. The claim - a diffuse document - stresses the UK's and the world's need for coal, draws attention to recent improvements in productivity, and emphasises the need for continuing commitment by all involved to the 'Plan for Coal'. It then emphasises the need to maintain and improve the living standards of the NUM membership. This leads to claims for:-

a. a minimum of £100 per week for surface workers (ie an increase of 23.7% on present rates);

b. an examination of differentials, and payment on a salary basis;

c. reduced hours, preferably in the form of a 4 day week without loss of earnings; reduction to 55 in the age at which miners can opt for early retirement;

d. enhanced rates for holiday pay.

This claim is, like last year's claim, a 'statement of position', rather than a serious basis for negotiations. The NCB will respond with a detailed statement of the financial resources available to meet the claim, bearing in mind the position of other Board employees. This statement is still being finalised.

A second meeting will probably be held on or around Tuesday 20 October. However, the NUM are anxious to complete the negotiations and have them confirmed by ballot well before their Presidential election campaign begins (voting will be from 2-4 December). They may therefore press for an earlier second meeting. Whatever the timing, the NCB's aim will be to complete the negotiations as soon as possible after the second meeting. It has been the Board's experience that to allow NUM to 'pause for breath' tends to stiffen the union's demands. This year the NUM's own desire for a quick settlement gives the NCB a useful negotiating advantage.

Even if a settlement is reached well before the end of October, it will need to be confirmed by ballot. A Special Delegate Conference may be called before the ballot, although the NUM's National Executive Committee can be expected to try to avoid doing this. It follows that we shall have to be particularly careful to avoid public announcements which could cause difficulties at least until the beginning of November.

As before, I must emphasise that the information given here as to NCB's negotiating intentions must be regarded as strictly confidential and sensitive.

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

Yours ever
Nigel

NIGEL LAWSON

Nat Ind Coal

Prime Minister

To note that agreement has been reached on the NCB's EFL, consistent with the Chief Secretary's overall proposals to E Committee.

MCS 5/10

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cc Duguid
Walters
Vereker

MCS

(2)

MS

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SWIP 3AG

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

2 October 1981

Dear Secretary of State,

NCB 1982-83 EFL

I write to say that I can accept the proposal in your letter of 1 October for an NCB EFL for 1982-83 of £1026m and a capital expenditure limit of £886m. I can also agree to your points, described below, on the reimbursement of certain social grants, dropping the three proposed additions to the Coal Bill and to the commodity investment scheme. Your proposal for an EFL of £1026m will mean that the NCB's EFL will reflect in full the cut of £294m sought in my paper to E Committee. This is very helpful and brings the Board's EFL for 1982-83 below this year's in money terms. I agree that the NCB should be told of their EFL straight away, and I am very grateful to you indeed for helping to secure such a satisfactory outcome.

The three points on which you sought my agreement were as follows.

(i) Social Grants: you sought agreement to certain changes which were described in your officials' letter to me of 29 September. In brief they were:

a) The Department should reimburse the Board for the total cost of all premature and enhanced pensions paid in respect of men who have been eligible for redundant mineworkers' payment schemes benefit.

b) The new arrangements at (a) above should apply from 11 March 1981, the date when the new redundancy terms came into operation.

c) The forthcoming Coal Industry Amendment Bill should include the necessary legislative changes.

d) The NCB should be told about all this.



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This is acceptable. I understand that your Department estimate that the increase in social grants would be about £3m a year. There would be no addition to public expenditure since the increase in social grants would be offset by a reduction in the NCB's borrowing.

(ii) Coal Bill: the three proposed additions to the Coal Bill, referred to in my letter of 16 July, can be omitted from this Bill. You will have seen that I wrote to you and other sponsor Ministers on 30 September about how I think we should carry forward consideration of these matters for the nationalised industries generally.

(iii) Coal for Commodity Investment: the criteria which such sales would have to meet, described in the attachment to your letter, are reasonably rigorous and, as you say, would in principle be an acceptable source of additional internal resources for the Board. I therefore agree that provided such sales meet the requirements, the NCB could meet up to £26m of their EFL from sales of coal to commodity investors. If the NCB were able to secure sales above £26m, the excess should reduce the EFL.

You say that in giving the NCB their capital approval, you would make clear that they should concentrate on efficiency-improving expenditure, rather than on output-creating projects. This approach has my full support, particularly since there must be doubts about the viability of at least some of the NCB's investment programme which is intended to add to output. I hope to see substantial reductions in the investment programme in future years.

Two final points:

(i) Electricity Discount Scheme: in his letter to you of of 28 September, Patrick Jenkin asked that no decision on the NCB's 1982-83 EFL should be taken which would rule out the possibility of using the coal route to facilitate the implementation of the electricity discount scheme agreed by MISC 56. Our agreement to an EFL of £1026m would not prejudice such a scheme. It it is decided to use the coal route, the Board's EFL would have to be increased. It would clearly help presentation if decision on the coal route was taken before the public announcement of the NCB's EFL later this year.

(ii) Coal Grants: David Howell's letter of 11 September set out proposals for coal grants for 1982-83. The figures proposed there have been overtaken by the additional cuts in the NCB's EFL. I suggest that our officials should now agree the level of coal grants consistent with the EFL of £1026m.

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

yours sincerely

PP LEON BRITTAN

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

CONFIDENTIAL

Please b/f. with Mr Lawson's letter when it comes forward

Nat Ind

A

MR SCHOLAR                                                    cc John Hoskyns

Miners' Pay

Mr. Lawson's letter of 3 September to the Chancellor does not reveal any new developments on miners' pay as a result of discussions with Derek Ezra. The likely way forward on the tactics of the negotiations seems sensible; and I am sure it is right to postpone the public announcement about the reference of the NCB to the Monopolies and Mergers Commission. However there is one point of some importance, of which I think the Prime Minister should be aware: the desirability of presenting the eventual settlement as higher than it really is.

The Prime Minister will recall that last year, amid a good deal of confusion about what actually had been negotiated, a settlement containing a 9.7% increase in average earnings over a 10 month period was widely presented as about 13%. As a result, 12 to 13 per cent became a sort of target for the other public sector monopolies. The strong advice from the NCB and the Department of Energy was that presenting the offer as 9.7% would make it unacceptable to the miners.

It now transpires that the NCB's own calculations about the likely effect of the settlement on average earnings was wrong. The Department of Employment in the process of gathering data for the New Earnings Survey which will be published on 29 October have told me that it seems that total earnings have actually increased by 8%, although basic rates probably increased by 10.3%. Clearly the publication of these figures will lead to a good deal of aggravation on the part of the miners, who will feel both that they were misled last time and that they have further to go to meet their claim for £100 in the minimum grading rate.

/The Department

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The Department of Employment will find some way round the problem of the embarrassment of these figures, perhaps by delaying publication, but there is an important lesson here which should lead us to question the assumption in Mr. Lawson's letter that it may be necessary to play the same game again this year. As long as the wool can be successfully pulled over the eyes of the NUM, it may make it easier to settle at a particular figure if it can be presented as higher. But there are severe drawbacks. First, it is risky: the calculations, although complicated, are not beyond exposure by an astute journalist. Second, it is found out sooner or later, with consequent damage to subsequent pay rounds. And third, the higher figure affects other pay settlements. This last point will be particularly important this pay round, in which the miners' settlement date has been advanced by two months to 1 November, and will be regarded as even more of a benchmark than usual by other public sector unions.

If the Prime Minister agrees, therefore, I think it would be helpful for you to write to Mr. Lawson's office saying that she has noted this point, but feels that the assumption that the settlement may have to be presented as higher than it really is is questionable, and will have to be examined very carefully when the outline of the negotiations is known.

X

1 October 1981

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BK 8/10 for comments [illegible]

Natlnd

cc Duguid
Walters
Vereker

Pl sf 8/10
MGS

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

01 211 6402

2 RP's

CONFIDENTIAL

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

1 October 1981

Dear Leon

NCB 1982/83 EFL

At our meeting on 21 September we reached a provisional agreement on an EFL of £1026m and a capital expenditure limit of £886m for the NCB for 1982/83. My acceptance was dependent on your agreeing to drop your three proposed additions to the Coal Bill, your agreeing to the change I proposed in the reimbursement of certain social grants, and agreement being reached on an acceptable scheme under which the NCB could meet up to £26m of their EFL from sales of coal to commodity investors.

Following our meeting, our officials have discussed the Board's proposals to secure additional sales of coal as a commodity investment with the NCB.

As Nigel Wicks will no doubt have reported to you, our officials have agreed that, provided such sales met certain criteria, they would in principle be an acceptable source of additional internal resources for the Board. The requirements which such a sale would need to meet would be, in particular, that it should be a genuine sale, under which title of ownership would pass to the purchaser, be at arm's length and irrevocable, involving no buy-back provisions. I attach a copy of the requirements in full. We have put these criteria to the NCB, who think that they can, in principle, arrange commodity investment sales which meet them.

While I attach great importance to the Board having the opportunity to make such sales to investors, I think they should be given freedom to meet a part of their EFL, either by this route or by other means, such as a higher closure level, provided they keep within their EFL. We should of course want them to achieve it as far as possible by making cost savings.

Subject to your confirmation of our provisional agreement, I would propose to tell Sir Derek Ezra this week that his EFL is £1026m, and capital approval £886m, for 1982/83 in outturn prices. In giving the Board their capital approval, I should make clear that we want them to concentrate on efficiency -

improving expenditure, rather than on output - creating projects. I should also make it clear that sales of coal to commodity investors during 1982/83, which meet the agreed criteria, can contribute to the achievement of the EFL up to a maximum of £26m.

I shall also ask my officials to proceed with work on the Coal Industry Bill on the basis we agreed.

I am sending copies of this letter to the Prime Minister, the Secretaries of State for Scotland and Wales, Sir Robert Armstrong and Mr Robin Ibbs.

Yours ever
Nigel

NIGEL LAWSON

Enclosure to letter

NCB: SALE OF COAL AS A COMMODITY INVESTMENT

Such a sale would need to satisfy the following requirements:

- be in the NCB's commercial interest, at prices consistent with th prices charged in the markets into which the coal would eventually be sold, taking into account contractual limitations on timing.

- be a genuine sale under which the purchaser could freely dispose of the coal, subject to restrictions stipulated in the original contract on the choice of markets (UK or export) and on the timing of the sale;

- under which title of ownership would pass to the purchaser before or at about the same time as the payment for the coal (ie not a "futures" deal);

- take place at arms length and preserve an arms length relationshi The seller should be free to nominate any agent for the eventual sale, including the NCB; ie he should not necessarily be bound to use the Board as agent;

- be irrevocable, eg involving no buy back provisions;

- entail the equity risk being borne entirely by the purchaser eg the purchaser bears all the risks in fluctuations in the deliver price of coal.

- involve proper charges on the purchaser for storage, insurance an any costs which the Board might incur in their agency capacity.

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c/c Duguid
Vereker
Walters

MLS

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

01 211 6402

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

30 September 1981

Dear Geoffrey

MINERS PAY

I discussed this subject with Derek Ezra on 22 September in the course of an introductory meeting. It also came up when Joe Gormley and Lawrence Daly called on me at their request on 25 September. This letter reports on both meetings and on the position generally.

When I saw Derek Ezra I drew attention to the serious financial position of the coal industry and the key importance of a reasonable settlement with the NUM. Ezra said that in his view the workforce did not want trouble on the wage front, though some of the union leadership would obviously take a militant line. The Board's aim would be a settlement which was only just high enough to avoid industrial action. At the end of the day, he thought it might be possible to get a settlement which was just in single figures on basic rates but which resulted in a considerably lower increase on overall earnings, perhaps of the order of 7 per cent. But he emphasised that it would be quite unrealistic to aim for a 4% settlement. I reiterated the importance for the economy generally of a settlement that was low and could be presented as low, and expressed the hope that the Board would be more flexible on incentive payments than on increases in basic rates.

Other members of the Board, in particular James Cowan, the member who will lead the negotiations, have confirmed Ezra's view and suggest that overall the chances of a settlement along the line described by Ezra are slightly better than evens; though they have also warned us that it may be necessary to present the settlement as higher than it really is (as they did last year).

As you will have seen from the press, the NUM were not able to finalise their claim on 24 September, although its broad outline will follow the decisions taken at the Conference. While I avoided any discussion of pay issues with the NUM, Joe Gormley stressed their interest in certain non-pay items, in particular in a reduction in weekly hours worked. It is too early to predict what part these might eventually play in the negotiations. The Board are already considering the possibility of offering a trial reduction in hours at a few pits, which would have to be entirely self-financing. Joe Gormley and Lawrence Daly also mentioned the union's desire for improvements in holiday pay and for 'salary status' for mineworkers.

I shall be keeping in close and regular touch with the Board about the negotiations in the coming weeks. The NUM will present their claim on 6 October when the Board will say how much money is available in total. The NUM will then ask for this figure to be converted into a formal offer. This offer, perhaps of the order of 6-7% on basic rates, will be tabled at a second meeting about a fortnight later. The Board will try to hold the offer as far as basic rates are concerned (though as noted above they may have to go higher eventually) and negotiate on incentives and non-pay items. As indicated above, the NUM may be receptive to this approach though their initial claim will stress cash.

Part of the Board's negotiating tactics this time round will be to announce an increase in coal prices early in October rather than, as previously, after a settlement. They will then argue that any further increase would be damaging. The details of the increase are still under consideration, but it is likely to be relatively modest and certainly below the current rate of inflation.

It is, of course, vital that the Board should not only remain in the driving seat in the negotiations, but should be seen to remain there. We must be particularly careful to avoid giving the inaccurate impression that the Board is under pressure from the Government to enforce some particular norm on the NUM. Initial misunderstanding in the Press about the scope of the 4% wage factor in public sector cash limits has not helped towards the attainment of a reasonable settlement. I think we must also be very careful in the next few weeks to avoid statements or actions which might unnecessarily exacerbate the position. For this reason we have written to Sally Oppenheim suggesting that the public announcement about the MMC reference, although not the start of work, should be postponed until after the pay settlement. It would also be very helpful if during the coming weeks colleagues could give me advance warning of any speeches or announcements which might have a bearing on the negotiations.

The information of the Board's negotiating position as described in this letter is of course extremely sensitive, and I would be grateful if colleagues could treat it accordingly.

I am copying this letter to the Prime Minister, the members of 'E' committee, the Secretaries of State for Scotland and Wales, Sir Robert Armstrong and Mr Ibbs.

Yours
Nigel

NIGEL LAWSON

Nat Ind

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*

28 September 1981

The Rt Hon Nigel Lawson MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London SW1

12
30/9

NATIONAL COAL BOARD: EXTERNAL FINANCING LIMITS

I have seen David Howell's letter of 11 September to Leon Brittan about the National Coal Board's EFL and have one comment which arises from the discussions with the Electricity Council on industrial electricity prices.

2 You will remember that, as a result of discussions in MISC 56, the Electricity Council was invited to devise and operate a scheme of discounts which would benefit the larger industrial electricity consumers and which would be financed by a relaxation in the electricity supply industry's EFL. The Council proposed a discount scheme but, in discussion with David Howell and Norman Tebbit, advised that the scheme would be unacceptable to a majority of the Area Electricity Boards if the Government were to offer nothing more in the way of financing than a relaxation of the industry's EFL. The Council argued that all the Boards would run up against the "undue preference" difficulty if part of the costs of the discounts was eventually recouped from the majority of electricity consumers who would not receive discounts and that several of the Boards would move from profit to loss. The Council invited David Howell to explore ways of overcoming the difficulty by enabling the NCB to provide cheaper coal to the CEGB.

3 The coal route offers the advantage that it would make less obvious the Government's role in financing the discount; an adjustment in the NCB's EFL would be less visible and less open to challenge by the European Commission than any of the alternative arrangements which have been suggested. The cost of a discount scheme operating for one year from, for example, the late Autumn of this year would fall mainly in 1982/83. In these circumstances I would like to suggest that no decision should be

taken on the NCB's 1982/83 EFL which would rule out the possibility of using the coal route to expedite the discount proposal.

4 I am copying this to the recipients of David Howell's letter.

Yours ever

Peter

cc A. Duguid

Nat Industries
Coal
MS 12/10

CONFIDENTIAL

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

01 211 6402

Prime Minister

Nigel Lawson suggests - rightly I think - that the NCB reference to the Monopolies Commission be announced after the pay negotiations!

cc Press Office

Peter McCarthy Esq
Private Secretary to the
Rt Hon Sally Oppenheim MP
Department of Trade
1 Victoria Street
London SW1

24 September 1981

Note This has now been agreed on all sides.
MCS 12/10

Dear Peter,

PROPOSED REFERENCE OF THE NATIONAL COAL BOARD TO THE MONOPOLIES AND MERGERS COMMISSION

attached

Thank you for your letter of 14 September, with which you enclosed the draft of a press notice announcing your Minister's intention to refer the National Coal Board to the Monopolies and Mergers Commission. I have shown this to my Secretary of State.

Since you wrote, Sir Derek Ezra, the Chairman of the National Coal Board has written expressing the fear that NUM will take the announcement as a sign of Government hostility to the industry, and that, as a result, the Board's task of securing a reasonable settlement would be made harder. He therefore asks for the public announcement of the reference to be deferred until after the wage negotiations. The member of the Board who will be conducting the negotiations with the NUM has made the same point forcefully to officials.

The Secretary of State accepts this argument. The Government's immediate and key objective, as far as coal is concerned, is to secure a reasonable settlement without confrontation. The risk involved in an announcement of the reference may be slight, but the NCB regard it as real, and there would be no point in running it unnecessarily. Further, since the intention was always for the formal reference to be made and the MMC to start work at the beginning of November, there need be little delay to the Commission's work. He therefore asks that a public announcement of the intended reference should be delayed until after the NUM wage negotiations are finished, although, if your Minister agrees, he would insist to Ezra that the NCB should actively carry forward preliminary work with the MMC in confidence between now and then. He would be grateful if you would let me know whether your Minister is content with this new arrangement.

I am sending copies of this letter to the other recipients of your letter as well as to Mr Ibbs.

Yours ever,

J D WEST
Private Secretary

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H OET

TELEPHONE DIRECT LINE 01 215 5662
SWITCHBOARD 01 215 7877

cc Miss Atkin
Mr Vereker

From the
Minister of State
for Consumer Affairs

The Rt Hon Sally Oppenheim MP

Prime Minister

NCB reference to the Monopolies Commission to be announced on Wednesday.

J D West Esq
Private Secretary to
The Rt Hon David Howell MP
Secretary of State for Energy
Thames House South
Millbank
London SW1

no need to write TL. 15/9

Agreed. Has also been cleared with Nigel Lawson I assume it.

14 September 1981

TL 14/9

Dear Julian,

PROPOSED REFERENCE OF THE NATIONAL COAL BOARD TO THE MONOPOLIES & MERGERS COMMISSION

Officials in our two Departments have been advising our respective Ministers in parallel about the proposed investigation by the Monopolies & Mergers Commission into the efficiency of the National Coal Board. I understand that Ministers in both Departments have agreed ... to the attached draft terms of reference for the inquiry; they have further agreed that there should be an announcement in mid-September of the intention to make the reference, while the reference itself will be formally made, together with a further announcement giving details of the terms of reference, at the end of October or early in November.

... For the first announcement, I attach a draft press notice which my Minister proposes to release on Wednesday 16 September. I should be grateful if you would let me know whether your Minister is content with the terms of the announcement.

I am copying this letter and attachments to the Private Secretaries to the Prime Minister, the Chancellor of the Exchequer, the Secretaries of State for Scotland, Industry and Employment and Sir Robert Armstrong.

Yours ever

Peter McCarthy

PETER McCARTHY
Private Secretary

DRAFT PRESS NOTICE

NATIONAL COAL BOARD TO BE REFERRED TO THE MONOPOLIES AND MERGERS COMMISSION

Mrs Sally Oppenheim, Minister for Consumer Affairs, announced today that a study of the National Coal Board will be the next in the programme of investigations by the Monopolies and Mergers Commission into the efficiency of nationalised industries.

Mrs Oppenheim said:

"The Commission have now produced four very useful studies of efficiency in the nationalised industries, which have pointed to scope for significant improvements. Like the earlier inquiries, the investigation of the National Coal Board will cover the major aspects of the Board's efficiency and costs, including for example internal cost control and appraisal and control of investment projects.

I look forward in due course to seeing the results of the inquiry, which I am confident will be of great value to all working in the industry in their continuing efforts to improve efficiency".

Terms of reference for the inquiry will be announced in due course.

Notes for Editors

1 Section 11 of the Competition Act 1980 enables the Secretary of State to refer to the Monopolies and Mergers Commission questions about the efficiency and costs of, the services provided by, and

the possible abuse of monopoly by nationalised industries and certain other bodies.

2 When the reference is made the Commission will be required to report within six months, though they may be granted one extension of up to three months.

3 Previous studies of nationalised industries' efficiency by the Commission have been on the Inner London Letter Post, British Rail's London and South East commuter services, the Central Electricity Generating Board and the Severn-Trent Water Authority. All these reports have been published.

4 The Commission are currently working on one other inquiry under Section 11 of the Competition Act, into the efficiency and costs of four public sector bus undertakings.

# DRAFT REFERENCE OF THE NATIONAL COAL BOARD TO THE MMC UNDER SECTION 11 OF THE COMPETITION ACT 1980

The Secretary of State, in exercise of his powers under section 11(1)(a) of the Competition Act 1980 hereby refers to the Monopolies and Mergers Commission the question set out below relating to the efficiency and costs of the National Coal Board in the development, production and supply of coal.

The Commission shall, upon this reference, investigate and report on the question whether the Board could improve its efficiency and thereby reduce its costs, with particular reference to:

(a) the extent, if any, to which its operating costs can be contained or reduced;

(b) its system of internal cost control;

(c) its purchasing policies;

(d) its methods of controlling its stocks of stores and materials;

(e) the planning and appraisal of new investment;

(f) the management, supervision and control of investment projects.

The Commission shall report on this reference within a period of six months beginning with the date hereof.

1981

CONFIDENTIAL

Nat. Ind.

cc Duguid
Walters

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

01 211 6402

Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London SW1

11 September 1981

TL 14/9

Dear Leon

NATIONAL COAL BOARD: GRANTS FOR 1982/83

In my letter of 11 September I set out my proposals for the Board's EFL in 1982/83. I am now writing to let you know what this implies for grants to the Board in 1982/83.

Total grants sought by NCB for 1982/83 in their Development Plan are £614m at outturn prices: £130m in social grants and £484m in operating/deficit grants.

Operating/Deficit grants. The Board's request for £484m is intended to eliminate their deficit completely. It includes provision for the continuing costs of displacing BSC imports, as well as the revenue losses attributable to exports. On sales to CEGB, it assumes that NCB will keep to the agreement and that no further discounting will be needed. Although NCB prices are now more than competitive with the prices at which imported coal could be delivered to most CEGB stations, this may be optimistic. It does not take account of the cost of continuing to reduce the price of foundry coke, nor of anything we may do to reduce industrial electricity prices.

My proposed EFL assumes savings in costs generally of £30m. I propose to seek parallel cost savings on revenue account, although reducing output to save cash could well worsen the Board's revenue position.

I have also recommended reducing the EFL by the difference in 1982/83 between a 7% and 10% pay settlement in November 1981 ie £70m. If it achieves a 7% settlement the Board's operating costs and deficit would be reduced by the same amount. This would produce total operating/deficit grant savings of about £100m.

<u>Social Grants</u>. The Board have just provided us with estimates of their requirements for social grants in 1982/83, which total nearly £125m. The 'baseline' figure for these grants, including the increased provision agreed by Ministers in March, is about £105m. My officials will be discussing with the Board a number of ways in which the expenditure could be reduced, including the deferral of some capital contributions to the Board's pension funds in respect of pensions paid early to redundant personnel ("staged funding"). This might reduce the total nearer the "baseline". But it has to be recognised that these grants - together with payments under the Redundant Mineworkers' Payments Scheme which are on the same Vote, though they do not go through the Board's accounts - are in the main demand-related. The higher figures now submitted by the Board reflect their success since March in increasing the rate of redundancy very considerably. It is possible that still higher redundancies could be achieved, resulting in a still higher need for social grants. My officials will discuss the detailed figures with yours in the context of the forthcoming Main Estimates Exercise, but it would be prudent at present to reckon on a need for £125m in social grants for 1982/83, a reduction of £5m on the Board's Development Plan estimate.

The level of grants which I therefore recommend as consistent with the proposed EFL of £1100m is as follows:-

| | | 1982/83 £m outturn |
|---|---|---|
| Total grants sought by NCB | | 614 |
| of which social | 130 | |
| operating/deficit | 484 | |
| less: social grants: revised estimate | | 5 |
| wages and other operating cost savings | | 100 |
| TOTAL (rounded) | | 510 |
| of which social | 125 | |
| operating/deficit | 385 | |

This is substantially below what the Board proposed, and below this year's total grant total in money, as well as in real, terms.

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

Yours ever

David

D A R HOWELL

CONFIDENTIAL

cc J. Vereker
A. Walters
A. Duguid.

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

NBPM 7th

01 211 6402

11/9

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

11 September 1981

BF 15/9

Dear Leon

NATIONAL COAL BOARD: EXTERNAL FINANCING LIMITS

I have been considering the National Coal Board's External Financing Limit for 1982/83 in the light of our discussion in E Committee on 31 July and the Board's External Financing Requirements for the two subsequent years in relation to their recent Ten Year Development Plan. I am now writing to let you have my proposals on the way forward.

1982-83 EFL

We need to give the NCB an EFL for 1982-83 in time for their wage negotiations which are likely to begin in early October. The NCB aim to achieve without conflict a settlement which will increase their total wage bill by about 7%. Such a settlement would be well below the year-on-year increase in RPI and would be of great value to us both in containing the coal industry's calls on public funds and in setting the tone for the coming wage round. I am sure that we should not prejudice such a success by attempting to set the NCB an unduly ambitious objective in their wage negotiations.

In the light of the discussions which my officials have had with the NCB, I suggest an EFL of £1100m for next year, which might be rounded to £1110m. This would represent a cut of £220m in NCB's proposal of an EFL of £1320m. At the same time I propose a capital investment approval of £905m compared with the £1022m proposed by the Board. (All these figures are at out-turn prices).

CONFIDENTIAL

Current Costs

These figures assume:

- wage settlements costing 7% of total wages bill in 1982 and 10% (in line with the NCB's estimate of year-on-year increase in RPI) in 1983 - wages and salaries account for over 50% of the Board's current costs. 7% is the lowest realistic figure for the coming negotiations. I do not believe that any useful purpose would be served by requiring the Board to plan on lower settlements. Indeed they will have done well to meet their 7%-8% objective;

- NCB plan to contain the increase in their operating unit costs, other than wages, to 2½% in real terms in 1982-83, compared with 3% in 1981/82 and an average of 3.3% in previous years. I doubt whether it is realistic to expect more;

- closures of 2mt. Again, there is no sense in requiring NCB to plan on more, although we can expect them to take further opportunities if they arise;

- savings in costs generally, including savings from reducing output which would otherwise go to stock, of £30m.

Capital Expenditure

I believe we should cut back the Board's proposed capital expenditure of £1022m to a level much closer to the 1981/82 level, while we consider the Board's ten year Development Plan. I would propose a figure of £905m at out-turn prices. You will be aware that the Board's capital investment goes almost exclusively to British companies and that consequently the proposed cutback will have a £1 for £1 impact on the Board's orders to the private sector. We must therefore be prepared for a sharp reaction not only from the Board, but also from mining equipment manufacturers. These companies which, with subcontractors, employ some 25,000, rely on sales to NCB for the core of their business on which their export efforts rest. They have expressed strong concern about the fall-off in orders from NCB this year. Their trade association estimated that, despite shedding 9% of their workforce between October 1980 and May 1981, half of their members are on short-time working varying between 2 and 4 day weeks; nearly half also reported one or more subcontractors going out of business. A cutback of capital expenditure will also lead to an inevitable increase in current expenditure on repairs, if safety standards are to be maintained.

Prices

The Board's bid for an EFL of £1320m assumes that it will raise prices in line with inflation. In practice it may raise prices to some customers, notably in the industrial sector, by less than this. In the case of its largest customer, the CEGB, the NCB is currently supplying the Board at prices below the equivalent import prices - perhaps some £500m - £600m overall. At the moment imports are only competitive at Thameside and then only by a small margin. However, given our policy on energy prices I am sure that we should accept the NCB's wish to maintain their agreement with the CEGB only to raise their prices in line with inflation and not to seek to align them with the equivalent of import prices.

The Board have taken the line that the £200 reduction I have proposed is unattainable and that even a £100m cut would be difficult to absorb. NCB have a good record in control of working capital, apart from that tied up in stocks of unsold coal, and already plan on a reduction of £115m in this part of their capital requirements next year. Any additional reduction in their cash requirements needed to achieve this lower target could in practice only be achieved by substantial price increases, action to force the pace on the closure of uneconomic pits, which would lead to a confrontation, or major cuts in capital expenditure, which would throw NCB's capital programme, including existing projects, into disarray and would have serious consequences for our relations with the Board, its suppliers and the Unions.

My officials have been in touch with yours about three proposals which Derek Ezra has put forward on further ways of reducing their EFRs. If, as I hope, you agree that at least some of their proposals would involve genuine reductions in the Board's calls on external finance there could be room for proposing a slightly lower EFL for 1982/83.

Later years

As for later years, I am sure that the right course is to work out a long term strategy for the coal industry, which it would be the first major task of Derek Ezra's successor to implement. We are keeping in close touch with your officials and the CPRS about the Ten Year Development Plan which the NCB submitted in July and the additional data which we are obtaining from the Board. But until we are clearer about the long-term strategy no useful purpose is served by trying to reach agreement on firm figures for subsequent years for including in the Public Expenditure White Paper, as such figures would necessarily involve judgments about the Board's future strategy. Indeed a firm commitment to such figures at this stage could arouse opposition prematurely (including from Ezra himself in his remaining months as Chairman) and thus make it more difficult to implement whatever strategy we finally agree on. The right course would therefore seem to be to retain for the moment the figures in Cmnd 8175 with the clear proviso that they will have to be revised in the light of any decisions we take on the Board's long term strategy. We shall, of course, remain in close touch on the latter with your and CPRS officials.

I am sending copies 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 Robin Ibbs.

Yours ever

David

D A R HOWELL

SECRET

21

FILE

cc HMT
HO
SO
D/M
DTpt
CPRS
CO

BC Andrew Duguid

10 DOWNING STREET

*From the Private Secretary*

9 September 1981

Dear Julian,

<u>Power Station Endurance</u>

The Prime Minister has now considered your Secretary of State's minute of 2 September on the above subject; she has also seen the Chancellor of the Exchequer's minute of 7 September.

The Prime Minister agrees that officials should examine the use of Service drivers and, if necessary, the requisitioning of specialist vehicles to replenish power station stocks for those ancillary materials where stocking capacity falls short of our objective. The Prime Minister also agrees that Mr. Howell should set in hand the necessary action to maintain the present high rate of coal deliveries throughout November and December in consultation with the Seceretary of State for Transport and the Secretary of State for Scotland.

I am sending a copy of this letter to John Kerr (HM Treasury), John Halliday (Home Office), Godfrey Robson (Scottish Office), Richard Dykes (Department of Employment), Anthony Mayer (Transport), Gerry Spence (CPRS) and David Wright (Cabinet Office).

Yours ever,

Tim Lankester.

Julian West, Esq.,
Department of Energy.

SECRET

ICC A. Duguid B
J. Vereker
10

(8)

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

PRIME MINISTER

POWER STATION ENDURANCE

I have seen a copy of David Howell's recent minute to you about ancillary materials and coal deliveries.

2. It is surprising, and regrettable, that building up stocks of all necessary ancillary materials might take up to 18 months. But I accept that it would be a mistake to begin the build-up now if, as the CEGB advise, this would be highly visible to the unions. It would make sense meanwhile to plan for the possible use of service drivers and the requisitioning of specialist vehicles for the replenishment of power station stocks of ancillary materials.

3. I also support David's suggestion that the accelerated coal deliveries scheme should be continued into November and December. It is helpful that the costs involved can be contained within the residue of the £10m increase in deficit grant already agreed for the NCB.

4. I am copying this minute to the Home Secretary, to the Secretaries of State for Energy, Scotland, Employment and Transport, to Mr. Ibbs and to Sir Robert Armstrong.

GH

(G.H.)
7 September 1981

SECRET

19

Prime Minister

Agree to Mr Howell's proposals as recommended below?

Yes ma

Ref: B06272

MR LANKESTER

c Sir Robert Armstrong o/r

TL. 8/9

Power Station Endurance

Flag A

The Secretary of State for Energy's minute to the Prime Minister of 2nd September follows up her meeting on 4th August and is concerned with preparations for 1982 rather than 1981. The information and proposals it puts forward are based on interdepartmental advice co-ordinated by the Official Group on Coal (MISC 57).

2. Mr Howell's two proposals are

i. that officials should examine the use of Service drivers and, if necessary, the requisitioning of specialist vehicles to replenish power station stocks for those ancillary materials where stocking capacity falls short of our objective;

ii. that the NCB, BRB and CEGB be asked now to maintain the present high rate of coal deliveries throughout November and December of this year.

Both proposals are acceptable to the Departments concerned. The Scottish Office confirm that the two Scottish Electricity Boards should be involved as well as the CEGB. To keep their profile low the Department of Transport will want the approach to the BRB to be made by the CEGB. The Chancellor of the Exchequer is expected to confirm his agreement in writing. No one else is likely to comment. 3. I recommend that the Prime Minister should agree to both proposals. Discreet action on the first is already in hand, and a report is being prepared under the auspices of MISC 57. To implement the second, the Prime Minister may like to invite the Secretary of State for Energy to set in hand the necessary action in consultation with the Secretary of State for Transport and (because of the two Scottish Boards) the Secretary of State for Scotland.

He has now done so (Flag B)

R L Wade-Gery

4th September 1981

R L WADE-GERY

SECRET

TPL
To deal (or)

cc. A. Duguid
J. Vereker 18

(A)

COPY NO 1 OF 8

[illegible] 4/9

HOLD for response from other ministers. Show to me at noon on 4/9.
[illegible]

Prime Minister

POWER STATION ENDURANCE

At our meeting on 4 August we discussed ways in which power station endurance could be increased by November 1982. We agreed that no action should be taken that would endanger the NUM pay negotiations this year, but that such planning and implementation as might be carried out within this constraint should proceed. I am writing now about ancillary materials and coal deliveries.

Stocking Capacity for Ancillary Materials

We have good prospects of securing coal and oil stocks and oil supplies to meet an objective of 18½-20 weeks of endurance by 2 November 1982. There are also good prospects of building up stocks of some essential ancillary materials to match fuel endurance. But we are unlikely to be able to build up stocks of all ancillary materials by November 1982 to match fuel supplies. The lead times for carrying out site investigations, planning and specifying new capacity, obtaining materials and constructing storage for some products such as propane, sulphuric acid, diesel oil and hydrogen could well extend to 18 months or more. The CEGB say that an essential preliminary is site investigation at individual power stations; this first stage is highly visible and must wait on the NUM settlement. This delay means we could find ourselves in a position where the endurance of fuel stocks and potential supplies exceeds the endurance of certain essential materials. (I have pointed out previously that if detailed planning is delayed beyond early September arrangements are unlikely to be completed on time.)

It would be prudent now to consider the alternative to higher stocks for those materials where stocking capacity is likely to fall short of our objectives. The shortfall might be as much as 10 or 11 weeks of endurance in some cases until the gap can be bridged - possibly by early 1983.

In order to offset low stocks of some materials we would need to ensure that supplies can be replenished despite picketing. Past experience has shown that some deliveries might get through with civilian drivers but that one cannot ensure extended endurance by this means. I suggest officials should examine the use of service drivers and, if necessary, the requisitioning of specialist vehicles to replenish power station stocks for those materials where stocking capacity falls short of our objective. We need to assess the practicability and the possible effect of this course upon indistrial relations in power stations and elsewhere. This is an aspect of planning that can be carried out discreeetly before November.

<u>Accelerated Coal Deliveries in November and December 1981</u>

We ought also to plan to keep up a high level of coal deliveries in November and December. So far we have agreed to bring forward deliveries from the winter programme to the summer. This is going well, as Hamish Gray reported in his minute of 24 August. We hope eventually to build up coal stocks by November 1982 to 8 million tonnes above the peak of 1978. In order to maintain the impetus of accelerated deliveries and to provide a contribution to the considerable build up of stocks we hope for next year, we need to give the 3 Boards notice now that they should plan to maintain a high rate of coal delivery in November and December; they can do this discreetly. If we do not do this, the delivery rate is likely to fall back after October.

To give them time to plan ahead I suggest that we ask the NCB, BR and the CEGB now to maintain the recently achieved higher deliveries throughout November and December. The arrangement I propose is that the CEGB should take deliveries for November and December on deferred payment terms in the same way as the present accelerated deliveries; and that the NCB should compensate the CEGB for a double handling and should also pay the transfer charges. I would hope that the residue of the £10 million increase in deficit grant we have already agreed for the NCB would cover the additional costs of the coal the Boards would move in November and December above the programmed rate. If you and others agree, the financial details can be worked out with the Boards. (Misc 57 is studying the financial implications of the transfer of a very large tonnage of coal from NCB pit head to CEGB power stations. Our action on November and December deliveries will not pre-judge the recommendations of that study.)

I hope we can agree to move forward on these 2 fronts. I am copying this minute to the Chancellor, the Home Secretary, the Secretaries of State for Scotland, Employment and Transport, and to Mr Ibbs and Sir Robert Armstrong.

Janet h. Chadwick

2.9.81.

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

Nod
TL to see o/R Ind.
MA

R
01/9

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

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

28 August 1981

Dear David,

COAL INDUSTRY BILL

Thank you for your letter of 7 August which raises certain points on this forthcoming Bill.

I am content for Parliamentary Counsel to include a clause increasing the present limit on social grants in the initial draft of the Bill pending our decision in the Autumn on whether it is needed.

I am sure that the Bill should make use of the name "deficit grant" if only in the rubric beside the relevant line and not in the main text itself. As you say, the 1980 Act is a good model in this respect.

I have reconsidered the case for altering the present arrangements for social grants to enable certain costs at present reimbursed to the NCB at 50 per cent to be refunded in full. While the changes should not increase the Board's EFL overall or public expenditure they would involve a genuine concession to the NCB since they would replace borrowing with grant finance and would be reflected in an apparent improvement in profitability. As I argued in my letter of 16 July to John Moore, I am reluctant to make even that small concession at this time. I would certainly be prepared to agree to it in appropriate circumstances, but think we should hold it in reserve until such time as we can secure a worthwhile quid pro quo.

You will have received a separate letter from Nigel Lawson about our proposals to bring the borrowing of all subsidiaries and the Board's quarantees within its statutory borrowing limit. In short, we do not believe that these clauses need be either long or controversial but we do believe that they are in line with the requirements of Parliamentary Control and Accountability which the PAC have endorsed. The case for taking powers to set the Board a financial target is broadly similar. It is our clear policy to set such targets for the nationalised industries and it seems desirable, when the opportunity arises, to obtain Parliament's approval for one of our main instruments of control. Powers of this kind already exist in most recent nationalised industry legislation. The power concerned would be a permissive one and, as my predecessor argued last year, there might well be advantage in including it now rather than in a later bill when the question of what the NCB's financial target should be might be more pressing and controversial. I hope therefore that you will reconsider your opposition to the inclusion of these modest clauses.

I am sending copies of this letter to members of E Committee, to the Secretaries of State for Transport, Scotland and Wales, to the Chancellor of the Duchy and to Sir Robert Armstrong and Robin Ibbs.

Leon

LEON BRITTAN

cc. J. Vercher 2.
A. Duguid (o/r)

SECRET

coal file

Prime Minister 17

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

01 211 6402

MAP 28/VIII

Tim Lankester
Private Secretary
No 10 Downing Street
London SW1

28 August 1981

Dear Tim,

POWER STATION ENDURANCE

At the Prime Minister's meeting on 4 August a number of factual questions were raised. My Secretary of State thought it would be useful if I let you have a note on those points.

(a) CEGB power stations capable of receiving coal by sea are: West Thurrock, Kingsnorth, Tilbury, Battersea, Blackwall, Brighton, Cliff Quay, Deptford, East Yelland. Their total capacity is about 5GW, or less than 10% of the CEGB's total capacity.

(b) At present there is about 9.9GW of oil fired capacity on the CEGB system. Up to 4.9GW could be closed down or mothballed up to 1983. (We know of closures of 1.8GW in 1981 and expect up to 2.0GW to be closed in 1982.) The remaining units at Grain, Ince and Littlebrook D are expected to come on stream in 1982 and 1983. Thereafter oil capacity is expected to be in the range 9-12GW.

(c) When the three AGR's are on stream and Magnox stations now undergoing overhaul are returned to service, nuclear capacity will account for some 20% of our electricity supply (depending on the level of demand assuming no further derating of nuclear stations).

(d) (i) The cost and lack of availability of gas have discouraged studies of conversion. Conversion is expensive, costing perhaps £200 million for a 2GW station,, and more if extensive pipelines are required to pipe in the gas. Manufacturers of the required conversion equipment are located in many parts of the country; new jobs created by conversion would therefore be spread and not confined to the North East. Once installed, dual-firing would not create more jobs.

(ii) The stations in the North East that would theoretically be capable of conversion are: Blyth B 2x330, Drax 3x660, Eggborough 4x450, Ferrybridge C 4x500, Thorpe Marsh 2x500. Each would present different problems. Only Drax and Eggborough are known to be near a high pressure gas transmission main. As these stations are nearly all efficient and high in the merit order, taking any one of them out for conversion (which could take 2-3 years) would impose a considerable cost on the CEGB.

(ii) The practicability of conversion is dependent on the capacity of the gas mains to carry a new and major load. This is a significant constraint even if gas supplies were to be available.

(e) Our Minister of State has written separately to the Prime Minister on the comparative level of power station coal stocks in 1978 and 1981 which was also raised on 4 August.

Yours sincerely,

Janet

JANET CHADWICK
Private Secretary

VLB

FILE

16

cc CO

28 August 1981

The Prime Minister has seen and noted Mr. Gray's minute of 24 August on power station coal stocks, following discussion of the question during her meeting here on 20 August.

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

M A PATTISON

S. Haddrill, Esq.,
Department of Energy.



SP

2.

15

Prime Minister

The Prime Minister

MAP 26/viii

POWER STATION COAL STOCKS

At our meeting on 20 August you raised this question.

The arrangements agreed at your meeting on 19 June to increase coal stocks at generating stations are progressing satisfactorily. Stocks at CEGB power stations now stand at about 17 million tonnes. We hope that more than the additional 1½ million tonnes can be moved during this summer period and that stocks in England and Wales will exceed 19 million tonnes on 1 November. Stocks at power stations in Scotland are expected to reach 1¾ million tonnes. We are maintaining our pressure on the Boards to build up maximum stocks without attracting such attention as could impair the prospects for a low pay settlement in the mines this November.

You compared stocks in 1978 with the current position. The high stocks in 1978 were the product of a deferred payment scheme introduced by the previous Government in September 1975. The scheme was continued in 1976, 1977 and 1978. By November 1978 stocks at CEGB power stations alone had reached 20 million tonnes - some 7½ million tonnes more than they would have been without this scheme. A similar scheme operated in Scotland.

?

Because stocks in 1978 were exceptionally high the deferred payment scheme was followed by an assisted coal burn scheme to encourage the CEGB to switch from oil (which was then economic) and to burn coal instead. This assistance, combined with the cold winter in 1978/79, substantially reduced coal stocks.

You know from what David Howell said when Ministers discussed this on 4 August that we are working on plans to increase stocks at CEGB power stations to 28 million tonnes by November 1982 - 8 million tonnes above the 1978 peak.

I am copying this minute to the Chancellor of the Exchequer, the Secretaries of State for Scotland and for Transport, and to Sir Robert Armstrong.

Hamish Gray
24.8.81

HAMISH GRAY

SECRET ✓ CO

jfh

14

Nat Ind.

26 August 1981

The Prime Minister has seen and noted your Secretary of State's minute of 20 August about the movement of coal.

She has asked to be kept up-to-date with the work on this subject which is being co-ordinated in the Cabinet Office.

BF

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

M A PATTISON

Anthony Meyer, Esq.,
Department of Transport.

SECRET

M

SECRET

13A

Subject copy filed on Transport Pt 2. BR Fares

File

bc: Mr. Hoskyns
cc: HMT
DOT
SO
CO

10 DOWNING STREET

*From the Private Secretary*

21 August 1981

Top copy
Transport, British Rail fares, Pt 2.

Dear Julian

THE IMPLICATION OF A RAIL STRIKE FOR POWER STATION COAL STOCKS

I wrote to Anthony Mayer yesterday following the Prime Minister's meeting about the threatened rail strike, to record the conclusions reached which related directly to that dispute. But a number of other points were made relating to the impact of a rail strike on power station coal stocks and to the work on increasing power station coal stocks which is currently in hand in a wider context, which I am recording separately because of the sensitivity of the issues involved.

It was agreed that as a contingency measure whatever steps might be necessary should be taken immediately to put the Electricity Boards in a position to burn the maximum possible extra oil in the power stations from the start of a rail strike, should the present negotiations fail to lead to a settlement, so that power stations coal stocks could be made to last for as long as possible. The Minister of State for Energy said that doing so would add a further 2 weeks to the 7-8 weeks endurance already offered by power station coal stocks, at a cost of about £200 million. It was agreed that the Electricity Boards should be authorised to make the necessary oil purchases, but that every effort should be made to avoid these measures becoming generally known.

The Prime Minister expressed herself dissatisfied with the progress made so far on increasing power station coal stocks. She pointed out that in 1978 power station coal stocks were significantly higher than at present and that this had been achieved without trouble from the trade unions, which was given as the main reason for not pressing on harder now with increasing stocks. In her view the aim should be to increase power station coal stocks as quickly as possible at least to their 1978 level. I know that work on increasing power station coal stocks this year and next is already in hand in MISC 57. Officials will therefore wish to take the Prime Minister's comments into account. In the light of her comment I think the Prime Minister would welcome a full progress report in due course from MISC 57. The point was also made that in the event of a rail strike every

BF answered on this file

/ possible

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possible source of energy supply should be fully utilised, including the maximum possible use of nuclear power stations, the use of gas in the power stations as a means of conserving coal stocks, the increased use of coastal power stations for which coal supplies might be more assured and increased transport of coal by road.

Finally, the question was raised whether the threatened rail strike might afford a good opportunity for discussions with the Railways Board about the training of servicemen to drive coal trains from the mines to the power stations, but it was generally agreed that this should not be pursued at the present time.

I am sending copies of this letter only to John Wiggins (HM Treasury), Anthony Mayer (Department of Transport), Godfrey Robson (Scottish Office) and David Wright (Cabinet Office). I should be grateful if you, and they, would arrange for it to be circulated on a strictly "need to know" basis.

Yours ever

Mike Pattison

Julian West, Esq.,
Department of Energy.

Prime Minister 13

As you know, work is in hand within Misc 57, and we have asked for a full progress report.

SECRET

PRIME MINISTER

Thank you very much MAP 21/viii

MOVEMENT OF COAL

At our meeting this morning you mentioned that one of the apparent difficulties in moving more coal to power stations before the winter sets in was that British Rail would be charging overtime rates for working at weekends. As I said I had not heard this point before, and therefore I have been trying to find its source. I now see that it was a point made in David Howell's minute to you of 31 July (paragraph 6), and I think probably that the information comes from the CEGB, not British Rail. As you know, I was not involved (nor was Ken Clarke) in the discussion of that minute, and I had not previously seen its contents. Obviously I fully understand the necessity for treating papers on this subject with the utmost discretion.

I can see that David has a point when he suggests that a movement from the present practice of five day working on this form of freight traffic to a six and a half day week could attract attention. But my own view of this is a very simple one; the more freight which British Rail can carry under commercial contracts, the better. I would welcome an addition to the volume of coal which they are asked to carry, simply because it would raise their earnings and ease the problem which I have with their EFL.

Agreed

I would hope that it would be possible to extend the scope of the British Rail operations in carrying coal by straightforward commercial operations. One possibility, which seemed to emerge at our discussion this morning, is that this could be presented as a way of relieving the problem at a number of pitheads where the room for stockpiling coal is already fully taken up.

SECRET

SECRET

I imagine that you would not want this correspondence to be circulated widely, but in the circumstances I am sending a copy to David Howell and another to Sir Robert Armstrong.

~~NORMAN~~ FOWLER
20 August 1981

SECRET

CONFIDENTIAL

File

OSS

Nat gnd

BF 4/9/81

17 August 1981

The Prime Minister has seen your Secretary of State's letter of 13 August about miners pay.

She will want to discuss these issues at the meeting scheduled for 7 September.

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

M. A. PATTISON

Julian West, Esq.,
Department of Energy.

CONFIDENTIAL

CONFIDENTIAL

cc to Nat Ind Pay file.

Prime Minister

You have agreed to hold a meeting in early September to discuss how we should approach the coming pay round in each of the nationalised industries. This note can be considered then, along with the notes that have been commissioned from other sponsor Ministers.

2

~~cc~~ Mr Hoskyns
Mr Vereker (o/r)

PRIME MINISTER

MO

NATIONALISED INDUSTRY PAY - COAL

1

I have seen a copy of the Chancellor's minute of 4 August to you, enclosing a paper by Treasury officials on this subject. I have also seen a copy of your Private Secretary's letter of 5 August.

TL

14/8

(See also Mr Heseltine's note attached)

2. We are all agreed that our objective on miners' pay is that the NCB should reach the lowest possible agreement with the NUM without, however, pursuing a course of action which could bring with it a significant risk of a national miners' strike this winter. I believe this points to the conclusion that we should go along with the NCB's approach to the negotiations as set out in the Annex to the Treasury paper. Derek Ezra has already told me that the Board will, of course, be aiming for as low a settlement as possible. As indicated in the Annex to the Treasury paper he is aiming to settle for an increase of some 7%-8% on the Board's wages bill, although some of his colleagues consider a slightly higher figure (but still below the annual rate of inflation) may be needed to reach a settlement. It is, however, early days and much depends on avoiding disturbance of the negotiations by outside issues. However, the Board will no doubt again wish to present the increases as somewhat larger so as to enhance the chances of the miners accepting it. I realise this approach has presentational difficulties for other industries. But it is clearly preferable to the Board having to settle for a larger real increase, bearing in mind that as last year, the NCB can be expected to keep other industries fully briefed on the real nature of any settlement.

3. At the moment the NUM seem unlikely to submit a claim before the second half of September. They are particularly anxious that their claim should not become mixed up through the 'Triple Alliance' with any national railway strike. Substantive negotiations will therefore probably not begin until October and are unlikely to be completed by the settlement date, 1 November, as any deal will almost certainly have to go to a ballot. In the interim Derek Ezra has set up a negotiating committee on which Norman Siddall and James Cowan (Board Member for Industrial Relations) will serve.

4. The Board are also aware that there is inevitably a link between our willingness to continue investment in the industry on a large scale and their ability to contain wages and thus pave the way for a return to profitability. Indeed, Derek Ezra explicitly acknowledged the link at the Chancellor's meeting with NICG on 9 July.

5. In the light of my earlier discussion with Ezra and the points on pay which the Chancellor made at his meeting on 9 July, I find it difficult to see any advantage in my meeting Ezra in the near future to discuss the forthcoming miners' claim. Indeed, I believe it could be disadvantageous if, as is likely, news of the meeting were to leak out and it were to be seen as a sign of renewed Government pressure on the NCB. This would almost certainly lead to a hardening of attitudes in the NUM.

6. Whilst there are those in the NUM, particularly Arthur Scargill, who would undoubtedly like a political confrontation with the Government at an opportune moment, the Board do not believe that the NUM are likely to try to mount such a confrontation this year. I agree with this assessment. There are, however, a number of developments which could possibly act as a flashpoint. For example the Board

successfully reduced the workforce by over 10,000 men over the past year (or some 5%) and plan a similar reduction this year. NUM pressure for a vigorous recruitment campaign, notably of juveniles, is mounting and could lead to trouble. Again, we are considering the Board's investment programme and EFLs in a separate context. If the NUM believed that investment in the Plan for Coal was being seriously called into question, at the very least this could lead to a hardening of their attitudes in the wage negotiations and to wider difficulties. There is increasing awareness in the NUM that we have cut back the Board's investment programme in real terms this year, as well as growing resistance to the Board's laudable efforts to cut down on investment in high cost mines, which the NUM consider to be closure by the back door. All these problems should be manageable if the Board and the Government play their hands carefully.

7. The Board have undertaken to keep me in close touch with developments and, as in previous years, I shall keep you and other colleagues fully informed.

8. I am sending copies of this letter to those attending your meeting on nationalised industry pay on 7 September and to Sir Robert Armstrong.

DH

SECRETARY OF STATE FOR ENERGY
13 August 1981

01-211-6402

R

Peter Jenkins Esq
Private Secretary to the
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London
SW1

13 August 1981

Dear Peter,

Further to my letter of 6 August to Tim Lankester, I enclose a selection of recent press cuttings about the coal industry, which my Secretary of State thought the Chancellor might be interested to see following the Prime Minister's recent meeting on the coal industry.

I am sending a copy of this letter to Tim Lankester without enclosures (as a set has already been sent to John Vereker) and with enclosures to Richard Dykes (Department of Employment), David Heyhoe (Privy Council Office), David Wright (Cabinet Office) and Gerry Spence (CPRS).

Yours ever,

J D WEST
Private Secretary

Enc:

cc A Duguid
A Walters
J. Vereker

Nat Ind

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

01·211 6402

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

10/8

7 August 1981

Dear Chief Secretary

– see pt 3

COAL INDUSTRY BILL

Thank you for your letter of 16 July to John Moore.

Drafting of the main provisions of the Bill, on the NCB's borrowing power and grant limits, should get underway shortly. I hope you agree that drafting should put work in hand on an increase in the present limit on social grants, although we will not have to decide whether it is needed, before the Autumn.

I note your preference for the term "Deficit Grant". My view, like John Moore's, is that we retain the flexibility to use this name as it suits us. The 1980 Bill is drafted in a way which allows us to do so, and I suggest that we leave the drafting to Counsel. We can if necessary consider the point further when we have a text.

I still think that the Bill should include a small change in the present arrangements for social grants to enable certain costs at present reimbursed to the NCB at 50% to be refunded in full. Our officials are discussing this further.

You mention that you would like to see three further provisions included in the Bill. I am extremely doubtful about your suggestions.

To bring the borrowing to non wholly-owned subsidiaries within the NCB's borrowing limit would seem to be a new departure in nationalised industry legislation. I have seen Norman Fowler's suggestion, in his letter to you of 14 July, that this question, in relation to the Transport (Financial Provisions) Bill, needs to be examined further. In the particular case of the NCB, the borrowing of its wholly-owned subsidiaries already counts against its borrowing limit. The Board's only non wholly-owned subsidiary is J H Sankey and Son Limited. We have already decided that this interest should be sold.

I do not see the need to include a provision in the Bill to bring guarantees entered into by the NCB within its borrowing limit. I note that Norman Fowler had doubts on this point too and suggested that this question also needed to be examined further in relation to the Transport (Financial Provisions) Bill. Finally, I am not happy about your suggestion that we should include a provision in the Bill which would give powers to set the NCB a financial target or to lay duties of a financial nature on them.

Above all, each of the additional provisions would make the Bill, which would otherwise be fairly straightforward, longer and more complex. They could well also raise further points of controversy. As you know, colleagues accepted this Bill into a crowded programme only on condition that it should be kept short and that delay should be avoided. I hope therefore that we can agree that the Bill should be limited to the essential provisions which I have proposed.

I am sending copies of the letter to Members of E Committee, to the Secretaries of State for Transport, Scotland and Wales, to the Chancellor of the Duchy and to Sir Robert Armstrong and Mr Ibbs.

Yours sincerely

David Howell

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

SECRET

12. 2

Energy

Prime Minister

Differences about how the public opinion campaign should proceed have now been resolved.

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

cc Mr Hoskyns
Mr Vereker

01 211 6402

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

6 August 1981

Dear Tim

TL 6/8

PUBLICITY ABOUT THE COAL INDUSTRY

Officials here held a meeting last week with officials from No. 10, Treasury, CPRS, the Cabinet Office and the Department of Employment, to discuss how to carry forward our efforts to increase public awareness of the coal industry's problems, about which you wrote to Julian West on 29 June.

There was general agreement that the first task was to influence the environment in which the 1981 wage negotiations take place in the hope of inducing a lower settlement and cooler bargaining process than might otherwise be the case. During this sensitive period it will be necessary to proceed discreetly as stated in your letter of 29 June, and certainly to avoid any action of a confrontational nature. Briefing undertaken initially with the 1981 pay round in mind will lay the foundations for a continuing and broader exercise, which will be developed after the 1981 miners' pay settlement designed to develop accurate knowledge of the facts and to sap the support the miners have invariably been able to attract from large segments of public opinion in times of confrontation.

My Secretary of State and his Ministerial colleagues have already set the exercise in train in recent weeks through conventional channels, including speeches in the House and at other engagements, contacts with MP's and a substantial number of inspired PQ's and Press briefings. These approaches will be developed in the coming weeks as will contacts with the CBI. There was also agreement amongst officials that further consideration should be given to the possibility of other approaches, including the use of prominent figures and commentators as intermediaries and encouraging TV programmes about the coal industry and its cost to the nation.

The background brief circulated to immediately interested Departments with Julian West's letter of 6 July is now being revised and supplemented with a view to circulation at an early date as a PMG paper with a cover note advising Ministers on its use.

SECRET

The Department of Energy will be chairing a group of officials to monitor and develop both the short and longer term briefing exercises.

I am copying this letter to John Wiggins (HM Treasury), Richard Dykes (Department of Employment), David Heyhoe (Privy Council Office), David Wright (Cabinet Office) and Gerry Spence (CPRS).

Yours ever

David Lumley

David Lumley
Private Secretary

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SUBJECT.

file JFH 11

bc 13: Bernard Ingham
14: John Hoskyns

10 DOWNING STREET

*From the Private Secretary*

5 August 1981

L.C.O. Master set.

Dear Julian,

WITHSTANDING A COAL STRIKE

As you know, the Prime Minister held a meeting yesterday afternoon on the issue of what steps might be taken to withstand a coal strike. The following were present in addition to your Secretary of State: Chancellor of the Exchequer, Sir Robert Armstrong, Mr. Ibbs, Mr. Downey, Mr. Douglas Smith, Mr. Hoskyns and Mr. Duguid. They had before them the Home Secretary's minute of 22 July, two minutes from your Secretary of state dated 31 July, a minute from the Secretary of State for Scotland dated 30 July and a minute from the Chancellor dated 30 July.

The meeting first considered the question raised in the Home Secretary's minute whether power station oil stocks should be maximised during the course of this summer. It was noted that this would cost up to £50 million plus interest charges, and that it would add only minimally to power station endurance in the event of a miners' strike this winter. At the same time, raising oil stocks at this juncture would be extremely visible, and would be seen as a challenge by the NUM: it would thus make the achievement of a moderate pay settlement this year significantly more difficult. It was generally agreed that this course should not be pursued.

The discussion then turned to the question of raising endurance in 1982. Mr. Howell said that the CEGB had, at his request, conducted a general review of the options for extending endurance by the winter of 1982, with the objective of raising it to twenty weeks of unrestricted demand. Ministers had already decided at their meeting on 19 June that the Government should aim for a much larger volume of coal and other stocks at the power stations by the winter of 1982. The issue for decision was whether to set in hand immediate action to raise the endurance level to twenty weeks - this would mean starting to move additional coal and ancillary materials now, and additional oil next spring; or to postpone a decision until the outcome of this year's pay claim was clear. Postponing a decision until after this year's pay settlement would mean that the level of endurance that could be achieved by autumn 1982 would fall some one-and-a-half weeks

/short

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short of the 20 week objective. On the other hand, to take immediate action would raise the temperature of this year's pay negotiations, and - as in the case of oil stocks - would make it more difficult to achieve a reasonable settlement.

In discussion, the following points were made:

(i) It was doubtful whether an extra 1½ weeks of endurance in 1982 was worth while against the risk of its jeopardising this year's pay negotiations. Even 20 weeks endurance was unlikely to be sufficient to enable the Government to "win" a coal strike. On the other hand, while it was not worth paying a high price in terms of this year's settlement for an extra 1½ weeks endurance, there was still a big difference between 18½-20 weeks endurance and the 10 weeks endurance which would be the case if no action were taken at all. The higher level would give the Government and the NCB considerable extra room for manoeuvre, and should help to deter the NUM from taking strike action. In this latter context, it would be worth - if anything - exaggerating the stock position. Against this, it was pointed out that the NUM had good information on stock levels.

(ii) In order to achieve additional coal stocks at the power stations in 1982, there would have to be overtime working at the pithead in certain areas. Against a background of falling employment in the industry, it could well be that the local NUM lodges would not tolerate this. Consequently, there was a real risk that action even after this year's pay settlement would be aborted by the NUM. Against this, it was argued that this was not a reason for backing away from a decision in favour of moving extra coal. A decision in principle should be taken now to take action as soon as a settlement was reached this year. Once the details were worked out, every effort should be made to see the measures were implemented as far as possible. NCB management would have a crucial role to play in persuading the NUM lodges that it was in their interests to agree to the overtime work.

Summing up, the Prime Minister said that no action should be taken on power station oil stocks in advance of this year's pay settlement. As regards the measures for building up power station endurance by the winter of 1982, action should also be deferred until after the settlement. However, once a settlement had been reached, the various measures set out in Mr. Howell's minute should be implemented as necessary without delay. In the meantime, the official group (MISC 57) should undertake further work on the details of the measures, including their costing, and they should also consider further the scope for increased imports of coal. The group should report back to Ministers in the autumn.

I am sending a copy of this letter to John Wiggins (HM Treasury), John Halliday (Home Office), David Heyhoe (Chancellor of the Duchy of Lancaster's Office), Godfrey Robson (Scottish Office), Ian Ellison (Department of Industry), Richard Dykes (Department of Employment), Brian Norbury (Ministry of Defence), Anthony Mayer (Department of Transport), David Wright (Cabinet Office) and Gerry Spence (Central Policy Review Staff). I am sending out

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numbered copies only and would be grateful if you and copy recipients would ensure that it is seen on a strictly need to know basis.

Yours ever,

Tim Lankester.

Julian West, Esq.,
Department of Energy.

SECRET

Copy no 6 of 6 copies 10

SUBJECT

file JPH

cc Master set.

cc B. Ingham
J. Hoskyns

# 10 DOWNING STREET

*From the Private Secretary*

5 August 1981

Dear Julian,

The meeting which the Prime Minister chaired yesterday afternoon considered briefly the CPRS report on the NCB/NUM problem, circulated by Robin Ibbs under cover of his minute of 31 July to the Prime Minister. I am writing to you separately about this because the CPRS report has not been circulated to some of the other Departments which have been involved in the work on how to raise power station endurance in the event of a miners' strike.

Mr. Ibbs said that the CPRS report first attempted to analyse the nature of the NCB/NUM problem. This was essentially the fact that the NUM were so strong that it was difficult to prevent high pay settlements, and as a consequence, they were able to extract ever increasing resources for their industry; and this had damaging effects on the Government's economic strategy generally. The report went on to consider the possible ways in which the Government could hope to shift the balance of power away from the miners under two broad headings - how to reduce the power of the NUM and how to make them more reluctant to use their power. Unfortunately, the CPRS had not been able to find solutions which would improve the balance of power signficantly in the near future. He was personally disappointed that this was the case, but it showed how difficult the problem was. On the other hand, he did not wish Ministers to be discouraged. There were many unknowns, and there would be opportunities for tilting the balance against the miners; it was essential that every opportunity should be taken up as and when it appeared.

The most important conclusions of the report were as follows. First, it was essential that the next Chairman of the NCB should be appointed as soon as possible, and that he should be the right man. A key problem in recent years had been the weakness of management, and the failure to give it a clear set of objectives. This must now be corrected. As between someone with industrial or political experience, the CPRS believed that the Government should opt for the former. What the industry needed above all was someone with business experience. It was true that Lord Robens, a former politician, had been a success; but he had in fact shown extraordinary management talents. Second, a policy of continued modernisation, as opposed to retrenchment, was necessary if the new Chairman was to have any chance of success. But new investment in the industry would have to be related to improved efficiency.

SECRET

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Third, the current differences of view about a public opinion campaign should be quickly resolved. The CPRS view was that a low-key approach was probably right for the moment; but the Government and NCB must be prepared to mount a higher profile campaign with an agreed set of hard facts if the NUM decided to take the Government on. Fourth, renewed efforts should be made to push ahead with the nuclear programme so as to reduce the country's dependence on coal.

In discussion, Mr. Howell said that he would be minuting the Prime Minister next week on the public opinion campaign: officials now seemed to be agreed on its approach, and that it should be low-key at least up to the NCB/NUM negotiations. More generally, it was essential that the public should be weaned away from siding with the miners. The Chancellor added that this could be done by bringing out the industry's poor productivity and high pay performance over the past decade. The new NCB Chairman would have an important role to play in getting over these facts and in getting public opinion more on the Government's side.

Summing up, the Prime Minister said that they were agreed that the disagreement about the public opinion campaign should be resolved quickly. They were also agreed that a new Chairman should be sought and appointed as soon as possible, and that he should probably be an industrialist. The CPRS' other recommendations were mainly of a longer term nature. Ministers would bear them in mind in their continued consideration of the problems relating to the coal industry.

I am sending numbered copies of this letter to John Wiggins (HM Treasury), Richard Dykes (Department of Employment), David Wright (Cabinet Office) and Gerry Spence (Central Policy Review Staff). Copies should be seen on a need to know basis only.

Tim Lankester.

Julian West, Esq.,
Department of Energy.

SECRET

3 August 1981
Policy Unit

9

PRIME MINISTER

Original returned to John Hoskyns.

POWER STATION FUEL STOCKS IN 1982

1. Your last meeting concluded that only limited measures should be taken to increase stocks for this winter (because of the risks of provocation), but that a very determined effort should be made to improve stocks for 1982.

2. David Howell's latest minute shows that:

(a) Increasing coal stocks for 1982 will be visible to the miners sooner or later. If we think it worthwhile in terms of deterrence - and we think it is - our only choice is about when our action becomes visible.

(b) There is a conflict between the desire to avoid anything that might be construed as provocation before November 1981 and building up maximum stocks for 1982. (Paragraph 4(i) of David Howell's note says that a decision to go ahead should be taken immediately for maximum effect.)

(c) Measures to increase endurance through building up oil stocks are both more expensive and more risky than coal stocks.

3. Our view is that we should suspend judgment on whether building up oil stocks is worthwhile until the spring. But planning should go ahead now on building up coal stocks for next year. We should try to keep these plans secret between now and November, but be ready to explain, if this leaks, that in a period of unprecedentedly high coal stocks, it makes sense for more of these stocks to be at the place of use. After November, there is no point in pretending that action to increase coal stocks can be concealed. Indeed, the deterrent value of higher stocks depends on visibility. The limited aim of the exercise would be to raise the proportion of rank and file NUM members who by November 1982 feel that a long strike would simply not be worthwhile.

JH

JOHN HOSKYNS

SECRET

8

Ref. A05368

PRIME MINISTER

## Withstanding a Coal Strike

BACKGROUND

The following are the papers for discussion at your meeting next Tuesday:-

Flag A (i) The Home Secretary's minute of 22nd July, attached to which was the report prepared by the Official Group on Coal (MISC 57) following your meeting on 14th April.

B (ii) The Secretary of State for Energy's two minutes of 31st July, one of which commented on the MISC 57 report and the longer of which circulated the further report on maximising by 1st November 1982 the time that a miners' strike could be endured, commissioned at your meeting on 19th June.

C (iii) The Chancellor of the Exchequer's minute of 30th July.

D (iv) The Secretary of State for Scotland's minute of 30th July.

E Mr. Ibbs's minute of 31st July and the report by the CPRS attached to it on policy in the longer term towards the NCB and the NUM is also relevant, but it raises no issues for immediate decision.

2. I do not think that the MISC 57 report circulated by the Home Secretary need detain the meeting for very long. Although it is a comprehensive analysis of the Government's ability to withstand a miners' strike this year, your meeting on 19th June has already concluded that the Government's first priority this year should be a "peaceful" settlement for the miners, if such is possible, and has thus shifted the focus of work on withstanding endurance to 1982. The MISC 57 report offers no reason to reopen that decision. But one relatively minor point remains to be settled - the question whether power station oil stocks should be maximised during the course of this summer (see the penultimate paragraph of the Home Secretary's minute).

3. Power station oil stocks do not in themselves necessarily extend endurance times; their value is as a back-up to ensure that an endurance-extending decision to use the maximum possible volume of oil in the power stations can be implemen-

ted immediately, thereby offering a few days' grace during which any teething troubles (e.g. the impact of picketing on the delivery of fresh oil supplies) can be overcome. For this reason the Secretary of State for Energy favours taking this step. But the Chancellor of the Exchequer is opposed, on the grounds that the costs involved (£25-50 million plus interest charges) are too high for the small extra safety margin thereby bought (perhaps an extra one to two days on top of the three to four days which the likely autumn level of power station oil stocks will represent).

4. The issue turns on whether a miners' strike seems likely this year. Your 19th June meeting, the Home Secretary's cover note to the MISC 57 report and the Chancellor's minute of 30th July all suggest that it is not. On that basis, the expenditure involved could be scarcely justified.

5. If nonetheless Ministers felt that maximising power station oil stocks this summer would be a useful insurance policy the question would arise how to pay for them. The Electricity Boards would press for a straight grant from the Government. But this would involve Supplementary Votes, which would have to be explained to the Select Committee on Energy, and their purpose would therefore be impossible to conceal. An extension to the Boards' EFLs on the other hand, while still requiring explanation, could be more easily fudged. The Secretary of State for Energy favours the latter course, as no doubt would the Chancellor of the Exchequer.

6. The report by the Department of Energy is very much a preliminary assessment, based on work done at CEGB headquarters; it was seen in draft by MISC 57, but not considered in any detail. It raises one major issue which has to be settled now. This is whether to authorise, and, if so, within what timescale, more detailed planning in respect of 1982 involving consultations down to the managers of individual power stations (and perhaps extending also to some local authorities, if planning permission is required in particular cases, and to the oil companies).

7. The issue turns on the impact of such a step on the miners this year, and therefore on public presentation. This is discussed in paragraph 7 of the Secretary of State's minute. Immediate action to increase power station coal

stocks is necessary if endurance is to be maximised by November 1982. The Secretary of State suggests how this might be presented publicly in a way that it would be difficult for the NUM to challenge, though does not support doing so. It would be more difficult to present publicly big increases in power station oil stocks and ancillaries, although fortunately action on these is less urgent and could wait until after the NUM settlement this year. This suggests a fourth option to add to paragraph 10 of the Secretary of State's longer minute, namely: to take immediate action on coal stocks, but to delay action on oil and ancillaries stocks until after this year's pay settlement.

8. Ministers are not likely to be attracted to the first two options (no action to be taken at all, or all action to start now regardless of its possible effect on this year's settlement). The choice is therefore between Mr. Howell's third option (defer all action until after this year's settlement is achieved) and the fourth variant suggested above (start to act now on coal stocks, where time is particularly important, but defer action on oil and ancillaries until after this year's settlement). The latter seems to strike the balance better, unless your colleagues argue strongly that it would be too dangerous.

9. There is a further issue on consultations arising out of the MISC 57 report to which neither of the Secretary of State's minutes refers. This is the question of improving road access to the power stations so that the use of servicemen to transport coal might be a more realistic option in the future. A decision to proceed now would help to ensure that all the necessary work is completed by November 1982. But again wide-ranging consultations would be necessary, and it would not be easy to conceal the true purpose of the work. Ministers will therefore need to weigh the risk to a "peaceful" settlement this year against the risk of the work not being completed by next year. If construction work is anyway in hand at power stations to maximise coal stocks, it might be possible for this further work to be done unnoticed.

10. The following are other points that you might raise on the Secretary of State for Energy's longer minute and on the report attached to it:-

(a) The target of 20 weeks endurance by November 1982 is based on a point made at your meeting on 19th June. But is 20 weeks enough? Would the miners be able to stay out for longer than that?

(b) Paragraph 5 of the Secretary of State's longer minute does not bring out the fact that a large proportion of the costs of maximising endurance in 1982 would be in oil purchases, which could be resold if a strike did not take place. The net cost is therefore composed of construction work at the power stations to accommodate extra coal (and oil) stocks and the cost of buying ancillary materials, which in total might amount to about £150 million. These estimates are very rough, and need further examination. But Ministers could usefully consider at this stage whether net costs perhaps up to £150-200 million in total would be a tolerable price to pay for increasing endurance to 20 weeks by next November.

(c) The Secretary of State's minute does not raise the question of how these costs might be financed, although this is referred to in paragraph 15 of the report by the Department of Energy. It is difficult to address this when the cost estimates are so very imprecise. A final decision is not required now, although the Electricity Boards will press for some commitment from the Government to reimburse in full the expenditure that they incur. However, given the difficult public expenditure position, particularly in relation to the nationalised industries, you will not want to rule out at this stage the alternative of passing the costs on to the consumer, at least in part.

(d) Paragraph 6 of the Secretary of State's minute refers to the amount of overtime involved by the NCB and BR, but does not make clear whether this would be by the whole workforce or only by a small proportion of it. This will crucially affect the attitudes that the unions take to the extra overtime.

(e) Paragraph 9 of the Secretary of State's minute considers what might be the implications for the NCB in 1983 if, when power station coal stocks had been maximised, no strike were to take place after all in 1982. This clearly merits examination, but 1983 is a long way off; the more important issue at the moment is the risk of a strike this year and next.

(f) The Secretary of State's minute and the report attached to it do not refer to the scope for increasing coal imports. This would take a long time (perhaps as much as a year) to organise, and a decision would therefore be required in the autumn if a sufficient volume of imports were to be available by November 1982. The impact on endurance would not be large, but anything would be welcome in the event of a very long strike. One approach would be for the Electricity Boards to enter into contracts now for the supply of coal next autumn, which could then be resold if a strike did not take place. But the scope for doing so clearly requires more detailed examination by officials. Limiting factors will be the sheer availability of coal on the world market; and the undertaking given in the Government's tripartite negotiations with the NCB and NUM.

11. Whether or not Ministers decide to authorise detailed discussions over the summer, further work by officials will clearly be required on a number of issues. This would be best undertaken by MISC 57, since a large number of Departmental interests have to be reconciled, rather than by the Department of Energy. Moreover, the report attached to the Secretary of State for Energy's minute is very sketchy in some places, and would benefit from the sort of critical examination that went into the production of MISC 57's report.

HANDLING

12. I suggest that you take first the point for decision arising out of the MISC 57 report. You could invite the Secretary of State for Energy to put the case for maximising power station oil stocks over this summer, and the Chancellor of the Exchequer to put the counter arguments. The Secretary of State for Scotland may wish to comment on the position there, and the Secretary of State for Employment may wish to contribute on the likelihood of a strike this year.

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13. Turning to the Secretary of State for Energy's minute of 31st July, and the minute of 30th July from the Secretary of State for Scotland, you will want to ask Mr. Howell to introduce his paper, before taking comments from other colleagues. The main issues for decision seem to be as follows:-

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(i) Should the objective be to increase endurance to about 20 weeks by November 1982 or would some lesser period be sufficient? If the feeling is that the miners could stay out for that length of time or longer, is it practically possible to increase endurance beyond 20 weeks by November 1982?

3 (ii) What realistically are the costs of the Secretary of State for Energy's proposals likely to be? Are they tolerable?

(iii) Do Ministers think that maximising coal stocks for 1982 could probably be presented publicly in a way that would not court a miners' strike in 1981, but that this is likely to be less true of oil stocks and ancillaries? If so, is it worth risking consultations about coal over the summer, while leaving discussions about oil and ancillaries until after this year's pay settlement? If consultations on all aspects were delayed until the autumn, would the reduction in 1982 endurance times be acceptable?

4

14. A number of issues relating solely to 1982 also arise on which decisions are not required now but on which you may wish to instruct MISC 57 to undertake further work (which would not involve consultations with outside bodies) and to report further in the autumn. These are as follows:-

(i) The scope for coal imports in 1982.

(ii) The likely costs of all 1982-related increases.

(iii) How these costs might be financed.

(iv) The implications for 1983 of maximising coal stocks during 1982.

CONCLUSIONS

15. You will want to record conclusions on all the above points.

RtA

ROBERT ARMSTRONG

31st July, 1981

CCA Dugard

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Copy No 1 of 11

PRIME MINISTER

POWER STATION FUEL STOCKS AND ENDURANCE

At your meeting on 19 June we decided to aim for much higher coal stocks at power stations (CEGB and SSEB); to review urgently what this would entail; and to prepare a plan of action. We discussed as an aim 20-22 weeks of endurance in the autumn of 1982.

2. The CEGB responded promptly to my request to review the options for extending endurance by the winter of 1982, with the objective of 20 weeks' endurance of unrestricted demand in mind. They have worked discreetly; only a very small number of their headquarters officials have been involved in what must necessarily be at this stage a broad assessment. More detailed work would involve consulting more widely with power stations, with suppliers and so on, with the risk of publicity.

3. Officials of Departments represented on MISC 57 (the Official Committee which has just reported to us on endurance in autumn 1981) have been consulted and their views taken into account.

CEGB ASSESSMENT

4. This first CEGB study points to the following conclusions:

i) It might be practicable to increase coal stocking capacity within CEGB power stations to 28 mt and to transfer enough coal to fill that capacity by November 1982, although this will not be easy. This would enable coal stocks to reach 10 mt above the normally expected level, extending endurance to 12 - 13 weeks. A decision to go ahead would have to be taken immediately so that work could begin in September. If a decision were to be delayed until October it could affect the build up - but it is difficult to say by how much without detailed consultation. (Possibly endurance could be reduced by up to 1-1½ weeks).

ii) It would also be possible to arrange for some additional oil stocking capacity and for greatly increased deliveries of oil in the autumn and winter of 1982 (4½ mt) thus extending endurance by a further 6 weeks. Action on this would be required in the spring of 1982.

iii) The increased use of gas in dual-fired stations might add a further 1 week to endurance if the gas can be made available by cutting off firm contract customers. (This would require Government sanction at the time and would damage the companies affected).

iv) Stocks of ancillary materials would also need to be raised to the level required for 20 weeks' endurance. This would be possible with the exception of $CO_2$ for nuclear stations; replenishment would have to be maintained in this case. A decision is required now.*

COSTS

5. These conclusions are provisional since there has been no consultation yet within the CEGB at regional and power station level, with British Rail (who would transport most of the additional coal), with oil companies and with others involved in increasing endurance in this way. Within these limitations however, it is clear that the cost of this major exercise would be high. Preliminary estimates suggest that the cost of purchasing and delivering coal by rail to the power stations could amount to £400 - £450 million for 10 mt. Much of this would not add to the PSBR but simply transfer EFL from the NCB and BR to the CEGB. A further £750 - £800 million is estimated for oil, gas, other materials, capital works, additional equipment, handling and so on, and would require payment by the CEGB to private sector bodies, oil companies, contractors and suppliers of all kinds. Gas diverted from industrial firms to the CEGB would be a loss to the PSBR. Some part of these costs might be recoverable, eg if in the event the oil is not required but the penalty is likely to be considerable.

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* Power stations are also highly vulnerable to interruptions in mains water supply: no action is possible except in the very long term.

6. Any further steps in this exercise will be visible. More detailed planning will involve a number of CEGB staff at power stations who will have to be drawn in at a very early stage. In order to provide the additional coal, the staff involved in the NCB and British Rail will have to move from the current 5 day working week to a $6\frac{1}{2}$ day working week. This overtime will be noted immediately and the NUM, the rail unions and the power station unions will realise what is being proposed. Furthermore, the CEGB take the view that they must consult their unions before implementation. Moreover, councillors on local planning committees in the districts where power stations are located (most are in mining areas) may well be alerted to the changed use of some power station land; contractors will be tendering for the construction of new coal and ancillary stocking capacity and hauliers for taking some coal by road, while oil companies will later become involved in arrangements for shipping more oil and others for storing it.

7. We have already decided to avoid actions which would make it more difficult to achieve a reasonable and peaceful pay settlement in the coal industry this autumn. We could attempt to explain the proposals to shift a very large tonnage of additional coal as a response to the NCB's difficulties over mounting stocks. We could argue that it was in the public interest and in the interest of the coal industry to transfer stock to the power stations where it will ultimately be used, but I doubt whether that is credible. It would be much harder to explain the steps required to ensure additional oil and higher ancillary stocks to match increased fuel. The whole thrust of fuel policy has been to reduce oilburn to the minimum and we have an international commitment to do so. Increasing oil stocks by exceptional means and arranging for a large additional supply will offer a clear signal indeed to the unions: it might even be interpreted as a threat to the coal industry's future and the NUM might refuse to work overtime to provide the additional coal if they suspected its part in a wider design. They will undoubtedly regard measures to build up ancillary stocks as provocative.

8. I believe we now know enough about what is involved in extending endurance to enable us to decide whether to proceed and, if so, how to resolve the difficult issues: choice of means (coal only or coal and oil); financing; phasing in relation to the coming pay negotiation; and of coping with fuel stocks after 1982. More

refined estimates are unlikely to add much to the present assessment and to obtain them we would have to sanction wider consultation with inevitable publicity. Timing is important; delay will not leave enough time to plan for and implement fully the proposed increase in coal stocks or ancillaries.

9. We must seriously consider now whether it would be preferable to postpone the next stage of planning, involving wider consultation, until after this year's NUM pay settlement and take both coal and oil together at that time with the consequence that some tonnage of coal stock may be lost, while the extension of stocks for some ancillary materials will not be achieved; replenishment during a period of disruption is the only remaining course. There are also questions for later years; if we build up stocks in 1982 should they be kept at a high level in subsequent years?

OPTIONS

10. The options are:

a) to conclude that the risks to achieving a reasonable pay settlement this autumn are too great and that we should take no further action.

b) to decide, in principle, that the prize of 20 weeks' endurance justifies the risks and to set the industry to implement the proposals despite the inevitable publicity (coal and ancillaries now; oil next spring).

c) to postpone a decision and any implementation of these measures until the outcome of this year's pay claim is clear, although this would probably mean less than 20 weeks' endurance in autumn 1982.

11. The Secretary of State for Scotland's minute of yesterday contains a similar analysis for the SSEB.

12. I am copying to the Chancellor of the Exchequer, the Home Secretary, the Chancellor of the Duchy, the Secretaries of State for Scotland, Industry, Employment, Defence and Transport and to Mr Ibbs and Sir Robert Armstrong.

DH
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Secretary of State for Energy
31 July 1981

SECRET

THE LONGER TERM: CEGB POWER STATION STOCKS AND ENDURANCE

(Note by the Department of Energy)

The CEGB have reported on how they might meet an endurance target of 20 weeks by 1 November 1982. The Board have not consulted their regions; their broad estimates are based on the knowledge of a handful of HQ officials. Detailed work at regional and power station level would involve a large number of Board officials in the exercise and it will probably be necessary to extend consultations to British Rail, hauliers, oil companies other suppliers of goods and services as well as to local authorities at the next stage. The assessment below is based on the assumption that there would be no disruption in any of the supply systems before 1 November 1982.

Existing Capacity to Stock Coal

2. Existing capacity to stock coal at power stations in England and Wales is of the order of 24 mt as a maximum - equivalent to roughly 10 - 11 weeks of winter endurance. This is clearly well below the endurance in mind for the longer term.

Extending Capacity to Stock Coal

3. There is no practicable course for meeting a coal stocking capacity of 43 m tons, the equivalent of 20 weeks endurance, by 1 November 1982. Purchasing land, obtaining planning permission and developing sites could take up to 3 or 4 years from decision. It is very doubtful whether more than 28 mt of stocking capacity can be constructed within power stations in the time available; it would depend on the extent to which local planning authorities would be prepared to approve the use of existing power station land such as recreation grounds for new purposes; and the speed with which it would be possible to establish new stock areas with the drainage, standing, coal handling equipment and so on. An increase in coal stockyard capacity to about 28 mt would, the CEGB consider, be most likely of achievement. However, it is important to bear in mind that a large number of major power stations are located in mining areas and that an intention to expand stocking capacity would be communicated immediately to councillors on planning committees, to local contractors and so on at each of the power stations involved. It is also inevitable that the power station unions themselves would be aware of the Board's measures.

Supplying Coal to fill this Capacity

4. It ought to be possible with overtime working at weekends at mines, on railways and at power stations to deliver most of the additional coal (10 mt) to fill stocking capacity of

28 mt. It might even be possible to deliver more but an assessment depends on wider consultation. This report therefore assumes 28 mt of capacity.

Coal Imports

5. The scope for increasing coal imports in 1982/83 is limited. The CEGB are contracted for some coal on a long term basis. Additional quantities for longer term delivery are unlikely to be available this autumn.

Extending Coal Endurance with Oil

6. A coal stock of 28 m tons at 1 November 1982 would provide around 13 weeks of endurance, below the objective sought. However, the CEGB have suggested that there are other measures that would supplement coal stocks and bring endurance up to the required 20 weeks of emergency running without restricting demand ie for 20 weeks after coal supplies are disrupted.

7. There is considerable flexibility in the generating system. Surplus oil fired capacity can be utilised in place of coal at a cost and much of that capacity is supplied by pipeline from refineries. The CEGB propose to build up their oil stocks before 1 November 1982 to the maximum possible by using their existing storage tanks, possibly by hiring additional tankage and also by hiring some tanker vessels to store oil at harbours (most oil fired stations are on the coast). They would expect to make arrangements to build up stocks to some 1.5 mt of oil which could be used during an emergency and to draw on fresh supplies (largely by pipeline from refineries) for a further 4½ mt of heavy fuel oil during the emergency. In total this is the equivalent of about 10½ mt of coal which would provide another 6 weeks of endurance. The phasing of this supply is obviously an important factor; in so far as stocks are built up and held before 1 November 1982 there would be no problem. However, if oil companies are committed to provide a particular tonnage of oil in a period it would be necessary to ensure that if the need arose later (or perhaps earlier) the oil would still be forthcoming. However, the CEGB believe that if they negotiate some 6 months in advance with a variable commitment as to delivery they can rely on flexibility.

8. There are complications to this oil scenario which involve the way in which the oil companies run refineries and the recent change in the balance of capacity to make the ligheter products including gasoline, and the proportion of heavy fuel oil has been falling rapidly. Any reversal of this trend could involve the oil companies in additional costs and it may be necessary for the CEGB to pay over the odds for heavy fuel oil in order to obtain the required tonnage. But at the same time there is a glut of heavy fuel oil in Europe and it is possible that the oil companies would prefer to import some heavy fuel oil at prevailing prices and feed it through their pipelines to CEGB stations. In order to secure adequate supplies for any period after 1 November 1982 negotiations with the oil companies would probably have to commence in the spring on confidential basis.

## Other measures for Extending Endurance

9. The CEGB have examined the possibility of increasing gas burn. Burning gas in power stations is likely to involve withdrawing supplies contracted for on a firm basis from some industrial firms, who would suffer. The Government would have to give directions under the Energy Act Order in Council to enable the BGC to waive their contractual commitments. However, it could be done, but the amount of gas that might be available during a 20 week period could well be less than the CEGB envisages. They assume the equivalent of 2 mtce of gas in 20 weeks, or one week's endurance.

10. There are other possibilities for extending endurance but their effect is minimal - burning more oil for flame control in coal stations taking more electricity from Scotland - and they would be costly.

11. These figures are consistent with those put forward in the recent report from MISC 57 on endurance in the autumn of 1981. With a longer period in which to plan for and implement measures to extend endurance, proportionately more can be achieved.

## Total Fuel Endurance

12. These are broad estimates and must be treated as such. If all these measures are taken together it is possible to envisage aiming in practical terms for endurance of about 20 weeks. No assumption has been made about restricting electricity demand during that period, but if for example it were to be restricted by 10% or 15% it would be possible to extend endurance to over 20 weeks possibly 22 - 24 weeks.

## Ancillaries

13. It is important that the stocks of ancillary materials which are essential to the operation of power stations should be increased to match prospective fuel stocks and supplies during an endurance period. In their assessment the CEGB have allowed for the increase of working capital and for capital expenditure upon extending storage capacity for all these materials with the exception of $CO_2$ for nuclear stations for which arrangements could not be made and which would have to be replenished by the manufacurers. It is assumed that the movement of irradiated fuel flasks will continue. It must be noted that power stations are highly vulnerable to failure of mains water supply and there is little that can be done to improve the position in the medium term.

## Costs

14. There are considerable costs attaching to the build up of fuel stocks and supplies and of ancillaries in the way described. One advantage of the CEGB's suggested course of using both coal and oil to extend endurance is that if oil stocks and committed oil supplies are not in the event required the CEGB can seek

to sell the oil after the threat of an emergency has passed thus off-setting to some extent the risks entailed in building up very large supplies and stocks. Furthermore the cost of gas would not be committed until supply was made available.

15. The cost to the CEGB of extending endurance to around the 20 week mark is considerable. The estimates are very provisional but can be broken down into two main components; the cost of the coal and of rail transport some of which is effectively a transfer within the PSBR and the costs that the CEGB will incur in construction and capital works, the purchase of oil, gas and ancillary materials, the purchase of oil tankage and the hire of tankers and road transport, the purchase of equipment additional handling power at power stations and so on. Excluding interest charges a broad estimate of these costs at current values is £400 - £450 million for additional coal, handling at mine and transport while the second component, largely involving additional payments to private sector suppliers could amount to £750 - £800 million of which oil could account for £500 million, gas about £100 million (if used it would reduce revenue from the private sector) capital works about £60 million and the remainder for ancillaries and other materials, supplies and equipment. It is possible that the oil companies would require an incentive to provide large additional tonnages of heavy fuel oil from UK refineries and the cost of the operation to extend endurance to 20 weeks could well be higher. The total may be reduced if the oil is not consumed, although a heavy charge will probably then be required. The CEGB would look to the Government to pay for what they regard as strategic stockbuild and point out that the interest burden and the effect of higher net assets on the Board's financial target will have to be taken into account and their EFL adjusted.

16. Costs for the Scottish Boards are in addition to these figures.

B 6

cc A Duguid

Copy No 1 of 11

PRIME MINISTER

WITHSTANDING A COAL STRIKE

I am minuting you separately underneath today on the possibilities for withstanding a strike in the longer term. I am responding here to the report of the Official Group on Coal circulated by the Home Secretary with his minute of 22 July.

2. This study looks at the potential for building endurance in 1981. I agree entirely with the Home Secretary that the 13-14 weeks of endurance to be obtained by deploying measures that are feasible but not drastic (in the terms of the report) may be a theoretical maximum rather than a realistic prospect. Experience of planning in emergency situations has shown that it is wise to apply a contingency factor. Furthermore I do not believe that we can lightly contemplate severe and prolonged restrictions on electricity demand; we have little experience to draw on and the consequences of holding down demand might well be more damaging than the best view we can take now. However the report is a thorough and most useful piece of work.

3. One decision emerges to be taken soon and I am writing to let you have my views.

4. The Report indicates that the Electricity Boards might increase their oil stocks by $\frac{1}{4}$ - $\frac{1}{2}$ m tonnes at a cost of £25 - 50 million plus interest charges which would require an increase in the Electricity Boards' EFL's and a corresponding claim on the Contingency Reserve. An increase in stock of this order before 1 November this year would not of itself extend endurance but it would ensure that the maximum possible extra oil could be used as soon as decisions to do so are taken.

5. Unfortunately the financing of higher stocks is likely to involve publicity. We might be able to avoid publicising the change in the CEGB's EFL until the end of the year. I would hope to persuade them that they ought to absorb the interest

charges although there is such pressure on costs that there is little scope for a further squeeze. Last year the CEGB's oil stocks were held at around .9 mt during the winter and I believe they are planning for a similar level this year. Even if we do not announce the EFL change before the oil is purchased it will no doubt be remarked by the power station unions that oil stocks are higher and there is a risk that they will draw their own conclusions particularly as electricity demand is actually lower than last year.

6. The CEGB will, I believe, be reluctant to take action which they will regard as demotivating their managers at a time when they are putting pressure on costs all round and for which they will not even be offered compensation. On the other hand we cannot contemplate offering a grant since that will need to be made public before payment.

7. There is a compromise position: we could seek to persuade the CEGB (and the Scottish Board) to raise oil stocks above the level contemplated and indicate that a corresponding change in the EFL would be sympathetically considered later in the financial year. If they were to increase their purchases over the next three months, perhaps by less than $\frac{1}{4} - \frac{1}{2}$ mt, it would still have to be done discreetly. But even this course would carry a risk, and it is far from certain that the Boards could be persuaded.

8. The key question, therefore, is whether this increase in oil stocks can be brought about without prejudicing our objective of the lowest possible settlement with the miners this Autumn.

9. 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 Industry, Employment, Defence, Scotland and Transport, and to Sir Robert Armstrong and Mr Ibbs.

DH.

Secretary of State for Energy
31 July 1981

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SECRET

MF.

Qa 05648

To: PRIME MINISTER

31 July 1981

From: J R IBBS

NCB/NUM Problem

1. I am attaching to this minute the report on the CPRS study of the NCB/NUM problem.

2. Unfortunately, we have been unable to find any radical new solution. We have identified some steps which should begin to improve the situation, but the effect of most of them will be relatively small in the next few years. However, the analysis may be useful in enabling those immediately concerned to see where any additional helpful measures might be found.

3. The immediate problem is basically a psychological one. The NUM is confident that it can make substantial demands; the Government and the NCB are not well placed to disprove this. It is important to try to avoid confrontation but to take care not to do anything that would add to NUM confidence.

4. One aspect not covered in the report is that the NCB is thought by some people to be pursuing on some issues interests more in line with those of the NUM rather than those of the Government. Personally, I believe it would be wrong to attribute the problem to this. What is certain is that the next Chairman must be absolutely clear on his objectives and start with, and retain, the confidence of Government.

5. I am sending a copy of this minute and attachment to the Chancellor of the Exchequer, the Secretaries of State for Employment and Energy, and to Sir Robert Armstrong.

JRI

~~Att~~

SECRET

SECRET

COPY NO 1

# CPRS STUDY OF THE NCB/NUM PROBLEM



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INTRODUCTION

On 8 June 1981 the CPRS was invited by the Prime Minister to prepare a first study on the NCB/NUM problem in association with John Hoskyns, consulting other Departments as appropriate. The Prime Minister emphasised the importance of keeping very tight security on the study. The CPRS was 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?

We report here on items (a) and (b), and have specifically considered the balance of power in 1981, 1982 and in the medium-term; as well as suggesting a number of measures which would only have long-term effect. The wider implications of the balance of power (item (c)) primarily effect pay, and these will be considered further in the study on the framework of pay bargaining which we are due to submit in September.

SECTION 1: THE NCB/NUM PROBLEM: A SHORT DEFINITION

1. NUM power is based on:

- importance of coal-fired power stations, which supply some 75 per cent of electricity
- effective monopoly of supply through import restriction
- and hence possibility of slow strangulation of the economy, together with a history which gives miners:
    - a unique degree of public sympathy
    - a unique community solidarity
    - a particular claim on the solidarity of other trade unions

plus a confidence based on the successful use of that power (or the threat of it) three times in the last decade.

2. This power can be, and from time to time has been, used:

- to obtain high pay settlements, with damaging knock-on effects on other groups;
- to ensure substantial subventions to the coal industry at high cost, and with damaging effects on the overall economic stance of the Government; and potentially it allows challenges to Government authority on wider issues.

3. Pay: insofar as miners' settlements raise the level of other settlements they are costly to the PSBR and increase inflation. The problem that results from a high miners' settlement is most acute under a formal pay policy (as 1971/72 and 1973/74). It is potentially serious at any time. The miners' high relative wage position and new-found affluence now probably limit their aspirations, but these are still likely to exceed the general level of pay rises needed if inflation is to continue to fall.

4. Cost: all energy sources have become much more costly. But NCB's costs are excessive because of its substantial tail of uneconomic pits whose closure is thwarted by NUM power. The concentration in South Wales (and certain other areas) makes this more difficult to solve. In addition NCB's monopoly position protects it from pressures to reduce costs and increase productivity as much as is possible.

5. **Political:** NUM power could be used to subvert government authority on a wider front if joined to other forms of extra-parliamentary opposition.

6. The definition of the problem suggests the following objectives for Government:

i. to achieve the lowest possible miners' pay settlements

ii. to improve the efficiency, and to contain the costs to the Government, of UK coal production

iii. to prevent NUM power being used to subvert the authority of Government.

## SECTION 2: THE BALANCE OF POWER

7. We consider ways in which the Government can hope to shift the balance of power which is at present tilted in favour of the miners (paragraph 1) under two broad headings:

- reduce the power of the NUM
- make the miners more reluctant to use the power.

### A. Reduce the power of the NUM

8. Again the action falls under two headings:

- increase the ability to withstand a strike
- weaken the NUM's effectiveness in a strike

#### (a) Increase the ability to withstand a strike

##### (i) Increase power station coal stocks

9. Methods of improving the endurance of power stations in 1981 have been examined in a report by MISC 57 to the Home Secretary. Coal stocks at power stations are being increased and, in conjunction with increased oil-burn, should give 11-12 weeks endurance at normal usage. This can be extended to 13-14 weeks if the grid is run at 85 per cent with the major problems for consumers (and therefore politically for the Government) associated with this. Adequate stocks of ancillary materials are also essential to achieve this.

10. The Department of Energy is now reporting on measures by which the CEGB might be able to meet an endurance target of 20 weeks by November 1982. In considering which measures should be implemented the Government must consider both cost and the effect on miners' attitudes.

11. In making this decision Government should view the problem as a continuing one. It will arise year after year, unless and until there is a radical change in attitudes or in the balance of power. Each year is likely to have its special problems; for example in 1982 a new Chairman of the NCB and a new President of the NUM will be staking out their positions and there will be a particular risk of confrontation. However, it would be a mistake to regard any single year in the coming decade as necessarily marking the end of the crucial phase of the balance of power problem.

(ii) Make transport of pithead coal easier

12. There are large pithead stocks of coal at present, but in a strike NUM pickets would effectively stop members of other unions moving these to power stations by rail or road.

13. The use of troops has been examined in the report by MISC 57. It would substantially increase endurance times - i.e. directly and indirectly by about 11 further weeks. However the report concludes that there would be severe practical problems in the use of servicemen.

(iii) More imports

14. As MISC 57 also shows, coal imports, if obtainable, and if they could be transported to power stations, might increase power station endurance by 10-12 per cent. Immediate expenditure at certain ports might raise this to about 15 per cent by 1982. But imports are a particularly sensitive issue and if coal could be landed there are still likely to be problems of transporting it within the United Kingdom.

15. The scope for coal imports will increase materially in the long run because:

i. world trade in steam coal for power stations will develop enormously (principally from USA, Australia and South Africa);

ii. a large number of the CEGB's major inland coal-based power stations, which were built in the 1960s, will become due for replacement or refurbishment in the 1990s, and, if refurbished, for replacement in the 2000s.

16. As set out in Annex B, even assuming a successful nuclear programme, it will be prudent to make provision for a number of new coalfired power stations

for the 1990s and 2000s. This may provide the opportunity for a programme of coastal coalfired power stations, able to use imported coal economically. At present, the CEGB has one suitable site for a coal terminal and power station, Killingholme on Humberside. It is also investigating a coastal power station site at Inswork Point, near Plymouth. To get the best economies power stations need to be at a major coal port, capable of receiving large coal carriers, or near it with facilities to move the coal reliably to the actual power station. Sites suitable for major coal ports are scarce. A major coal port requires major investment (about £100m), although if British Steel Corporation ceased to import iron ore for steel-making at Hunterston, Port Talbot or Redcar, these facilities could be used, and act as links to new coastal power stations.

17. The CEGB has been inhibited from pursuing a strategy based on coal imports because its attempts to import have more than once met with a Government veto at NUM insistence. It is therefore essential to retain the right to import, and extend it when a suitable opportunity occurs, to strengthen the Government's position in the longer term.

18. There is much work required to establish the full scope for coal ports in the UK, and associated coastal coal-based power stations. Such a policy would provide some safeguards against delays in the nuclear programme (discussed at (v) below), but it is most unlikely that it could fully compensate for its total failure. But since the pace of the nuclear programme still remains uncertain we recommend that a strategy of coastal coal-based power stations should now be examined in depth.

(iv) New internal sources of coal

19. New sources of coal within the UK might be developed by private capital in competition with the NCB. Some mines which the NCB may need to close through lack of funds for investment might attract the sort of outside capital now going into the Cornish tin-mines. Big projects such as Belvoir or South Warwickshire might be pursued by the NCB as joint ventures with private capital.

20. In the long term we do not believe that private capital should be restricted to joint ventures with NCB. The NCB's statutory monopoly of exploration and development should therefore be removed in the medium term, and the objective should be to work towards a situation where the NCB competes on an equal basis in exploration and development under licence.

21. These longer-term developments could help to make the NCB more commercially alert and competitive. But they will not help in withstanding a strike unless new developments are outside the control of the NUM. How far privately-owned deep mines could be detached from NUM negotiations and kept out of a strike must be a matter for conjecture.

22. The open-cast sites which produce 12 per cent of NCB's coal are worked by TGWU members. These continued production in 1972 and 1974 and could be expected to do so in a further NUM national strike. They could be hived off to private concerns, to detach them further from the NCB. They make large profits (1980/81 - £156m), therefore their privatisation would expose further the NCB's deep mined losses.

23. We recommend that the feasibility of (a) moving open-cast mines to the private sector and (b) allowing major private sector coalmining projects, should periodically be reviewed, even though such moves if taken immediately would lead to confrontation.

(v) Alternative sources of electricity - nuclear

24. To break the NUM's monopoly power it will be important to maintain a consistent programme of nuclear power-station ordering, on the lines suggested as a base for planning in the Government's statement of December 1979, and re-affirmed in the Government's recent reply to the Select Committee on Energy's report on the Nuclear Programme. The prime purpose of this programme is to produce cheaper electricity. However even if doubts about the capital costs of nuclear power stations made the economics less demonstrable they should still have an important strategic role in the future as a second source not only because of the miners' monopoly power but also because of the risk of increasing cost of fossil fuel. We therefore recommend that the case for nuclear power should be openly based on the need to diversify supply.

25. Even on this programme the United Kingdom would only be generating 30 per cent of its electricity from nuclear power in 2000. However, a successful nuclear programme will throw a shadow over coal's monopoly power long before this. What is required is that there should emerge during 1983/85 a conviction that the programme will succeed. On the other hand obvious failure to get the nuclear programme moving would reinforce the monopoly position of UK coal for another generation.

26. In theory a faster nuclear programme, similar to that undertaken under the previous French government, would bring forward the day when the grid can run

at 85 per cent or more without coal, thus enormously reducing the grip of the NUM. In practice we do not believe this can be envisaged at present because we consider implementation of even a 15GW programme in the UK by 2000, the best outcome present plans could produce, is going to be a major task to achieve. We recommend that every effort should be made to ensure that these plans do succeed on time. A more ambitious programme now would exacerbate the well-known problems, namely strain on the UK nuclear industry, burden on public sector financing in the late 1980s, and the difficulty of finding acceptable sites (especially for PWRs); it would stimulate much increased opposition (not least from the NUM) and would therefore be less likely to proceed with the smoothness required to impress on the coal industry that its monopoly of power generation is bound to disappear. Nevertheless if the present nuclear programme goes better than we at present fear, we recommend that the possibility of acceleration should be re-examined in a few years time.

(vi) Alternative sources of electricity - other than nuclear

27. Aside from oil-burn (considered by MISC 57), some coal-fired power stations could be converted over time to dual-firing with gas. But this requires a capital investment of about £200m for a 2GW power station, and therefore a programme large enough to have a major impact would be very expensive and almost certainly uneconomic. There would also be problems in making available the gas required.

28. We have considered other forms of energy supply - ie Severn Barrage (which would only replace 1GW worth of power station capacity), cross-Channel link with France, wind power, etc - but consider all of these, both separately and cumulatively, insufficient to have a substantial effect on the main problem. Less conventional energy sources such as solar power, biomass, hydrogen etc will only play a marginal role in the UK for the foreseeable future.

(vii) Reduce dependence on public electricity

29. The economies of scale in conventional electricity generation have meant that the most efficient power stations have become larger, and this is likely to reinforce the natural monopoly of the public electricity boards despite the Government's recent announcement about opening up electricity supply to private capital. A number of industrial electricity users already run their own generating plant but to have a significant effect on the balance of power with the NUM a very great increase would be required entailing a vast amount of capital. Most industrial users are unlikely to give priority to this form of investment in the foreseeable future.

30. As energy prices rise the economics of selling Combined Heat and Power (CHP) will become more attractive, as set out in the Marshall Group Report on CHP (1979). A small 15MW plant pioneered at Hereford by the Midlands Electricity Board has proved a success because of local industrial requirements for heat. It is being followed by a similar plant for industrial users in Birmingham. A further scheme is to be developed for domestic district heating on an experimental basis. CHP schemes offer no easy answer to the balance of power with the NUM. Their increased fuel efficiency is based on substantial capital expenditure on heat transmission, and again their growth on any significant scale will therefore be restrained by capital availability. They offer reduced dependence on the big power stations and hence reduced vulnerability to unlawful picketing. New schemes will however be based on coal and to offer increased endurance they must have access to replenishment of coal stocks (normally to carry enormous coal stocks would damage their economic attraction). Since most CHP schemes are likely to be in inland industrial areas there could still be a problem of secondary action.

31. The other main opportunity for reduced dependence on coal-based electricity is therefore by reduced dependence on energy generally. As energy prices rise energy conservation becomes more attractive and energy-intensive activities less economic. Such trends could lead to a low growth of UK electricity consumption of only 0.4 per cent pa (as shown in Annex B). Any additional measures to encourage energy conservation are likely to encourage this trend towards lower growth. However the basic dependence on electricity from existing coal-fired stations will still remain into the next century.

(b) Weaken NUM effectiveness in a strike

(i) Employment legislation

32. We have considered the relevance of employment legislation to this problem ie

a. Effective use of the Employment Act 1980

- Section 16 re peaceful picketing at CEGB premises, thus protecting the inflow of ancillary materials and of imported coal;

- Section 17 re secondary action thus allowing passage of imported coal and making sympathetic action unlawful;

b. Possible other legislation, eg

- to improve enforceability by making union funds liable for legal action

- to give employers the right to lay off employees in certain circumstances (as proposed by the EEF).

Our conclusions, set out in more detail in Annex A, are that such measures might play a useful role in dissuading other unions, eg NUR, from sympathetic activity; but that they are not likely to have any great impact on miners' action. They would not cope with intimidatory mass picketing, as seen at Saltley Coke Depot in 1972 and at Hadfields in 1980, where the problem is one of enforceability rather than what the law permits.

(ii) <u>Break up NUM unity</u>

33. A broad aim should be to make miners see their interests as more closely linked with their own pits and areas, and less with the national concerns of the NUM. The NCB already promotes area identities; figures for operating profit and loss and for productivity are published by area (though not by individual pit), and discussions of closure already take place principally at area level. This process could be taken further, for example by regionalising the price structure, which would give greater incentive to the CEGB to maximise purchases from low-cost and well-located pits, and thus expose further the uncompetitiveness of others. The effect of the incentive scheme should be gradually to restore regional variations in pay, though there are limits on the pace at which this can be achieved.

34. However, to move precipitately to break up the NCB would risk weakening the industry's management and control, and will not by itself split the NUM. The only way in which that might be achieved would be to form, or bring in, another union. We do not believe that this is a serious possibility.

(iii) <u>Break miners' community solidarity</u>

35. Part of the NUM's strength in industrial dispute rests on the isolation of many members in small communities wholly dependent on the mining industry. The geographical distribution of the industry is changing, and it may be that over time this will reduce the sense of community. The increasing prosperity of the miners, and their exposure to communications, travel and other influences, should also help to weaken their isolation. But those can only

be long-term and marginal influences, outside the direct scope of Government action.

(iv) Isolate NUM from other unions

36. Again this is outside direct Government influence. At present the NUM has formed a 'Triple Alliance' with the NUR and ISTC. But its relations with other unions will vary from time to time, depending on economic, political and personal factors. In general, there is some prospect that, if the miners continue to obtain pay increases higher than other groups, there may be less inclination to support them - though their monopoly power will still be politically important in spear-heading demands from the labour movement.

(v) Operate on public opinion

37. In an industrial dispute the attitude of the public and the media can have an important influence on the unity and self-confidence of those on strike. The Government needs to counter a public tendency to sympathise with the miners, based on the history of the mining industry, and bad conditions under which underground miners still work, and - since the energy crisis - the importance of British coal. In addition Joe Gormley has a high rating with the public, although his probable replacement by Arthur Scargill creates a new situation.

38. The Government has a choice between:

(a) an urgent, high-pressure campaign getting over all the facts about NCB losses, NUM wage-rates, overcapacity etc and making clear Government's deep concern about them;

(b) a more low key approach, getting certain facts into public consciousness in order to provide a reference base if and when the NUM final demands are obviously unreasonable.

39. One way of drawing public attention to the inefficiencies of the coal mining industry would be a reference to the MMC. However, the main difficulties with economic pits are already well known and an MMC report in itself would be unlikely to help to resolve them. In the immediate future the appointment of the right man as chairman is of far more importance and an early reference to the MMC might be a distraction. We believe that choice of timing of a reference is what matters.

40. Our view is that the effect of any campaign on public attitudes should not be exaggerated. A high-pressure campaign could actually be counter-productive if it increased the political dependence of Government on a low miners' settlement. But a campaign would become more relevant if NUM demands, and the posture of NUM leaders, were so unreasonable that public opinion could be persuaded that they were outrageous and unacceptable. The scope for a publicity campaign is at present under discussion; opinions differ strongly on what would be its optimum form and in the time available we are not in a position to resolve these. **We recommend** that these differences be explored so that an appropriate campaign can be put in hand. The effect of a campaign on trends in public opinion should then be monitored, to provide a stronger basis for future campaigns.

B. Make miners reluctant to use their power

41. The key to the situation is not the miners' industrial power but their willingness to use it. In the next few months the rhetoric of NUM leaders is likely to become increasingly militant, in the run-up to the election of the next NUM President. The NUM is however a democratic union in which industrial action must be supported by a 55 per cent vote in a ballot. NUM leaders will only get the support of miners for industrial action if there is a widespread sense of grievance. Miners are now well paid, and their relative position now exceeds the previous post-war peak of 1.32 times average earnings achieved in 1953. NUM leaders who seek industrial action will have to persuade them that the likely benefits outweigh the certain costs.

42. The largest single element of the moderate vote has been in the Nottinghamshire/Leicestershire/Midlands belt of relatively low-cost pits (77 per cent voted yes in the last Pay Ballot). The second largest in 1980 was the substantial minority vote in Yorkshire, the biggest area. Durham, despite its problems, also has a large moderate majority.

43. Sentiment in the coal-fields is not static. Thus Yorkshire, unlike the trend in other militant areas, actually increased its moderate vote in 1980, compared with 1979. However, it is said that Arthur Scargill now has increasing influence in Nottinghamshire. So-called moderate NUM leaders formed a united front with militants in February, and offered no effective opposition to militant resolutions at the recent Jersey conference. The evidence on grass-roots feeling is anecdotal, and we recommend that Government should have access to more systematic regular opinion research (without this becoming known).

44. What evidence there is suggests that the bulk of miners are concerned about pay and job security. They are not looking for massive real wage increases on the lines of the formal 1981 pay claim. But they remember the 1960s when co-operation on closures and productivity was associated with falling real wages and reduced investment. Because minin g is an extractive industry and faces become exhausted they look for heavy investment to maintain job opportunities: hence the significance of Belvoir which would replace 3,500-4,000 jobs to be lost through exhaustion in the Leicesterhire coalfield. An adverse planning decision on Belvoir would put the whole of Plan for Coal in doubt and raise the issue of long-term job security, particularly in the normally moderate Nottinghamshire/Leicestershire belt.

45. Equally, action (eg on coal or oil stocks) which gives the impression that Government intends to 'take on' the miners is likely in itself to increase the willingness of miners to take action, in order to protect their industry and their long-term interests. Nevertheless, the build-up of stocks at power stations, if handled with discretion, will reduce miners' willingness to strike, because increased endurance means that a strike is more likely to be prolonged and the costs to them greater.

46. It would also be possible to increase costs further by introducing legislation that would withdraw all supporting benefit from strikers' families Since the NUM pays no strike pay, this could undoubtedly cause hardship in a lengthy strike, given that many miners' communities are isolated and have a relatively small proportion of workers in other trades. However miners' earnings are high so that their access to credit is much better than average. In the past miners' communities have found ways of sharing what wealth there was, and in 1926 the miners' 30 weeks endurance was based on minimal outside help. Their local authorities have the power to make cash payments to people in need. The sums in supplementary benefit involved are in any case small compared with the lost earnings, and it seems unlikely that this additional penalty would be of great significance if they had a real sense of grievance. Indeed its effect might well be to add to the latter.

## Influencing the opinion of miners

47. In seeking to influence the opinion of the miners themselves (rather than the public generally) the aim should be to get across four general messages:

(i) They are now relatively well off (as the figures show - paragraph 41 above), and cannot expect much sympathy from the public, including other unions, if they try to improve their position even further.

(ii) They cannot (individually) be certain that they will gain from a strike, if public opinion turns against them and if resolve weakens in those mining areas with most to lose from a prolonged strike.

(iii) They must recognise that the taxpayer will not be willing to go on supporting an industry parts of which are grossly uncompetitive and show no sign of improvement. There are precedents (docks, printing) where unions have exploited their short-term monopoly position but in the longer term have seen the jobs move elsewhere.

(iv) Finally, they may be persuaded to recognise that the national interest will not be served by runaway wage inflation, even if they can themselves hope to stay ahead of the rest.

Getting these messages across is more effectively done by management than by Government.

Leadership

48. Within the next year a new Chairman of the NCB will be appointed. This appointment will be crucial, both to next year's pay round and to the medium-term prospects of the industry. The new Chairman must be of high calibre, able to achieve immediate credibility with the miners and the public, and to exercise a strong moderating influence.

49. Senior and middle management in the NCB is considered technically good, but there remains enormous scope for improvement in overall efficiency based on determined and intelligent direction from the top. The management must be given confidence in a consistent policy of pursuing economic objectives and must believe these are essential to the industry's future. They must be motivated towards achieving better financial results at every level. Their task includes using their influence on the miners to promote modest pay settlements. The whole management needs to cooperate in a systematic internal campaign to make the points in paragraph 47 above.

50. The tasks for the new Chairman will therefore be:

i. to create a climate in the UK coal industry in which its future is widely believed to depend on the economics of coal production, and to be damaged by the losses of uneconomic pits

ii. to lead and motivate management at every level to believe in the economic goals of the industry and to give greater priority to the pursuit of efficiency

iii. to direct investment towards its maximum return.

51. We are convinced that in terms of enabling the Government to achieve its economic objectives, there is no appointment in the nationalised industries more important than the next Chairman of NCB. We recommend that the Government should make an appointment as soon as possible. We suggest that the essential qualities are:

- the ability to lead and motivate
- proven hard-headed industrial success
- a talent for industrial relations

These qualities would allow him to achieve credibility both with management and other employees, and help him to move the culture of the industry towards economic and business (rather than political) issues. The industrial success should be in an extractive, basic or heavy industry, where the problems and opportunities bear some resemblance to those of NCB. From what we have been told, we do not believe any current Board member within the NCB meets the bill.

52. An alternative set of qualities would be those possessed by public figures, such as Labour politicians. Some of these have a knowledge of coal-mining, and of coal-miners and their communities, which would be extremely valuable in a Chairman. Such a Chairman could be supported by an experienced Chief Executive. The precedent of Lord Robens may suggest that roots in the 'Labour movement' may be helpful in implementing unpopular policies.

53. We see the Chairman's job itself as primarily an industrial one (and believe that Lord Robens had an exceptional talent for management and leadership). To achieve success the Chairman must quickly establish credibility above all with his management, who have to implement policies with skill and dedication at local level. This requires management, rather than political skills. We therefore prefer an industrial, rather than a political, figure as the next Chairman.

54. We believe the new Chairman will need support from some new full-time Board members. New appointments at Board and senior management level could well include former NCB managers who have made successful careers in the private sector.

Conclusion on Balance of Power

55. In the short term, the prospect of tilting the balance of power in the Government's favour is not good. Power station stocks and ability to replenish them cannot be brought to a level whereby a strike could be resisted for so long that the endurance of miners was likely to crumble. It would be dangerous to underrate miners' potential endurance: in 1926 most miners stayed out for 30 weeks in intense poverty. A determined and united miners' strike would put the Government in a more and more difficult position as the weeks passed. We consider that as the point of total depletion became closer the pressures on the Government to settle would progressively increase, and be greater than the effective pressures on miners. We therefore consider it most unlikely that Government can in the next few years rely on clearly 'winning' a confrontation with the miners. In these circumstances, the aim in 1981 and 1982 must be to influence the miners' attitudes and demands, as reflected in the NUM's negotiating position, towards a moderate settlement. The cumulative effect of various actions including a number we have already mentioned should eventually bring some movement in the balance in the Government's favour. After considering the particular situations likely to exist in 1981 and 1982 we return to this theme in paragraph 65 where we consider medium term strategy.

C. Special Features affecting the balance of power in relation to the 1981/82 Settlement.

56. The settlement is due to be made by November 1. After their success in February the miners are in a confident mood. The NUM Conference has endorsed a claim of 24 per cent. The battle to succeed Joe Gormley as President overshadows the forthcoming negotiations. At least to begin with it may be difficult for many miners' leaders to argue in favour of moderation, although this is likely to be Joe Gormley's line.

57. Against this the miners themselves are now well placed in terms of their relative wage and have no fundamental reason for seeking trouble this

Autumn. The majority are moderate people who are reluctant to strike unless they have a grievance. They know that the immediate costs to them (there is no strike pay) would be high. Many would probably be content merely to keep pace with the year-on-year RPI and might even be willing to accept a settlement a percentage point or two below this if the general trend of current settlements is low. However, if they feel their future job security is in danger they could quickly cause trouble as they did in February. Events that could bring this about would be anything that triggered a feeling that faith had not been kept with the undertakings given during this year's tripartite talks. For example, if there were thought to be a reopening of the issues on closures or imports, or if there were an adverse planning decision on Belvoir which could be interpreted as casting doubt on future investment and on the Government's commitment to "Plan for Coal". Moderate attitudes towards the wage settlement could also be damaged if there were any particularly sharp price increases affecting miners in September and October (eg Council house rents).

58. In these circumstances the right course will be for the Government, through the NCB, to keep working away for a low settlement at or a little below the RPI. The aim must be to keep the temperature of the negotiations and surrounding events as low as possible. Even though the Government has rather lost faith in Sir Derek Ezra he remains the key man on the NCB side and it will be important to keep as close as possible to him in order to encourage him in persisting in seeking a low settlement.

59. The form of the settlement is important to Government. The more the settlement is loaded on to incentive payments rather than basic, the more limited the repercussions on other settlements, and the more Government has some basis on which to persuade other bargainers that a substantial overall percentage reflected features special to the miners' claim. Similarly, it may be possible to point to the percentage increase for surface workers if that can be kept below the average for all miners.

60. The background to a strategy of keeping the temperature surrounding negotiations as low as possible is, of course, that the Government is not well placed to stand out for long against a strike. However, with the very large claim currently being spoken of it would be quite wrong to give any impression that an excessive settlement would be accepted without a fight. Although the aim has to be to avoid confrontation, this may not be

possible if Arthur Scargill and others persist with a very big claim. This means:

i. that physical measures to maximise endurance (ie stocking of coal and ancillary materials) must be sustained;

ii. that ministers need to take a collective view of the problem at an early stage so that when the pressure is on there can be no doubt among the media about the firmness of resistance to unreasonable demands and the possibility of a strike;

iii. that contingent action to be taken in the event of a strike should be kept under review.

61. We conclude that the Government should keep its sights set firmly on a low settlement a little under the RPI and ensure that it is widely known that a higher settlement would not be in the best long term interests of the industry. In pursuing this objective the Government should:

i. aim to keep down the temperature surrounding the forthcoming negotiations;

ii. keep as close as possible to Sir Derek Ezra;

iii. avoid doing anything that might stir up a sense of grievance among moderate miners; for example, by casting doubt on undertakings given at the Tripartite discussions, announcing an unfavourable planning decision on Belvoir or a sharp increase in Council house rents;

iv. seek to influence the form of the settlement to minimise repercussions elsewhere;

v. in case a confrontation proves unavoidable, take the precautionary actions listed in paragraph 60 above.

D. <u>New Factors in the balance of power by the time of the 1982/83 Settlement</u>

62. A new factor that may affect the balance of power at the time of the 1982/83 negotiations is that by Autumn 1982 there will be a new Chairman of the NCB and a new President of the NUM. Each will be determined to establish his position and the pay negotiations may be the first real trial

of strength. This means that the risk of confrontation will be increased, particularly as Arthur Scargill is likely to want to be seen as pursuing a hard line and determined to achieve a high settlement.

63. It is too early to predict precisely how the problems raised by Scargill should be dealt with. He is able and politically motivated. However, when he moves to London his power base may be more fragile; his former area, Yorkshire, will regroup, find a new leader and may distance itself from him. He will probably attempt to use a delegate conference, rather than the NUM Executive, to reinforce militant policies. But at the end of the day he will have to carry 55 per cent of a ballot if he is to achieve a strike. He will only be able to do this if the level of grievance is above a certain threshold. The need to avoid unnecessarily upsetting moderate opinion will therefore persist.

64. The likelihood that Scargill will be pursuing a hard line should be offset to some extent by the fact that by 1982 the Government could at a cost be in a better position to resist a strike through higher stocks at power stations and other preparations. Even so it would be wrong to suppose that this greater endurance, up to 20 weeks in total, would be enough to ensure that a strike could be 'won'; miners with a strong sense of grievance could still outlast the Government. It will remain important to avoid confrontation. However, it should be possible for the negotiations to be conducted against a background of the Government being more confident that if a strike should prove unavoidable there will be time to manoeuvre into a reasonable negotiating position and to avoid a humiliating settlement.

E. Alternative Strategies for the Medium Term

65. Beyond 1982 the balance of power, as well as being influenced by developments it is impossible to foresee, will be dependent on the overall strategy that is pursued on coal. The objectives in addition to moderate settlements will be improved efficiency and containing demands on public expenditure. It seems certain that coal is a valuable long-term national asset. The overall strategy will determine how that asset is utilised.

66. The strategies open to the Government may be broadly contrasted as:

i. a policy of retrenchment, aimed at reducing both the cash burden and the power of the coal industry by progressively withdrawing support; but with the hope of creating conditions in which future expansion becomes economic. In terms of the likelihood of serious confrontation this would be a high risk policy.

ii. a policy of continued modernisation, including substantial investment conditional on active co-operation by miners in improving efficiency. This would carry much less risk of confrontation but would require skillful management.

67. A policy of retrenchment would involve:

i. a progressive decline in all forms of investment, and hence

- physical deterioration of a number of pits, whose life would otherwise be extended
- stagnant productivity and rising costs at most pits
- indefinite delay in NCB developing new low-cost mines;

ii. greater reliance on imported coal, insofar as closures were achieved, and imports permitted.

68. Such a policy could not realistically include a significant reduction in miners' relative pay position until the policy had begun to take effect and miners' confidence had been reduced. The aim in the medium term would be to force miners to accept both falling real wages and a substantial accelerated closure programme. One effect would be to close off development of some existing faces which could be profitable in the 1990s and beyond. However it could provide the basis for a subsequent expansion of an

indigenous coal industry from a smaller base in the next century when this coal may well have a higher real value. The development of the UK's coal reserves would have been delayed, but the coal would ultimately be mined by future generations at a time when it was more valuable.

69. A policy of continued modernisation would be aimed at developing the largest possible common ground with the moderates in the lower cost areas in order to achieve maximum co-operation in pit efficiency, in closures and in pay restraint. This should be based on a hard-headed approach and would include:

i. relating investment in each area to progress achieved in improving efficiency (as is now being pursued with BR);

ii. holding out the prospect of investment in major new projects such as Belvoir; provided efficiency improves and there is economic justification;

iii. an attitude to the coal industry, which was generally positive but qualified by -

constant pressure on efficiency
avoiding investment in excess capacity
a significant level of imports as a competitive discipline.

70. This would be intended to achieve an atmosphere in which the efficiency of the industry could be improved without provoking conflict, ie

i. moderate areas would accept closures and other cost reductions for economic reasons, because of nearby investment in better pits;

ii. difficult areas such as South Wales would be isolated, and a tougher approach to closure could be gradually evolved.

Such a policy may also be compatible with a greater role for private capital as partners in new ventures, and in due course as direct competitors. The aim would be that as time passed the interests of the more promising and co-operative areas should progressively diverge from those of the difficult area; the forces which have lead to NUM unity would lessen.

71. In assessing the merits of these strategies we concentrate on their chances of success. Implementation must be by the NCB management. It

would obviously be hard to find a Chairman prepared to take on the job based on a policy of retrenchment. But even if such a Chairman could be found his task would be made much more difficult:

i. he would have no basis on which to establish trust, either with management or miners; both would regard the "Plan for Coal" previously supported by Government as having been abandoned.

ii. he would face widespread apprehension about pit closures in all areas because of the danger of accelerated exhaustion in the absence of adequate investment.

He would therefore face initially miners with both confidence (born of recent success) and grievance. Until miners' level of confidence has been reduced it is dangerous to allow their level of grievance to rise.

72. To achieve an impact on the industry a new Chairman must create a climate in which progress is possible. Otherwise every closure and every cost reduction becomes a battleground, and potentially a national issue on which NUM can and will unite. Generosity on pay, quite apart from its effects on other settlements, would not be enough to defuse grievance.

73. A policy of retrenchment would also have to reckon with Arthur Scargill. He is far cleverer and more politically adept than the NUM leaders with whom Lord Robens had to deal in the 1960s. His skill is the effective organisation of mass protest about genuine grievances.

74. There is little doubt that a policy of retrenchment carries a high risk of exacerbating the dangers facing Government. Scargill wants confrontation. A withdrawal of Government support would give him the widespread base of grievance which he needs to use the NUM as a vanguard for extraparliamentary action by the trade union movement against this Government.

75. For a policy of modernisation to succeed (rather than simply be a cover for a policy of appeasement) will require management at every level taking action to improve the economics of each pit and each area; and progressively achieving a greater local credibility than the NUM. It requires generous redundancy payments, as now exist. And it requires a

growing divergence between profitable and unprofitable areas, encouraged by relevant cost-reducing investment. Behind this should lie the competitive shadow of a convincing nuclear programme.

76. A fundamental change in attitudes in a traditional industry, with inbred management and unions, will be a long hard slog. But we believe that a policy of continued modernisation under a credible Chairman and management offers the most convincing way towards achieving in time the Government's principal objectives, not only on the efficiency of the industry but also in reducing the ability of NUM leaders to bring out their members in support of excessive pay settlements or in order to subvert Government authority more generally.

CONCLUSIONS AND RECOMMENDATIONS

77. Our analysis offers no quick measures to improve the balance of power. During the next few years, measures for dealing with the problem lie mainly with the NCB and much will depend on the new Chairman. Only in the longer term will measures to reduce the miners' power, such as the nuclear programme, have increasing effect. We believe Government's objectives are more likely to be achieved within a policy of continued modernisation, rather than of retrenchment:

78. We group our main positive conclusions and recommendations into those of immediate significance and those important in the longer-term:

Matters of immediate significance

i. the current differences of view about a public opinion campaign should be explored and resolved so that an appropriate campaign can be put in hand (40)

ii. Government should have access to more systematic regular opinion research on grassroots miners' feeling (43)

iii. the next Chairman of the NCB should be appointed as soon as possible (51). We believe he should probably be an industrial, rather than a political, figure (53).

iv. while seeking to avoid confrontation in autumn 1981, Government should take appropriate steps to prepare for this (60). There are a number of measures which should improve the chances of achieving a moderate settlement through agreement (61)

v. a policy of continued modernisation under a credible Chairman and management offers the most convincing way towards achieving in time the Government's principle objectives (76)

Longer Term

vi. the case for nuclear power should be openly based on the need to diversify supply (24). But we would not at present recommend an accelerated programme because implementation of the present programme is itself going to be a major task to achieve. Every effort should be made to ensure that these plans do succeed in time. If the present programme goes better than we at present fear, the possibility of acceleration should be examined in a few years time (26).

vii. Government should retain the right to import and extend it when a suitable opportunity occurs (17).

viii. a strategy of coastal coal-based power stations should be examined as a possible policy for the 1990s (18).

ix. the feasibility of (a) moving open-cast mines to the private sector and (b) allowing major private sector coal-mining projects should periodically be reviewed, even though such moves if taken immediately would lead to confrontation (23).

ANNEX A

THE RELEVANCE OF EMPLOYMENT LEGISLATION

1. In 1972 and 1974, the NUM rapidly escalated their strike by picketing power stations, docks and coal depots, so that as well as coal, other essential supplies were cut off from the power stations. This meant that the nation's power supplies were threatened long before the CEGB's stocks of coal were exhausted.

2. At that time, secondary picketing on the scale employed was a novel device. It readily attracted attention and is clearly remembered. But then, and in 1974, it was probably not critical to the outcome of the dispute except in terms of its psychological effect on the public and maintaining the miners' morale. Picketing of the docks was ineffective and imported coal continued to come into the country, although none was contracted to the CEGB and no attempt was made to divert it. At the conclusion of both strikes, the CEGB had considerable stocks of coal, and although there were problems with ancillary materials, at no time did CEGB employees refuse to handle such supplies.

3. However proposals have been made to tighten up the legislation to preclude miners' secondary picketing and possible secondary action by dockworkers and railmen during a coal strike. In reviewing current and possible future legislation, the special nature of the NUM and coal industry must be taken into account. Coal mining is an inbred industry with many of its workers living in isolated mining communities with little outside contact. The union and workers have a tradition of militancy and defiance of authority and convention, so legislation which might deter a union or individuals from unlawful action in other industries may not deter the close knit mining community during an emotive confrontation with the NCB and Government.

Current Legislation

4. The current legislation is in the 1974 and 1976 Trade Union and Labour Relations Acts, which were amended by the 1980 Employment Act. The present position has been reviewed in the Green Paper entitled 'Trade Union Immunities' (Cmnd 8128) which was published in January 1981 as a consultation document.

These acts grant trade unions and individuals certain immunities in civil law when taking action in contemplation or furtherance of a 'Trade Dispute'. Individuals and trade unions taking industrial action are still liable to prosecution for criminal acts like violence, damage to property, breach of the peace, obstruction etc. Indeed, as the Attorney General and the Lord Chancellor pointed out at the time, the intimidatory mass picketing at Saltley Coke Depot in 1972 and at Hadfields in Sheffield in 1980 were actionable under the criminal law. The problem in both civil and criminal law when faced with large numbers of strikers acting unlawfully is that of enforcement.

Picketing

5. The 1974 and 1976 Acts give wide ranging immunities, which the 1980 Act (Section 16) reduced for individuals in respect of secondary picketing. Under the 1980 Act, the secondary picketing of power stations practiced by the NUM in 1972 and 1974 is unlawful. If picketed, the CEGB or another coal customer can take action against individual pickets or the picket organisers. There is the problem of identifying individual pickets but it is unlikely that union officials would be ready or able to disguise their role. If an injunction were not observed, the individual could, on evidence from the complainant, be found in contempt. The union might or might not pay the fine, but if personalisation of the issues is one of the strongest weapons in the unions' armoury, this would create martyrs and would intensify the bitterness of and possibly extend the dispute. For martyrs to be ineffective it is essential that their cause should not have public sympathy.

Secondary Action

6. Secondary action is generally industrial action by employees of an employer not party to the dispute. Such action in support of the NUM is most likely to be taken by the railway workers, the dockworkers and perhaps by power station employees. Under the 1980 Employment Act (Section 17) power station workers may retain their immunity in tort, because the CEGB is a customer of the NCB, but only if their action is targetted on the movement of coal from the NCB. If the railway workers or dockers take secondary action to block coal movements or imports, then the CEGB or another coal customer can take civil action against individuals or organisers. Although Section 17 of the 1980 Act has yet to be properly tested, it is possible that the threat of such action might deter significant secondary action.

Possible Further Legislative Changes

7. The 1981 Green Paper (Cmnd 8128) explores the possibility of further changes in legislation. In the context of a miners' dispute, many of the proposals, for example on secret ballots etc, are not relevant. Detailed changes in the law on picketing and secondary action will not solve the problems with the NUM of enforcement and of creation of martyrs which exist under the 1980 Act. Only two issues, trade union immunities and legislation to prevent industrial action which creates a national emergency, are really worth considering in the coal context.

Trade Union Immunities

8. It has already been noted that the secondary picketing tactic used by the miners in 1972 and 1974, if not in breach of criminal law, is now unlawful for individuals under the 1980 Act. The problem is now that of creating martyrs if individuals or organisers ignore injunctions and are found in contempt of court. The suggested remedy for this is to remove immunity for trade union funds; perhaps to bring trade union immunities into line with that of the individual.

9. It is certain that any attempt to curtail trade union immunities will encounter vigorous opposition from the whole of the trade union movement, who would picture it as a threat to the very existence of unions. If legislation for such a change were introduced in early 1982, it could come to be tested severely in the NUM's late 1982 pay negotiations. This would provide a highly political issue in which the TUC and many other unions could become joined. The likelihood of this is enhanced by the probability that Gormley's successor is almost certainly Scargill, who will be looking to 'win his spurs' and establish with Mick McGahey a militant leadership on the General Council of the TUC. Action by the TUC in these circumstances is highly plausible and could well include wider action in support of the NUM. So on balance, it appears that legislation to put union funds at risk would not deter the NUM from employing the full range of industrial action it mounted in 1972 and 1974.

Legislation to prevent Industrial Action which creates a National Emergency

10. Three proposals have been made to deal with strikes which threaten the national interest:

(a) power for the Government to declare illegal a strike which threatens the national interest ie making striking or industrial action short of this a criminal offence;

(b) a power for the Government to delay a strike by order while further negotiations take place - a so called statutory cooling off period;

(c) giving employers the right to lay off employees at times of national emergency.

11. There are arguments for and against these approaches, but in the coal case, the major problem is that of enforcing sanctions for disobeying an order to stop a strike. Taking sanctions against organisers raises the prospect of martyrdom, and particular difficulties of prosecution if a strike continues unofficially after the organisers have ordered a return to work. Sanctions against individual union members, raises the possibility of mass prosecution of strikers. This has only been tried once when the Government tried to prosecute 4,000 miners at Betteshanger Colliery in 1941. This was a failure and mass prosecution of strikers is clearly not a practical proposition.

12. Giving other employers, who are affected by a national strike, the right to lay off employers without compensation (and perhaps without access to social security benefits) is a course which would need careful consideration to decide whether implementing it would have the effect of increasing pressure on miners to settle. The time for introducing such legislation with prospects of implementing it successfully would be immediately after widespread and unjustified hardship had been brought about by unions and caused the public to lose sympathy with them.

Conclusions

From the analysis it seems improbable that further legislative changes would influence the mineworkers' approach to a coal strike or strengthen the NCB's position. The overwhelming problem remains that of enforceability. Miners have a history of successful defiance of authority, running from the action in 1911 and 1914, through Betteshanger in 1941 to the mass picketing of 1972. In the general industrial relations context, the 1980 Act should inhibit the more excessive union dispute practices, and no doubt more legislative measures, eg on trade union immunities, could be taken aimed at further discouraging such practices among unions generally. Legislation might be effective in deterring other unions, such as the railway workers from taking secondary action in support of the miners, although the 1980 Act, which removed immunity from individuals, has yet to be properly tested in a major strike.

ANNEX B

Role of Coal in Power Generation by ESI in England and Wales in 2000 and 2010.

The following table gives broadly indicative figures for required new coal-fired capacity in England and Wales to 2000 and 2010 under three cases of growth in electricity demand and two rates of construction of new nuclear capacity. It is assumed that the CEGB achieves considerable success in extending the life of existing coal-fired stations from 30 to 40 years.

REQUIRED NEW CAPACITY (GW)

| | To 2000 | | 2001-2010 | | Total | |
|---|---|---|---|---|---|---|
| | Coal | Nuclear | Coal | Nuclear | Coal | Nuclear |
| A. Low Growth in Demand (0.4% p.a.) | | | | | | |
| (i) High Nuclear Build | 4.5 | 15.0 | - | 22.5 | 4.5 | 37.5 |
| (ii) Low Nuclear Build | 12.0 | 7.5 | 10.5 | 12.0 | 22.5 | 19.5 |
| B. Medium Growth in Demand (0.9% p.a.) | | | | | | |
| (i) High Nuclear Build | 10.5 | 15.0 | 2.5 | 24.0 | 13.0 | 39.0 |
| (ii) Low Nuclear Build | 18.0 | 7.5 | 14.5 | 12.0 | 32.5 | 19.5 |
| C. High Growth in Demand (1.4% p.a.) | | | | | | |
| (i) High Nuclear Build | 17.5 | 15.0 | 7.5 | 24.0 | 25.0 | 39.0 |
| (ii) Low Nuclear Build | 25.0 | 7.5 | 19.5 | 12.0 | 44.0 | 19.5 |

Assumptions :-

1. Growth in demand for electricity from the 1979/80 restricted maximum demand of 44 GW assuming a 28% planning margin. Three cases are considered:' the medium growth case of 0.9% p.a. is the long-term rate assumed by the ESI; the low growth case of 0.4% p.a. is that recommended by the Planning Department within CEGB's 1980/81 Development Review and the high growth case of 1.4% p.a. balances the low growth case. Total Required capacities are as follows:

| | GW | |
|---|---|---|
| | 2000 | 2010 |
| Low Growth | 62.5 | 65.0 |
| Medium Growth | 68.5 | 75.0 |
| High Growth | 75.5 | 87.0 |

2. Life extension of coal-fired plant from 30 to 40 years is achieved for all plant except in the 200-350 MW range, thus reducing retirements to 2000 by 14 GW all of which capacity is retired over the period 2001 to 2010. (If all coal plant had life extensions to 40 years an additional 6 GW of capacity wouldstillbe in operation in 2000.)

3. Rate of construction of new nuclear power stations after Heysham II.

   (a) "High Nuclear Build" assumes that the programme of 15 GW of new capacity in operation by 2000 is achieved; and that two new power stations per annum (2.4 GW) are brought into operation from 2001 to 2010.

   (b) "Low Nuclear Build" assumes half the rate of "High Nuclear Build".

The next table shows the percentage capacity met by coal and nuclear in 2000 and 2010. The figures include coal and nuclear plant currently in operation or under construction which has not yet been retired by the relevant date.

Percentage of Demand met by Coal and Nuclear in 2000 and 2010

| | 2000 | | 2010 | |
|---|---|---|---|---|
| | Coal | Nuclear | Coal | Nuclear |
| A. Low Growth in Demand (0.4% p.a.) | | | | |
| (i) High Nuclear Build | 45 | 34 | 22 | 61 |
| (ii) Low Nuclear Build | 57 | 22 | 49 | 33 |
| B. Medium Growth in Demand (0.9% p.a.) | | | | |
| (i) High Nuclear Build | 50 | 31 | 30 | 55 |
| (ii) Low Nuclear Build | 61 | 20 | 56 | 29 |
| C. High Growth in Demand (1.4% p.a.) | | | | |
| (i) High Nuclear Build | 54 | 28 | 40 | 47 |
| (ii) Low Nuclear Build | 64 | 18 | 62 | 25 |

In 2000 approximately 30% of total capacity is met by coal plant already in operation or under construction in 1981 and this figure has fallen to around 15% of total capacity by 2010. No early retirement of oil-fired capacity has been assumed; thus in 2010 the oil-fired capacity brought into operation in the nineteen eighties (approximately 5 GW) is still taken to be available.

SECRET

COPY NO 2

# CPRS STUDY OF THE NCB/NUM PROBLEM



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INTRODUCTION

On 8 June 1981 the CPRS was invited by the Prime Minister to prepare a first study on the NCB/NUM problem in association with John Hoskyns, consulting other Departments as appropriate. The Prime Minister emphasised the importance of keeping very tight security on the study. The CPRS was 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?

We report here on items (a) and (b), and have specifically considered the balance of power in 1981, 1982 and in the medium-term; as well as suggesting a number of measures which would only have long-term effect. The wider implications of the balance of power (item (c)) primarily effect pay, and these will be considered further in the study on the framework of pay bargaining which we are due to submit in September.

SECTION 1: THE NCB/NUM PROBLEM: A SHORT DEFINITION

1. NUM power is based on:

- importance of coal-fired power stations, which supply some 75 per cent of electricity
- effective monopoly of supply through import restriction
- and hence possibility of slow strangulation of the economy, together with a history which gives miners:
  - a unique degree of public sympathy
  - a unique community solidarity
  - a particular claim on the solidarity of other trade unions

plus a confidence based on the successful use of that power (or the threat of it) three times in the last decade.

2. This power can be, and from time to time has been, used:

- to obtain high pay settlements, with damaging knock-on effects on other groups;
- to ensure substantial subventions to the coal industry at high cost, and with damaging effects on the overall economic stance of the Government; and potentially it allows challenges to Government authority on wider issues.

3. Pay: insofar as miners' settlements raise the level of other settlements they are costly to the PSBR and increase inflation. The problem that results from a high miners' settlement is most acute under a formal pay policy (as 1971/72 and 1973/74). It is potentially serious at any time. The miners' high relative wage position and new-found affluence now probably limit their aspirations, but these are still likely to exceed the general level of pay rises needed if inflation is to continue to fall.

4. Cost: all energy sources have become much more costly. But NCB's costs are excessive because of its substantial tail of uneconomic pits whose closure is thwarted by NUM power. The concentration in South Wales (and certain other areas) makes this more difficult to solve. In addition NCB's monopoly position protects it from pressures to reduce costs and increase productivity as much as is possible.

5. Political: NUM power could be used to subvert government authority on a wider front if joined to other forms of extra-parliamentary opposition.

6. The definition of the problem suggests the following objectives for Government:

i. to achieve the lowest possible miners' pay settlements

ii. to improve the efficiency, and to contain the costs to the Government, of UK coal production

iii. to prevent NUM power being used to subvert the authority of Government.

## SECTION 2: THE BALANCE OF POWER

7. We consider ways in which the Government can hope to shift the balance of power which is at present tilted in favour of the miners (paragraph 1) under two broad headings:

- reduce the power of the NUM
- make the miners more reluctant to use the power.

### A. Reduce the power of the NUM

8. Again the action falls under two headings:

- increase the ability to withstand a strike
- weaken the NUM's effectiveness in a strike

#### (a) Increase the ability to withstand a strike

##### (i) Increase power station coal stocks

9. Methods of improving the endurance of power stations in 1981 have been examined in a report by MISC 57 to the Home Secretary. Coal stocks at power stations are being increased and, in conjunction with increased oil-burn, should give 11-12 weeks endurance at normal usage. This can be extended to 13-14 weeks if the grid is run at 85 per cent with the major problems for consumers (and therefore politically for the Government) associated with this. Adequate stocks of ancillary materials are also essential to achieve this.

10. The Department of Energy is now reporting on measures by which the CEGB might be able to meet an endurance target of 20 weeks by November 1982. In considering which measures should be implemented the Government must consider both cost and the effect on miners' attitudes.

11. In making this decision Government should view the problem as a continuing one. It will arise year after year, unless and until there is a radical change in attitudes or in the balance of power. Each year is likely to have its special problems; for example in 1982 a new Chairman of the NCB and a new President of the NUM will be staking out their positions and there will be a particular risk of confrontation. However, it would be a mistake to regard any single year in the coming decade as necessarily marking the end of the crucial phase of the balance of power problem.

(ii) Make transport of pithead coal easier

12. There are large pithead stocks of coal at present, but in a strike NUM pickets would effectively stop members of other unions moving these to power stations by rail or road.

13. The use of troops has been examined in the report by MISC 57. It would substantially increase endurance times - i.e. directly and indirectly by about 11 further weeks. However the report concludes that there would be severe practical problems in the use of servicemen.

(iii) More imports

14. As MISC 57 also shows, coal imports, if obtainable, and if they could be transported to power stations, might increase power station endurance by 10-12 per cent. Immediate expenditure at certain ports might raise this to about 15 per cent by 1982. But imports are a particularly sensitive issue and if coal could be landed there are still likely to be problems of transporting it within the United Kingdom.

15. The scope for coal imports will increase materially in the long run because:

i. world trade in steam coal for power stations will develop enormously (principally from USA, Australia and South Africa);

ii. a large number of the CEGB's major inland coal-based power stations, which were built in the 1960s, will become due for replacement or refurbishment in the 1990s, and, if refurbished, for replacement in the 2000s.

16. As set out in Annex B, even assuming a successful nuclear programme, it will be prudent to make provision for a number of new coalfired power stations

for the 1990s and 2000s. This may provide the opportunity for a programme of coastal coalfired power stations, able to use imported coal economically. At present, the CEGB has one suitable site for a coal terminal and power station, Killingholme on Humberside. It is also investigating a coastal power station site at Inswork Point, near Plymouth. To get the best economies power stations need to be at a major coal port, capable of receiving large coal carriers, or near it with facilities to move the coal reliably to the actual power station. Sites suitable for major coal ports are scarce. A major coal port requires major investment (about £100m), although if British Steel Corporation ceased to import iron ore for steel-making at Hunterston, Port Talbot or Redcar, these facilities could be used, and act as links to new coastal power stations.

17. The CEGB has been inhibited from pursuing a strategy based on coal imports because its attempts to import have more than once met with a Government veto at NUM insistence. It is therefore essential to retain the right to import, and extend it when a suitable opportunity occurs, to strengthen the Government's position in the longer term.

18. There is much work required to establish the full scope for coal ports in the UK, and associated coastal coal-based power stations. Such a policy would provide some safeguards against delays in the nuclear programme (discussed at (v) below), but it is most unlikely that it could fully compensate for its total failure. But since the pace of the nuclear programme still remains uncertain we recommend that a strategy of coastal coal-based power stations should now be examined in depth.

(iv) New internal sources of coal

19. New sources of coal within the UK might be developed by private capital in competition with the NCB. Some mines which the NCB may need to close through lack of funds for investment might attract the sort of outside capital now going into the Cornish tin-mines. Big projects such as Belvoir or South Warwickshire might be pursued by the NCB as joint ventures with private capital.

20. In the long term we do not believe that private capital should be restricted to joint ventures with NCB. The NCB's statutory monopoly of exploration and development should therefore be removed in the medium term, and the objective should be to work towards a situation where the NCB competes on an equal basis in exploration and development under licence.

21. These longer-term developments could help to make the NCB more commercially alert and competitive. But they will not help in withstanding a strike unless new developments are outside the control of the NUM. How far privately-owned deep mines could be detached from NUM negotiations and kept out of a strike must be a matter for conjecture.

22. The open-cast sites which produce 12 per cent of NCB's coal are worked by TGWU members. These continued production in 1972 and 1974 and could be expected to do so in a further NUM national strike. They could be hived off to private concerns, to detach them further from the NCB. They make large profits (1980/81 - £156m), therefore their privatisation would expose further the NCB's deep mined losses.

23. We recommend that the feasibility of (a) moving open-cast mines to the private sector and (b) allowing major private sector coalmining projects, should periodically be reviewed, even though such moves if taken immediately would lead to confrontation.

(v) Alternative sources of electricity - nuclear

24. To break the NUM's monopoly power it will be important to maintain a consistent programme of nuclear power-station ordering, on the lines suggested as a base for planning in the Government's statement of December 1979, and re-affirmed in the Government's recent reply to the Select Committee on Energy's report on the Nuclear Programme. The prime purpose of this programme is to produce cheaper electricity. However even if doubts about the capital costs of nuclear power stations made the economics less demonstrable they should still have an important strategic role in the future as a second source not only because of the miners' monopoly power but also because of the risk of increasing cost of fossil fuel. We therefore recommend that the case for nuclear power should be openly based on the need to diversify supply.

25. Even on this programme the United Kingdom would only be generating 30 per cent of its electricity from nuclear power in 2000. However, a successful nuclear programme will throw a shadow over coal's monopoly power long before this. What is required is that there should emerge during 1983/85 a conviction that the programme will succeed. On the other hand obvious failure to get the nuclear programme moving would reinforce the monopoly position of UK coal for another generation.

26. In theory a faster nuclear programme, similar to that undertaken under the previous French government, would bring forward the day when the grid can run

at 85 per cent or more without coal, thus enormously reducing the grip of the NUM. In practice we do not believe this can be envisaged at present because we consider implementation of even a 15GW programme in the UK by 2000, the best outcome present plans could produce, is going to be a major task to achieve. We recommend that every effort should be made to ensure that these plans do succeed on time. A more ambitious programme now would exacerbate the well-known problems, namely strain on the UK nuclear industry, burden on public sector financing in the late 1980s, and the difficulty of finding acceptable sites (especially for PWRs); it would stimulate much increased opposition (not least from the NUM) and would therefore be less likely to proceed with the smoothness required to impress on the coal industry that its monopoly of power generation is bound to disappear. Nevertheless if the present nuclear programme goes better than we at present fear, we recommend that the possibility of acceleration should be re-examined in a few years time.

(vi) Alternative sources of electricity - other than nuclear

27. Aside from oil-burn (considered by MISC 57), some coal-fired power stations could be converted over time to dual-firing with gas. But this requires a capital investment of about £200m for a 2GW power station, and therefore a programme large enough to have a major impact would be very expensive and almost certainly uneconomic. There would also be problems in making available the gas required.

28. We have considered other forms of energy supply - ie Severn Barrage (which would only replace 1GW worth of power station capacity), cross-Channel link with France, wind power, etc - but consider all of these, both separately and cumulatively, insufficient to have a substantial effect on the main problem. Less conventional energy sources such as solar power, biomass, hydrogen etc will only play a marginal role in the UK for the foreseeable future.

(vii) Reduce dependence on public electricity

29. The economies of scale in conventional electricity generation have meant that the most efficient power stations have become larger, and this is likely to reinforce the natural monopoly of the public electricity boards despite the Government's recent announcement about opening up electricity supply to private capital. A number of industrial electricity users already run their own generating plant but to have a significant effect on the balance of power with the NUM a very great increase would be required entailing a vast amount of capital. Most industrial users are unlikely to give priority to this form of investment in the foreseeable future.

30. As energy prices rise the economics of selling Combined Heat and Power (CHP) will become more attractive, as set out in the Marshall Group Report on CHP (1979). A small 15MW plant pioneered at Hereford by the Midlands Electricity Board has proved a success because of local industrial requirements for heat. It is being followed by a similar plant for industrial users in Birmingham. A further scheme is to be developed for domestic district heating on an experimental basis. CHP schemes offer no easy answer to the balance of power with the NUM. Their increased fuel efficiency is based on substantial capital expenditure on heat transmission, and again their growth on any significant scale will therefore be restrained by capital availability. They offer reduced dependence on the big power stations and hence reduced vulnerability to unlawful picketing. New schemes will however be based on coal and to offer increased endurance they must have access to replenishment of coal stocks (normally to carry enormous coal stocks would damage their economic attraction). Since most CHP schemes are likely to be in inland industrial areas there could still be a problem of secondary action.

31. The other main opportunity for reduced dependence on coal-based electricity is therefore by reduced dependence on energy generally. As energy prices rise energy conservation becomes more attractive and energy-intensive activities less economic. Such trends could lead to a low growth of UK electricity consumption of only 0.4 per cent pa (as shown in Annex B). Any additional measures to encourage energy conservation are likely to encourage this trend towards lower growth. However the basic dependence on electricity from existing coal-fired stations will still remain into the next century.

(b) <u>Weaken NUM effectiveness in a strike</u>

(i) <u>Employment legislation</u>

32. We have considered the relevance of employment legislation to this problem ie

a. Effective use of the Employment Act 1980

- Section 16 re peaceful picketing at CEGB premises, thus protecting the inflow of ancillary materials and of imported coal;

- Section 17 re secondary action thus allowing passage of imported coal and making sympathetic action unlawful;

b. Possible other legislation, eg

- to improve enforceability by making union funds liable for legal action

- to give employers the right to lay off employees in certain circumstances (as proposed by the EEF).

Our conclusions, set out in more detail in Annex A, are that such measures might play a useful role in dissuading other unions, eg NUR, from sympathetic activity; but that they are not likely to have any great impact on miners' action. They would not cope with intimidatory mass picketing, as seen at Saltley Coke Depot in 1972 and at Hadfields in 1980, where the problem is one of enforceability rather than what the law permits.

(ii) Break up NUM unity

33. A broad aim should be to make miners see their interests as more closely linked with their own pits and areas, and less with the national concerns of the NUM. The NCB already promotes area identities; figures for operating profit and loss and for productivity are published by area (though not by individual pit), and discussions of closure already take place principally at area level. This process could be taken further, for example by regionalising the price structure, which would give greater incentive to the CEGB to maximise purchases from low-cost and well-located pits, and thus expose further the uncompetitiveness of others. The effect of the incentive scheme should be gradually to restore regional variations in pay, though there are limits on the pace at which this can be achieved.

34. However, to move precipitately to break up the NCB would risk weakening the industry's management and control, and will not by itself split the NUM. The only way in which that might be achieved would be to form, or bring in, another union. We do not believe that this is a serious possibility.

(iii) Break miners' community solidarity

35. Part of the NUM's strength in industrial dispute rests on the isolation of many members in small communities wholly dependent on the mining industry. The geographical distribution of the industry is changing, and it may be that over time this will reduce the sense of community. The increasing prosperity of the miners, and their exposure to communications, travel and other influences, should also help to weaken their isolation. But those can only

be long-term and marginal influences, outside the direct scope of Government action.

(iv) Isolate NUM from other unions

36. Again this is outside direct Government influence. At present the NUM has formed a 'Triple Alliance' with the NUR and ISTC. But its relations with other unions will vary from time to time, depending on economic, political and personal factors. In general, there is some prospect that, if the miners continue to obtain pay increases higher than other groups, there may be less inclination to support them - though their monopoly power will still be politically important in spear-heading demands from the labour movement.

(v) Operate on public opinion

37. In an industrial dispute the attitude of the public and the media can have an important influence on the unity and self-confidence of those on strike. The Government needs to counter a public tendency to sympathise with the miners, based on the history of the mining industry, and bad conditions under which underground miners still work, and - since the energy crisis - the importance of British coal. In addition Joe Gormley has a high rating with the public, although his probable replacement by Arthur Scargill creates a new situation.

38. The Government has a choice between:

(a) an urgent, high-pressure campaign getting over all the facts about NCB losses, NUM wage-rates, overcapacity etc and making clear Government's deep concern about them;

(b) a more low key approach, getting certain facts into public consciousness in order to provide a reference base if and when the NUM final demands are obviously unreasonable.

39. One way of drawing public attention to the inefficiencies of the coal mining industry would be a reference to the MMC. However, the main difficulties with economic pits are already well known and an MMC report in itself would be unlikely to help to resolve them. In the immediate future the appointment of the right man as chairman is of far more importance and an early reference to the MMC might be a distraction. We believe that choice of timing of a reference is what matters.

40. Our view is that the effect of any campaign on public attitudes should not be exaggerated. A high-pressure campaign could actually be counter-productive if it increased the political dependence of Government on a low miners' settlement. But a campaign would become more relevant if NUM demands, and the posture of NUM leaders, were so unreasonable that public opinion could be persuaded that they were outrageous and unacceptable. The scope for a publicity campaign is at present under discussion; opinions differ strongly on what would be its optimum form and in the time available we are not in a position to resolve these. We recommend that these differences be explored so that an appropriate campaign can be put in hand. The effect of a campaign on trends in public opinion should then be monitored, to provide a stronger basis for future campaigns.

B. Make miners reluctant to use their power

41. The key to the situation is not the miners' industrial power but their willingness to use it. In the next few months the rhetoric of NUM leaders is likely to become increasingly militant, in the run-up to the election of the next NUM President. The NUM is however a democratic union in which industrial action must be supported by a 55 per cent vote in a ballot. NUM leaders will only get the support of miners for industrial action if there is a widespread sense of grievance. Miners are now well paid, and their relative position now exceeds the previous post-war peak of 1.32 times average earnings achieved in 1953. NUM leaders who seek industrial action will have to persuade them that the likely benefits outweigh the certain costs.

42. The largest single element of the moderate vote has been in the Nottinghamshire/Leicestershire/Midlands belt of relatively low-cost pits (77 per cent voted yes in the last Pay Ballot). The second largest in 1980 was the substantial minority vote in Yorkshire, the biggest area. Durham, despite its problems, also has a large moderate majority.

43. Sentiment in the coal-fields is not static. Thus Yorkshire, unlike the trend in other militant areas, actually increased its moderate vote in 1980, compared with 1979. However, it is said that Arthur Scargill now has increasing influence in Nottinghamshire. So-called moderate NUM leaders formed a united front with militants in February, and offered no effective opposition to militant resolutions at the recent Jersey conference. The evidence on grass-roots feeling is anecdotal, and we recommend that Government should have access to more systematic regular opinion research (without this becoming known).

44. What evidence there is suggests that the bulk of miners are concerned about pay and job security. They are not looking for massive real wage increases on the lines of the formal 1981 pay claim. But they remember the 1960s when co-operation on closures and productivity was associated with falling real wages and reduced investment. Because minin g is an extractive industry and faces become exhausted they look for heavy investment to maintain job opportunities: hence the significance of Belvoir which would replace 3,500-4,000 jobs to be lost through exhaustion in the Leicesterhire coalfield. An adverse planning decision on Belvoir would put the whole of Plan for Coal in doubt and raise the issue of long-term job security, particularly in the normally moderate Nottinghamshire/Leicestershire belt.

45. Equally, action (eg on coal or oil stocks) which gives the impression that Government intends to 'take on' the miners is likely in itself to increase the willingness of miners to take action, in order to protect their industry and their long-term interests. Nevertheless, the build-up of stocks at power stations, if handled with discretion, will reduce miners' willingness to strike, because increased endurance means that a strike is more likely to be prolonged and the costs to them greater.

46. It would also be possible to increase costs further by introducing legislation that would withdraw all supporting benefit from strikers' families Since the NUM pays no strike pay, this could undoubtedly cause hardship in a lengthy strike, given that many miners' communities are isolated and have a relatively small proportion of workers in other trades. However miners' earnings are high so that their access to credit is much better than average. In the past miners' communities have found ways of sharing what wealth there was, and in 1926 the miners' 30 weeks endurance was based on minimal outside help. Their local authorities have the power to make cash payments to people in need. The sums in supplementary benefit involved are in any case small compared with the lost earnings, and it seems unlikely that this additional penalty would be of great significance if they had a real sense of grievance. Indeed its effect might well be to add to the latter.

Influencing the opinion of miners

47. In seeking to influence the opinion of the miners themselves (rather than the public generally) the aim should be to get across four general messages:

(i) They are now relatively well off (as the figures show - paragraph 41 above), and cannot expect much sympathy from the public, including other unions, if they try to improve their position even further.

(ii) They cannot (individually) be certain that they will gain from a strike, if public opinion turns against them and if resolve weakens in those mining areas with most to lose from a prolonged strike.

(iii) They must recognise that the taxpayer will not be willing to go on supporting an industry parts of which are grossly uncompetitive and show no sign of improvement. There are precedents (docks, printing) where unions have exploited their short-term monopoly position but in the longer term have seen the jobs move elsewhere.

(iv) Finally, they may be persuaded to recognise that the national interest will not be served by runaway wage inflation, even if they can themselves hope to stay ahead of the rest.

Getting these messages across is more effectively done by management than by Government.

Leadership

48. Within the next year a new Chairman of the NCB will be appointed. This appointment will be crucial, both to next year's pay round and to the medium-term prospects of the industry. The new Chairman must be of high calibre, able to achieve immediate credibility with the miners and the public, and to exercise a strong moderating influence.

49. Senior and middle management in the NCB is considered technically good, but there remains enormous scope for improvement in overall efficiency based on determined and intelligent direction from the top. The management must be given confidence in a consistent policy of pursuing economic objectives and must believe these are essential to the industry's future. They must be motivated towards achieving better financial results at every level. Their task includes using their influence on the miners to promote modest pay settlements. The whole management needs to cooperate in a systematic internal campaign to make the points in paragraph 47 above.

50. The tasks for the new Chairman will therefore be:

i. to create a climate in the UK coal industry in which its future is widely believed to depend on the economics of coal production, and to be damaged by the losses of uneconomic pits

ii. to lead and motivate management at every level to believe in the economic goals of the industry and to give greater priority to the pursuit of efficiency

iii. to direct investment towards its maximum return.

51. We are convinced that in terms of enabling the Government to achieve its economic objectives, there is no appointment in the nationalised industries more important than the next Chairman of NCB. We recommend that the Government should make an appointment as soon as possible. We suggest that the essential qualities are:

- the ability to lead and motivate
- proven hard-headed industrial success
- a talent for industrial relations

These qualities would allow him to achieve credibility both with management and other employees, and help him to move the culture of the industry towards economic and business (rather than political) issues. The industrial success should be in an extractive, basic or heavy industry, where the problems and opportunities bear some resemblance to those of NCB. From what we have been told, we do not believe any current Board member within the NCB meets the bill.

52. An alternative set of qualities would be those possessed by public figures, such as Labour politicians. Some of these have a knowledge of coal-mining, and of coal-miners and their communities, which would be extremely valuable in a Chairman. Such a Chairman could be supported by an experienced Chief Executive. The precedent of Lord Robens may suggest that roots in the 'Labour movement' may be helpful in implementing unpopular policies.

53. We see the Chairman's job itself as primarily an industrial one (and believe that Lord Robens had an exceptional talent for management and leadership). To achieve success the Chairman must quickly establish credibility above all with his management, who have to implement policies with skill and dedication at local level. This requires management, rather than political skills. We therefore prefer an industrial, rather than a political, figure as the next Chairman.

54. We believe the new Chairman will need support from some new full-time Board members. New appointments at Board and senior management level could well include former NCB managers who have made successful careers in the private sector.

Conclusion on Balance of Power

55. In the short term, the prospect of tilting the balance of power in the Government's favour is not good. Power station stocks and ability to replenish them cannot be brought to a level whereby a strike could be resisted for so long that the endurance of miners was likely to crumble. It would be dangerous to underrate miners' potential endurance: in 1926 most miners stayed out for 30 weeks in intense poverty. A determined and united miners' strike would put the Government in a more and more difficult position as the weeks passed. We consider that as the point of total depletion became closer the pressures on the Government to settle would progressively increase, and be greater than the effective pressures on miners. We therefore consider it most unlikely that Government can in the next few years rely on clearly 'winning' a confrontation with the miners. In these circumstances, the aim in 1981 and 1982 must be to influence the miners' attitudes and demands, as reflected in the NUM's negotiating position, towards a moderate settlement. The cumulative effect of various actions including a number we have already mentioned should eventually bring some movement in the balance in the Government's favour. After considering the particular situations likely to exist in 1981 and 1982 we return to this theme in paragraph 65 where we consider medium term strategy.

C. Special Features affecting the balance of power in relation to the 1981/82 Settlement.

56. The settlement is due to be made by November 1. After their success in February the miners are in a confident mood. The NUM Conference has endorsed a claim of 24 per cent. The battle to succeed Joe Gormley as President overshadows the forthcoming negotiations. At least to begin with it may be difficult for many miners' leaders to argue in favour of moderation, although this is likely to be Joe Gormley's line.

57. Against this the miners themselves are now well placed in terms of their relative wage and have no fundamental reason for seeking trouble this

Autumn. The majority are moderate people who are reluctant to strike unless they have a grievance. They know that the immediate costs to them (there is no strike pay) would be high. Many would probably be content merely to keep pace with the year-on-year RPI and might even be willing to accept a settlement a percentage point or two below this if the general trend of current settlements is low. However, if they feel their future job security is in danger they could quickly cause trouble as they did in February. Events that could bring this about would be anything that triggered a feeling that faith had not been kept with the undertakings given during this year's tripartite talks. For example, if there were thought to be a reopening of the issues on closures or imports, or if there were an adverse planning decision on Belvoir which could be interpreted as casting doubt on future investment and on the Government's commitment to "Plan for Coal". Moderate attitudes towards the wage settlement could also be damaged if there were any particularly sharp price increases affecting miners in September and October (eg Council house rents).

58. In these circumstances the right course will be for the Government, through the NCB, to keep working away for a low settlement at or a little below the RPI. The aim must be to keep the temperature of the negotiations and surrounding events as low as possible. Even though the Government has rather lost faith in Sir Derek Ezra he remains the key man on the NCB side and it will be important to keep as close as possible to him in order to encourage him in persisting in seeking a low settlement.

59. The form of the settlement is important to Government. The more the settlement is loaded on to incentive payments rather than basic, the more limited the repercussions on other settlements, and the more Government has some basis on which to persuade other bargainers that a substantial overall percentage reflected features special to the miners' claim. Similarly, it may be possible to point to the percentage increase for surface workers if that can be kept below the average for all miners.

60. The background to a strategy of keeping the temperature surrounding negotiations as low as possible is, of course, that the Government is not well placed to stand out for long against a strike. However, with the very large claim currently being spoken of it would be quite wrong to give any impression that an excessive settlement would be accepted without a fight. Although the aim has to be to avoid confrontation, this may not be

possible if Arthur Scargill and others persist with a very big claim. This means:

i. that physical measures to maximise endurance (ie stocking of coal and ancillary materials) must be sustained;

ii. that ministers need to take a collective view of the problem at an early stage so that when the pressure is on there can be no doubt among the media about the firmness of resistance to unreasonable demands and the possibility of a strike;

iii. that contingent action to be taken in the event of a strike should be kept under review.

61. We conclude that the Government should keep its sights set firmly on a low settlement a little under the RPI and ensure that it is widely known that a higher settlement would not be in the best long term interests of the industry. In pursuing this objective the Government should:

i. aim to keep down the temperature surrounding the forthcoming negotiations;

ii. keep as close as possible to Sir Derek Ezra;

iii. avoid doing anything that might stir up a sense of grievance among moderate miners; for example, by casting doubt on undertakings given at the Tripartite discussions, announcing an unfavourable planning decision on Belvoir or a sharp increase in Council house rents;

iv. seek to influence the form of the settlement to minimise repercussions elsewhere;

v. in case a confrontation proves unavoidable, take the precautionary actions listed in paragraph 60 above.

## D. New Factors in the balance of power by the time of the 1982/83 Settlement

62. A new factor that may affect the balance of power at the time of the 1982/83 negotiations is that by Autumn 1982 there will be a new Chairman of the NCB and a new President of the NUM. Each will be determined to establish his position and the pay negotiations may be the first real trial

of strength. This means that the risk of confrontation will be increased, particularly as Arthur Scargill is likely to want to be seen as pursuing a hard line and determined to achieve a high settlement.

63. It is too early to predict precisely how the problems raised by Scargill should be dealt with. He is able and politically motivated. However, when he moves to London his power base may be more fragile; his former area, Yorkshire, will regroup, find a new leader and may distance itself from him. He will probably attempt to use a delegate conference, rather than the NUM Executive, to reinforce militant policies. But at the end of the day he will have to carry 55 per cent of a ballot if he is to achieve a strike. He will only be able to do this if the level of grievance is above a certain threshold. The need to avoid unnecessarily upsetting moderate opinion will therefore persist.

64. The likelihood that Scargill will be pursuing a hard line should be offset to some extent by the fact that by 1982 the Government could at a cost be in a better position to resist a strike through higher stocks at power stations and other preparations. Even so it would be wrong to suppose that this greater endurance, up to 20 weeks in total, would be enough to ensure that a strike could be 'won'; miners with a strong sense of grievance could still outlast the Government. It will remain important to avoid confrontation. However, it should be possible for the negotiations to be conducted against a background of the Government being more confident that if a strike should prove unavoidable there will be time to manoeuvre into a reasonable negotiating position and to avoid a humiliating settlement.

E. Alternative Strategies for the Medium Term

65. Beyond 1982 the balance of power, as well as being influenced by developments it is impossible to foresee, will be dependent on the overall strategy that is pursued on coal. The objectives in addition to moderate settlements will be improved efficiency and containing demands on public expenditure. It seems certain that coal is a valuable long-term national asset. The overall strategy will determine how that asset is utilised.

66. The strategies open to the Government may be broadly contrasted as:

i. a policy of retrenchment, aimed at reducing both the cash burden and the power of the coal industry by progressively withdrawing support; but with the hope of creating conditions in which future expansion becomes economic. In terms of the likelihood of serious confrontation this would be a high risk policy.

ii. a policy of continued modernisation, including substantial investment conditional on active co-operation by miners in improving efficiency. This would carry much less risk of confrontation but would require skillful management.

67. A policy of retrenchment would involve:

i. a progressive decline in all forms of investment, and hence

- physical deterioration of a number of pits, whose life would otherwise be extended
- stagnant productivity and rising costs at most pits
- indefinite delay in NCB developing new low-cost mines;

ii. greater reliance on imported coal, insofar as closures were achieved, and imports permitted.

68. Such a policy could not realistically include a significant reduction in miners' relative pay position until the policy had begun to take effect and miners' confidence had been reduced. The aim in the medium term would be to force miners to accept both falling real wages and a substantial accelerated closure programme. One effect would be to close off development of some existing faces which could be profitable in the 1990s and beyond. However it could provide the basis for a subsequent expansion of an

indigenous coal industry from a smaller base in the next century when this coal may well have a higher real value. The development of the UK's coal reserves would have been delayed, but the coal would ultimately be mined by future generations at a time when it was more valuable.

69. A policy of continued modernisation would be aimed at developing the largest possible common ground with the moderates in the lower cost areas in order to achieve maximum co-operation in pit efficiency, in closures and in pay restraint. This should be based on a hard-headed approach and would include:

i. relating investment in each area to progress achieved in improving efficiency (as is now being pursued with BR);

ii. holding out the prospect of investment in major new projects such as Belvoir; provided efficiency improves and there is economic justification;

iii. an attitude to the coal industry, which was generally positive but qualified by -

constant pressure on efficiency
avoiding investment in excess capacity
a significant level of imports as a competitive discipline.

70. This would be intended to achieve an atmosphere in which the efficiency of the industry could be improved without provoking conflict, ie

i. moderate areas would accept closures and other cost reductions for economic reasons, because of nearby investment in better pits;

ii. difficult areas such as South Wales would be isolated, and a tougher approach to closure could be gradually evolved.

Such a policy may also be compatible with a greater role for private capital as partners in new ventures, and in due course as direct competitors. The aim would be that as time passed the interests of the more promising and co-operative areas should progressively diverge from those of the difficult area; the forces which have lead to NUM unity would lessen.

71. In assessing the merits of these strategies we concentrate on their chances of success. Implementation must be by the NCB management. It

would obviously be hard to find a Chairman prepared to take on the job based on a policy of retrenchment. But even if such a Chairman could be found his task would be made much more difficult:

i. he would have no basis on which to establish trust, either with management or miners; both would regard the "Plan for Coal" previously supported by Government as having been abandoned.

ii. he would face widespread apprehension about pit closures in all areas because of the danger of accelerated exhaustion in the absence of adequate investment.

He would therefore face initially miners with both confidence (born of recent success) and grievance. Until miners' level of confidence has been reduced it is dangerous to allow their level of grievance to rise.

72. To achieve an impact on the industry a new Chairman must create a climate in which progress is possible. Otherwise every closure and every cost reduction becomes a battleground, and potentially a national issue on which NUM can and will unite. Generosity on pay, quite apart from its effects on other settlements, would not be enough to defuse grievance.

73. A policy of retrenchment would also have to reckon with Arthur Scargill. He is far cleverer and more politically adept than the NUM leaders with whom Lord Robens had to deal in the 1960s. His skill is the effective organisation of mass protest about genuine grievances.

74. There is little doubt that a policy of retrenchment carries a high risk of exacerbating the dangers facing Government. Scargill wants confrontation. A withdrawal of Government support would give him the widespread base of grievance which he needs to use the NUM as a vanguard for extraparliamentary action by the trade union movement against this Government.

75. For a policy of modernisation to succeed (rather than simply be a cover for a policy of appeasement) will require management at every level taking action to improve the economics of each pit and each area; and progressively achieving a greater local credibility than the NUM. It requires generous redundancy payments, as now exist. And it requires a

growing divergence between profitable and unprofitable areas, encouraged by relevant cost-reducing investment. Behind this should lie the competitive shadow of a convincing nuclear programme.

76. A fundamental change in attitudes in a traditional industry, with inbred management and unions, will be a long hard slog. But we believe that a policy of continued modernisation under a credible Chairman and management offers the most convincing way towards achieving in time the Government's principal objectives, not only on the efficiency of the industry but also in reducing the ability of NUM leaders to bring out their members in support of excessive pay settlements or in order to subvert Government authority more generally.

CONCLUSIONS AND RECOMMENDATIONS

77. Our analysis offers no quick measures to improve the balance of power. During the next few years, measures for dealing with the problem lie mainly with the NCB and much will depend on the new Chairman. Only in the longer term will measures to reduce the miners' power, such as the nuclear programme, have increasing effect. We believe Government's objectives are more likely to be achieved within a policy of continued modernisation, rather than of retrenchment:

78. We group our main positive conclusions and recommendations into those of immediate significance and those important in the longer-term:

Matters of immediate significance

i. the current differences of view about a public opinion campaign should be explored and resolved so that an appropriate campaign can be put in hand (40)

ii. Government should have access to more systematic regular opinion research on grassroots miners' feeling (43)

iii. the next Chairman of the NCB should be appointed as soon as possible (51). We believe he should probably be an industrial, rather than a political, figure (53).

iv. while seeking to avoid confrontation in autumn 1981, Government should take appropriate steps to prepare for this (60). There are a number of measures which should improve the chances of achieving a moderate settlement through agreement (61)

v. a policy of continued modernisation under a credible Chairman and management offers the most convincing way towards achieving in time the Government's principle objectives (76)

Longer Term

vi. the case for nuclear power should be openly based on the need to diversify supply (24). But we would not at present recommend an accelerated programme because implementation of the present programme is itself going to be a major task to achieve. Every effort should be made to ensure that these plans do succeed in time. If the present programme goes better than we at present fear, the possibility of acceleration should be examined in a few years time (26).

vii. Government should retain the right to import and extend it when a suitable opportunity occurs (17).

viii. a strategy of coastal coal-based power stations should be examined as a possible policy for the 1990s (18).

ix. the feasibility of (a) moving open-cast mines to the private sector and (b) allowing major private sector coal-mining projects should periodically be reviewed, even though such moves if taken immediately would lead to confrontation (23).

ANNEX A

## THE RELEVANCE OF EMPLOYMENT LEGISLATION

1. In 1972 and 1974, the NUM rapidly escalated their strike by picketing power stations, docks and coal depots, so that as well as coal, other essential supplies were cut off from the power stations. This meant that the nation's power supplies were threatened long before the CEGB's stocks of coal were exhausted.

2. At that time, secondary picketing on the scale employed was a novel device. It readily attracted attention and is clearly remembered. But then, and in 1974, it was probably not critical to the outcome of the dispute except in terms of its psychological effect on the public and maintaining the miners' morale. Picketing of the docks was ineffective and imported coal continued to come into the country, although none was contracted to the CEGB and no attempt was made to divert it. At the conclusion of both strikes, the CEGB had considerable stocks of coal, and although there were problems with ancillary materials, at no time did CEGB employees refuse to handle such supplies.

3. However proposals have been made to tighten up the legislation to preclude miners' secondary picketing and possible secondary action by dockworkers and railmen during a coal strike. In reviewing current and possible future legislation, the special nature of the NUM and coal industry must be taken into account. Coal mining is an inbred industry with many of its workers living in isolated mining communities with little outside contact. The union and workers have a tradition of militancy and defiance of authority and convention, so legislation which might deter a union or individuals from unlawful action in other industries may not deter the close knit mining community during an emotive confrontation with the NCB and Government.

### Current Legislation

4. The current legislation is in the 1974 and 1976 Trade Union and Labour Relations Acts, which were amended by the 1980 Employment Act. The present position has been reviewed in the Green Paper entitled 'Trade Union Immunities' (Cmnd 8128) which was published in January 1981 as a consultation document.

These acts grant trade unions and individuals certain immunities in civil law when taking action in contemplation or furtherance of a 'Trade Dispute'. Individuals and trade unions taking industrial action are still liable to prosecution for criminal acts like violence, damage to property, breach of the peace, obstruction etc. Indeed, as the Attorney General and the Lord Chancellor pointed out at the time, the intimidatory mass picketing at Saltley Coke Depot in 1972 and at Hadfields in Sheffield in 1980 were actionable under the criminal law. The problem in both civil and criminal law when faced with large numbers of strikers acting unlawfully is that of enforcement.

Picketing

5. The 1974 and 1976 Acts give wide ranging immunities, which the 1980 Act (Section 16) reduced for individuals in respect of secondary picketing. Under the 1980 Act, the secondary picketing of power stations practiced by the NUM in 1972 and 1974 is unlawful. If picketed, the CEGB or another coal customer can take action against individual pickets or the picket organisers. There is the problem of identifying individual pickets but it is unlikely that union officials would be ready or able to disguise their role. If an injunction were not observed, the individual could, on evidence from the complainant, be found in contempt. The union might or might not pay the fine, but if personalisation of the issues is one of the strongest weapons in the unions' armoury, this would create martyrs and would intensify the bitterness of and possibly extend the dispute. For martyrs to be ineffective it is essential that their cause should not have public sympathy.

Secondary Action

6. Secondary action is generally industrial action by employees of an employer not party to the dispute. Such action in support of the NUM is most likely to be taken by the railway workers, the dockworkers and perhaps by power station employees. Under the 1980 Employment Act (Section 17) power station workers may retain their immunity in tort, because the CEGB is a customer of the NCB, but only if their action is targetted on the movement of coal from the NCB. If the railway workers or dockers take secondary action to block coal movements or imports, then the CEGB or another coal customer can take civil action against individuals or organisers. Although Section 17 of the 1980 Act has yet to be properly tested, it is possible that the threat of such action might deter significant secondary action.

## Possible Further Legislative Changes

7. The 1981 Green Paper (Cmnd 8128) explores the possibility of further changes in legislation. In the context of a miners' dispute, many of the proposals, for example on secret ballots etc, are not relevant. Detailed changes in the law on picketing and secondary action will not solve the problems with the NUM of enforcement and of creation of martyrs which exist under the 1980 Act. Only two issues, trade union immunities and legislation to prevent industrial action which creates a national emergency, are really worth considering in the coal context.

## Trade Union Immunities

8. It has already been noted that the secondary picketing tactic used by the miners in 1972 and 1974, if not in breach of criminal law, is now unlawful for individuals under the 1980 Act. The problem is now that of creating martyrs if individuals or organisers ignore injunctions and are found in contempt of court. The suggested remedy for this is to remove immunity for trade union funds; perhaps to bring trade union immunities into line with that of the individual.

9. It is certain that any attempt to curtail trade union immunities will encounter vigorous opposition from the whole of the trade union movement, who would picture it as a threat to the very existence of unions. If legislation for such a change were introduced in early 1982, it could come to be tested severely in the NUM's late 1982 pay negotiations. This would provide a highly political issue in which the TUC and many other unions could become joined. The likelihood of this is enhanced by the probability that Gormley's successor is almost certainly Scargill, who will be looking to 'win his spurs' and establish with Mick McGahey a militant leadership on the General Council of the TUC. Action by the TUC in these circumstances is highly plausible and could well include wider action in support of the NUM. So on balance, it appears that legislation to put union funds at risk would not deter the NUM from employing the full range of industrial action it mounted in 1972 and 1974.

## Legislation to prevent Industrial Action which creates a National Emergency

10. Three proposals have been made to deal with strikes which threaten the national interest:

(a) power for the Government to declare illegal a strike which threatens the national interest ie making striking or industrial action short of this a criminal offence;

(b) a power for the Government to delay a strike by order while further negotiations take place - a so called statutory cooling off period;

(c) giving employers the right to lay off employees at times of national emergency.

11. There are arguments for and against these approaches, but in the coal case, the major problem is that of enforcing sanctions for disobeying an order to stop a strike. Taking sanctions against organisers raises the prospect of martyrdom, and particular difficulties of prosecution if a strike continues unofficially after the organisers have ordered a return to work. Sanctions against individual union members, raises the possibility of mass prosecution of strikers. This has only been tried once when the Government tried to prosecute 4,000 miners at Betteshanger Colliery in 1941. This was a failure and mass prosecution of strikers is clearly not a practical proposition.

12. Giving other employers, who are affected by a national strike, the right to lay off employers without compensation (and perhaps without access to social security benefits) is a course which would need careful consideration to decide whether implementing it would have the effect of increasing pressure on miners to settle. The time for introducing such legislation with prospects of implementing it successfully would be immediately after widespread and unjustified hardship had been brought about by unions and caused the public to lose sympathy with them.

## Conclusions

From the analysis it seems improbable that further legislative changes would influence the mineworkers' approach to a coal strike or strengthen the NCB's position. The overwhelming problem remains that of enforceability. Miners have a history of successful defiance of authority, running from the action in 1911 and 1914, through Betteshanger in 1941 to the mass picketing of 1972. In the general industrial relations context, the 1980 Act should inhibit the more excessive union dispute practices, and no doubt more legislative measures, eg on trade union immunities, could be taken aimed at further discouraging such practices among unions generally. Legislation might be effective in deterring other unions, such as the railway workers from taking secondary action in support of the miners, although the 1980 Act, which removed immunity from individuals, has yet to be properly tested in a major strike.

ANNEX B

Role of Coal in Power Generation by ESI in England and Wales in 2000 and 2010.

The following table gives broadly indicative figures for required new coal-fired capacity in England and Wales to 2000 and 2010 under three cases of growth in electricity demand and two rates of construction of new nuclear capacity. It is assumed that the CEGB achieves considerable success in extending the life of existing coal-fired stations from 30 to 40 years.

REQUIRED NEW CAPACITY (GW)

| | To 2000 | | 2001-2010 | | Total | |
|---|---|---|---|---|---|---|
| | Coal | Nuclear | Coal | Nuclear | Coal | Nuclear |
| A. Low Growth in Demand (0.4% p.a.) | | | | | | |
| (i) High Nuclear Build | 4.5 | 15.0 | - | 22.5 | 4.5 | 37.5 |
| (ii) Low Nuclear Build | 12.0 | 7.5 | 10.5 | 12.0 | 22.5 | 19.5 |
| B. Medium Growth in Demand (0.9% p.a.) | | | | | | |
| (i) High Nuclear Build | 10.5 | 15.0 | 2.5 | 24.0 | 13.0 | 39.0 |
| (ii) Low Nuclear Build | 18.0 | 7.5 | 14.5 | 12.0 | 32.5 | 19.5 |
| C. High Growth in Demand (1.4% p.a.) | | | | | | |
| (i) High Nuclear Build | 17.5 | 15.0 | 7.5 | 24.0 | 25.0 | 39.0 |
| (ii) Low Nuclear Build | 25.0 | 7.5 | 19.5 | 12.0 | 44.0 | 19.5 |

Assumptions :-

1. Growth in demand for electricity from the 1979/80 restricted maximum demand of 44 GW assuming a 28% planning margin. Three cases are considered:' the medium growth case of 0.9% p.a. is the long-term rate assumed by the ESI; the low growth case of 0.4% p.a. is that recommended by the Planning Department within CEGB's 1980/81 Development Review and the high growth case of 1.4% p.a. balances the low growth case. Total Required capacities are as follows:

| | GW 2000 | GW 2010 |
|---|---|---|
| Low Growth | 62.5 | 65.0 |
| Medium Growth | 68.5 | 75.0 |
| High Growth | 75.5 | 87.0 |

2. Life extension of coal-fired plant from 30 to 40 years is achieved for all plant except in the 200-350 MW range, thus reducing retirements to 2000 by 14 GW all of which capacity is retired over the period 2001 to 2010. (If all coal plant had life extensions to 40 years an additional 6 GW of capacity wouldstillbe in operation in 2000.)

3. Rate of construction of new nuclear power stations after Heysham II.

   (a) "High Nuclear Build" assumes that the programme of 15 GW of new capacity in operation by 2000 is achieved; and that two new power stations per annum (2.4 GW) are brought into operation from 2001 to 2010.

   (b) "Low Nuclear Build" assumes half the rate of "High Nuclear Build".

The next table shows the percentage capacity met by coal and nuclear in 2000 and 2010. The figures include coal and nuclear plant currently in operation or under construction which has not yet been retired by the relevant date.

Percentage of Demand met by Coal and Nuclear in 2000 and 2010

| | 2000 | | 2010 | |
|---|---|---|---|---|
| | Coal | Nuclear | Coal | Nuclear |
| A. Low Growth in Demand (0.4% p.a.) | | | | |
| (i) High Nuclear Build | 45 | 34 | 22 | 61 |
| (ii) Low Nuclear Build | 57 | 22 | 49 | 33 |
| B. Medium Growth in Demand (0.9% p.a.) | | | | |
| (i) High Nuclear Build | 50 | 31 | 30 | 55 |
| (ii) Low Nuclear Build | 61 | 20 | 56 | 29 |
| C. High Growth in Demand (1.4% p.a.) | | | | |
| (i) High Nuclear Build | 54 | 28 | 40 | 47 |
| (ii) Low Nuclear Build | 64 | 18 | 62 | 25 |

In 2000 approximately 30% of total capacity is met by coal plant already in operation or under construction in 1981 and this figure has fallen to around 15% of total capacity by 2010. No early retirement of oil-fired capacity has been assumed; thus in 2010 the oil-fired capacity brought into operation in the nineteen eighties (approximately 5 GW) is still taken to be available.

 C 3/F 3/8.

4

Mr Duguid

• Folder to 15.45 Tuesday mtg

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

PRIME MINISTER

MT.

WITHSTANDING A COAL STRIKE

The Home Secretary wrote to you on 22 July enclosing a copy of the report by an official group (MISC 57).

2. The report which looks at the main options open to us to increase our capacity to withstand a coal strike is a useful one. While there are many imponderable factors (especially in the attitude and sympathies of the wider public) which cannot be properly assessed, it seems clear that our capacity to withstand a strike this winter will be relatively limited. Nor will our strength be significantly increased by adding to oil stocks at power stations - this would not in itself extend endurance but simply ensure that maximum oil could be burned immediately. Given the very large nationalised industry bids for finance and our difficult public expenditure position generally, I do not think that this is a sufficiently compelling reason to agree to the additional £25m-£50m plus interest that this would cost.

3. The report lends weight to the need to consider how to increase our capacity to withstand a strike after this winter and in general to use all means, including the publicity campaign on which work is now in hand, to improve our position in relation to the miners. We shall want to consider these matters further after the Recess on the basis of the work on which officials are at present engaged.

4. I am sending copies of this minute to recipients of the Home Secretary's minute to you.

GH

(G.H.)
30 July 1981

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

SECRET AND PERSONAL

PRIME MINISTER

WITHSTANDING A COAL STRIKE

I have seen a copy of the Home Secretary's minute to you of 22 July. On the immediate issue of maximising power station oil stocks over the summer, the position of the Scottish Electricity Boards is that they could take a further 180,000 tonnes of oil, which might cost of the order of £16m. Since the Scottish generating system could with existing fuel stocks withstand a coal strike for somewhat longer than the CEGB system any additional oil stocks would be likely to be used to export power to CEGB. It is for the Secretary of State for Energy to judge the value of these exports in terms of CEGB's endurance. The Scottish Boards would undoubtedly consider that they should be compensated for the cost of purchasing and holding these additional stocks, because in normal operation the Scottish system burns virtually no oil.

I note that the Secretary of State for Energy will shortly be circulating a note on the scope for increasing endurance in the longer term. I understand that in Scotland the Electricity Boards see no serious physical difficulties in increasing their coal stocks to a level which, with some oil burn and with expected levels of output from nuclear, hydro and gas-fired plant, would provide at least 20 weeks' endurance by November 1982. Given uninterrupted deliveries of oil the Boards should also be able to sustain 1000 MW of exports to CEGB during that period. To achieve this level of endurance, however, the Boards would have to embark very soon on a major programme of construction to increase storage capacity at power stations for ancillary supplies. They consider that the construction work would take at least 15 months and that the cost of construction and the additional supplies would be around £20m. This timetable suggests that we need to reach an early decision on our plans for 1982/83. One factor which we shall have to weigh carefully is that the additional measures which the Boards would have to take will inevitably become widely known. Again the Boards consider that as this level of stocks of fuel and ancillary supplies would be well in excess of that dictated by normal commercial prudence, they should be reimbursed in full for the additional costs involved. There is room for argument about what normal commercial prudence means in the circumstances we face. If we took the view that the Boards' consumers should bear the costs, the interest charges on the additional borrowing for the extra coal and for the extra ancillary supplies and the related construction programme would add around 1% to the Board's tariffs in 1982/83.

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

G.Y.

SCOTTISH OFFICE
30 JULY 1981

NOTE FOR THE FILE

The Prime Minister is having a meeting on Tuesday 4 August at 1545 to discuss the Department of Energy's paper on coal and the CPRS Report on the same subject.

The following will be attending:

Chancellor of the Exchequer
S/S Energy
x ~~Mr. Fletcher (Scottish Office)~~
y ~~Mr. Clark (Department of Transport)~~

CL.

~~Caroline~~ Noted
CP. 31/7

28 July 1981

I have cancelled x and y, and invited Ld Gowrie. I have also invited Ibbs, Wade Gery and Armstrong. TL 30/7

SECRET

24 July 1981

1
2

Prime Minister

MR LANKESTER

MR

WITHSTANDING A COAL STRIKE

1. The Home Secretary's note explains that the report he attaches considers the scope for withstanding a strike in 1981 only. Two important further pieces of work will become available during the next week or so:

(a) A note on the scope for a big boost in power station endurance in 1982. (This is feasible, but will be quite costly and will raise again the pros and cons of visibility.)

(b) A fuller CPRS report on the whole "coal problem", and the alternative strategies for living with it or gradually reducing it.

2. Of the three reports, the one below is probably the least important - because there is now very limited scope for action before next winter. But the constraints it has identified will loom large in the two reports still to come. For that reason alone, I think the Prime Minister will find at least the Chairman's summary report well worth reading. (Yes - it is worth reading) TL

Flag A

3. Robert Wade-Gery has interpreted his terms of reference strictly, confining attention to withstanding a coal strike. We think that the main reason for building up stocks should be to deter strike action in the first place, by making a majority of miners conscious that a full-scale national strike is simply not worth it. That is why we think that the inevitable visibility involved in building up stocks next year is on balance a good thing - provided miners believe that the Government would be resolute.

## Next steps

4. The only immediate issue to decide on this report is whether to instruct Electricity Boards to maximise power station oil stocks over the summer. We will offer advice when the Chancellor and the Secretary of State for Energy have expressed their views.

SECRET

5. More importantly, the Prime Minister will need to decide whether to hold a meeting before the holidays to discuss the other two reports due very shortly. If at all possible, we think that she should, because Department of Energy will probably need the maximum lead time to make more detailed plans for raising stock levels for 1982. We are all too familiar with Department of Energy's natural tendency to delay.

X

AD.

ANDREW DUGUID

Shall we try to fix a meeting as suggested at x?

Yes mt

TL.

24/7

No 1 of 12 A

1

HOME SECRETARY

MS.

PRIME MINISTER

WITHSTANDING A COAL STRIKE

At your meeting on 14 April I was invited to commission and oversee a comprehensive study of how to withstand a coal strike this winter as effectively as possible. I now attach the report of the official group (MISC 57) which was established to undertake this work; the main points of the report are summarised in the covering note.

As you will see, the group has concluded that a strike this year could probably not be withstood for more than 13-14 weeks. This takes account of the extra coal which we have already decided should be moved to the power stations during the course of the summer. In theory, endurance could be considerably increased by recourse to either or both of two drastic measures: viz very severe restrictions on electricity supplies, or the use of servicemen to move National Coal Board pithead stocks to the power stations. But the practical problems involved in the use of servicemen this year seem likely to prove insuperable; and the question of whether their use might be made a more realistic option in future is now being studied further by officials. As the report makes clear, there must equally be a large question mark over the practicability of very severe electricity supply restrictions, given the serious damage they would do both to industry and to public morale.

Indeed, if experience in the early 1970s is any guide, even the endurance figure of 13-14 weeks might well prove, in the event, to be more of a theoretical maximum than a realistic prospect. And the cost of seeking to endure for that sort of period would clearly be high in both financial and political terms.

All in all, therefore, the report reinforces my feeling that your meeting on 19 June with the Chancellor of the Exchequer and the Secretary of State for Energy was right to regard a "peaceful" settlement at the lowest possible figure as the priority objective for 1981. This increases the importance of building up stocks, and thereby endurance potential, for the future; and of the work on a plan of action for 1982 which that meeting commissioned. I understand that the group of officials which prepared the attached report hope to put forward their preliminary findings as regards 1982 in the very near future and that the Secretary of State for Energy will be circulating a note to colleagues before the Recess. It should then be clear what are the main issues on which further work will need to be concentrated before a full report can be made available in the autumn. Officials will also be reporting further in the autumn on a number of other areas where the attached report identifies a need for further work; e.g. publicity, both for 1981 and 1982, and the prospects for increasing the practicability of the use for troops for moving stocks. I understand that, in addition, the CPRS have been commissioned to study certain longer-term aspects of the coal problem. We should thus be in a position, soon after the Recess, to take a broad view of tactics and strategy towards the NUM and the NCB over the next 18 months or so.

Finally, I should draw attention to the one (relatively minor) point which has to be settled immediately. Should we instruct the Electricity Boards to maximise power station oil stocks over the summer? The issues are set out in paragraph 11 of the cover note and in paragraphs 33 and 34 of the main report. The Chancellor of the Exchequer and the Secretary of State for Energy will no doubt wish to let you have urgent advice on this; and you may then feel able to take a decision without the need for collective discussion.

I am sending copies of this minute and of the attached report to the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Secretaries of State for Industry, Employment, Energy, Defence, Scotland and Transport, and to Sir Robert Armstrong and Mr. Ibbs.

WW

22 July 1981

# WITHSTANDING A COAL STRIKE

## NOTE BY THE CHAIRMAN OF THE OFFICIAL GROUP ON COAL

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## INTRODUCTION

1. At the Prime Minister's meeting on 14 April 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, the Home Secretary was invited to commission and oversee a comprehensive study of how to withstand a coal strike as effectively as possible. The attached report has been prepared in response to that remit. It was prepared by a Group (MISC 57) under Cabinet Office chairmanship consisting of representatives of the Prime Minister's Office, the Treasury, the Home Office, the Departments of Industry, Employment, Energy and Transport, the Ministry of Defence, the Scottish Office, the Central Policy Review Staff, the Office of the Chancellor of the Duchy of Lancaster and the Cabinet Office.

2. This note summarises the main points in the attached report.

## THE TIMING AND FORM OF INDUSTRIAL ACTION

3. If the miners' strike over pay this autumn they will do so probably in November (their pay settlement date is 1 November) and will be likely after a ballot to opt for an all-out strike from the outset, unlike in 1971 and 1973 when there was first a lengthy period of work-to-rule and overtime ban. A strike once called would be completely supported from the outset and would continue until called off by the NUM Executive, following a ballot of the workforce;

the possibility of a partial unofficial return to work before then is extremely remote. In the absence of an improved offer the miners are likely to stay out on strike for a very long time. Although the costs of staying out could come to be very high for individual miners (and would be higher now than in previous strikes because of the £12 deeming provision attached to Supplementary Benefit for strikers since November 1980), we nevertheless doubt that they will be forced back to work by financial pressures. Public opinion is unlikely to have much effect and any pressure from the TUC and the labour movement generally is more likely to be directed at the Government to facilitate a settlement than at the miners.

THE CRITICAL AREAS

4. The key to withstanding a strike is maintaining electricity supplies, and this is discussed in more detail below.

5. But the lack of coal supplies for those who use coal as a primary fuel, although unlikely to become a critical factor until well into a strike, would nonetheless be felt. Domestic users would begin to run out of coal after about 6 weeks, although we estimate that only about 10 per cent of households are now largely dependent on coal for heating and hot water; but priority users eg. the sick, hospitals etc, would be likely to continue to receive supplies with trade union co-operation. The main industrial users of coal - cement and metal manufacture - could probably make their supplies last for about 10 weeks (as they did during the 1973-74 dispute) but after that their position would probably become increasingly difficult, until eventually they would be forced to close, although we cannot estimate how long that might take. This in turn could give rise to shortages of materials, and eventual closures in other industries, if they could not obtain alternative supplies of cement and basic metal manufacture from abroad, with increasingly widespread effects as time passed. But this would take some time, whereas a

restriction of electricity supplies would be felt immediately.

MAINTAINING ELECTRICITY SUPPLIES

6. The report considers the following options:-

(a) measures that could be taken in advance of a strike

- maximise power station coal stocks and supplies of ancillary materials
- increase the use made of oil- and gas-fired power station capacity to conserve coal stocks

(b) measures that could be taken early in a strike

- increase the use made of oil- and gas-fired power station capacity
- restrict demand for electricity
- increase coal imports, if possible

(c) drastic measures to withstand a lengthy strike

- use servicemen to move coal from NCB stockpiles to the power stations
- restrict demand for electricity drastically

(a) measures that could be taken in advance of a strike

7. Ministers have already decided that extra coal (at least $1\frac{1}{2}$ tonnes and possibly more) should be moved to the power stations over the summer; and that measures to increase power station coal stocks significantly should continue throughout next year. Further work is in hand on this latter point. By 1 November power station coal stocks will therefore offer about 9 weeks endurance at the full level of demand expected this winter. (However, stockbuilding would, of course, be interrupted if there were to be a rail strike during the summer, which cannot be ruled out.)

8. The report considers briefly whether it might be possible to keep power station coal stocks at their maximum level after the normal autumn peak is reached, ie. throughout the winter unless or until a strike occurs. This too is under further study but it seems likely that consultations will be required with the industries concerned before a final view can be reached on this point.

9. As for ancillary materials, the Electricity Boards have already been asked to increase their normal level of stocks (6 weeks) to match likely power station coal stocks. The Boards are now considering this. But for some materials the construction of extra storage facilities may well be required and it is by no means certain at this stage that the necessary work could be completed by the Autumn. The Electricity Boards have managed in the past to replenish supplies of ancillaries, but if stocks were to run low for this reason or because of picketting (which, although now unlawful, would almost certainly happen and be effective), servicemen could probably be used to bring in fresh supplies, although if this involved requisitioning vehicles from the oil companies a State of Emergency would first have to be proclaimed.

10. The Electricity Boards have substantial excess oil-fired power station capacity, and although it would be expensive to do so, this could be used either before or during a strike as a means of conserving power station coal stocks. Its use once a strike begins is considered below. We do not recommend that the Government should seek to persuade the Electricity Boards to utilise their excess oil-fired capacity over the summer; apart from the cost, this would be seen as provocative by the trades unions and to do so would undermine the pressure on the Electricity Boards to cut costs generally throughout the industry. But once a miners' strike seemed imminent the Government could press the Electricity Boards to start using more oil.

11. However, it would be possible for the Electricity Boards to maximise their oil stocks over the summer, if Ministers so wished. In itself this would not extend endurance, but it would ensure that the maximum possible extra oil could be burned immediately, once a decision to do so had been taken. A decision to maximise stocks would have to be taken now, so that the necessary oil purchases could be organised. The costs involved would be in the range of £25-50m plus interest charges, for which the Electricity Boards might well seek compensation from the Government.

12. It would be possible to substitute a limited amount of gas for coal in the power stations over the summer to conserve coal stocks, but this would extend endurance times by only a few days. The Secretary of State for Energy's formal consent to do so would be required. Moreover, it would quickly become apparent to the unions that this unusual action was being taken.

(b) measures which could be taken early in a strike

13. Only once a strike has begun could the Government formally direct the Electricity Borads to burn extra oil (using powers under the Energy Act 1976). To maximise the use at that stage of the present spare oil-fired capacity would involve burning an extra 275000 tonnes of oil per week; for every 8 weeks over which this was done power station endurance times would be extended by about 2 weeks at a total cost of purchasing oil of £200m. A decision to incur this expenditure is not required now, although Ministers should be aware that the Electricity Boards are unlikely to be able to accommodate the costs involved within their External Finance Limits, and will therefore expect compensation from the Government (or from the consumer). We do not expect oil supplies or deliveries to present problems in the use of the excess capacity in this way; any early problems in the use of extra oil ought to be overcome by the power station oil stocks referred to above.

14. The substitution of <u>gas</u> for coal in the power stations during the winter to conserve coal stocks would be possible to a limited extent, but only by diverting firm contracted supplies away from industrial users using powers under the Energy Act 1976. This would clearly have serious implications for the firms concerned. Extra gas would have to be burned for 8 weeks to increase endurance by 1-2 <u>days</u>.

15. The Government and the Electricity Boards could also take steps to <u>reduce demand for electricity</u>, although the implications for industry in particular may limit the scope for so doing. Broadly, the options are to use powers under the Energy Act 1976 to

(i) restrict industrial and commercial users to using electricity only on specified days of the week;

(ii) to require specified cuts in consumption; or

(iii) ban completely the use of electricity for certain purposes eg advertising (but this would have only a minimal impact on total consumption).

In addition, the Electricity Boards could introduce rota disconnections.

16. Generally speaking, so long as electricity supplies to industry and commerce do not fall below 85 per cent of their expected winter level, the risk of substantial long-term damage to the economy is likely to be fairly low in a short strike, but would be significantly greater if the strike were to last for a long time. The experience of 1973-74 suggests that industry would be able to cope without suffering substantial damage if reductions at this level did not continue for more than about 10 weeks. However, industry is in a much weaker financial position now than it was in 1973 and consequently it would be unlikely to survive for as long during the coming winter without major damage and the collapse of companies already hard hit by the recession. The introduction as quickly as possible after the start of a strike of measures to bring electricity supplies down to this level would, of course, have the greatest impact on endurance times. But the timing of supply restrictions will require careful consideration because of the impact

on industry, employment and public opinion. Ministers will therefore have a choice between reducing electricity supplies immediately to 85 per cent or moving gradually through the introduction of successive measures towards that level.

17. There is very little experience of the effect of ele ctricity supply restrictions over a long period; the most severe restrictions ever to have been applied were during the miners' strike in 1974 when supplies were cut by about 15 per cent for 2-3 weeks. What is clear is that domestic consumers tend to use more electricity than normal when supplies are available; and industry will succeed in many cases in reorganising work schedules to maximise production during the periods when electricity supplies are available (and this will be particularly true in the present recession when there is considerable slack in the economy); so, to achieve a particular level of overall reducation in electricity demand, greater apparent restructions will have to be introduced. Furthermore, the need to safeguard supplies to key services and industries would mean proportionately heavier restructions on other users.

18. Therefore, to achieve a 15 per cent reduction in total demand would probably mean introducing cuts of about 20 per cent across the board. To achieve this by rota cuts (which would affect domestic, commercial and industrial users alike) would mean that supplies to domestic consumers would be on for 3 hours and then off for 3 hours during daylight and evening hours for 3 days each week with much smaller reductions on the other days; and industry and commerce would have supplies for the equivalent of half their normal working day. Street lighting would also be cut off during periods of rota disconnections, with implications for crime and public order. Another option, which could also impinge equally on domestic and non-domestic users, would be a statutory requirement to achieve a specified reduction in electricity consumption, but this would be difficult to

enforce effectively and might not produce sufficient savings of electricity. The third option of a reduced working week would concentrate the effect of the supply restrictions on industry and commerce, and would therefore mean a reduction in their consumption of about 35 per cent if a reduction in total consumption of around 15 per cent were to be achieved. The consequences for industry and commerce would therefore be serious and might eventually amount to the closure of large parts of manufacturing industry. In practice the best and most equitable approach would be to introduce a combination of rota cuts and a reduced working week.

19. Restricting electricity supplies to 85 per cent for 6 weeks would extend endurance times by 1 week.

20. There is no technical reason why supply restrictions could not be introduced as soon as a decision to do so was taken. But their introduction requires an Order in Council under the Energy Act 1976, and publicity would have to be arranged for the timing of the rota disconnections. It therefore seems likely that supply restrictions could come into effect only about a week after the Order had been signed.

21. The scope for increasing coal imports early in a strike seems likely to be very limited, because supplies in any quantity are unlikely to be readily available this year and it might take a month or two to organise the necessary shipments. But to the strictly limited extent that this problem might be overcome, the best approach would be to direct imports to CEGB power stations in the South East, which have their own port facilities; these could handle all the imports= that are likely to be available this year. However it is by no means certain that exceptional imports of coal would be handled by CEGB employees in the circumstances.

(c) <u>drastic measures to withstand a lengthy strike</u>

22. Using the coal stored in <u>NCB stockpiles</u> would have the greatest single impact on endurance times. By the autumn NCB stocks suitable for use in power stations are likely to total 15m tonnes. If all these could be used they would add about 7 weeks to endurance times. But they will be lawfully picketted by the NUM. Few if any trade unionists will be prepared to cross such a picket line. NCB stocks are therefore likely to be accessible only through the use of servicemen.

23. In normal conditions these stocks are moved to the power stations by rail. Because of the difficulty this would involve for servicemen (see below) we have considered whether movement by road would be a feasible alternative. But large modern power stations have been designed for rail deliveries and their access roads and reception facilities could not cope with the number of lorry loads involved (50,000 per week). Further work is in hand on the steps which could be taken to improve this position but they could certainly not be completed by the autumn.

24. For this year, therefore, the aim would have to be the maintenance of coal deliveries by rail; deliveries by road could make only a very small contribution to endurance. But to attempt to use servicemen in this way would raise difficult, and probably insuperable, practical problems. The Army has only 23 train drivers, who have no experience of the heavy locomotives used in coal deliveries. So servicemen (probably about 200-300) would have to be trained from scratch; this could be done in 5 weeks, but most of the training could only be carried out on the actual locomotives and routes involved with the co-operation of BR staff. Such co-operation is unlikely to be forthcoming, even from management staff, and any attempt to press the issue would carry the risk of precipitating a rail

strike. Even if servicemen could be trained, the co-operation of BR staff would be needed over signalling etc since the routes to the power stations are not isolated from the main network. Again, we doubt if this would be forthcoming.

25. Lorries or trains driven by servicemen would be easy targets for sabotage, as would railway track. This is not a tactic normally adopted by trades unions, but since most of the coal movements would be through mainly mining areas, it cannot be ruled out. The services would proably manage to rectify any damage sufficiently for coal deliveries to be maintained, but supplies could well be disrupted, perhaps seriously so.

26. A further area of difficulty would be the train loading and unloading equipment. Although ways could probably be found round problems with the loading equipment, the effort involved in getting the coal to the power stations would be nullified if the bunkers into which coal trains discharge at the power stations are not cleared because power station staff were unwilling to use coal brought in by servicemen.

27. The use of servicemen could also give rise to difficult public order problems at the pitheads and probably also at the power stations. On the other hand, the background against which the use of servicemen might take place would be one of very intense need for electricity. The strength of public support for the Government's action could weell depend, therefore, on the extent to which the NCB's offer was regarded as reasonable.

28. For these reasons it seems likely that there would be severe practical problems in the use of servicemen.

29. Finally, extra supplies of coal are not in themselves sufficient to ensure that electricity supplies are maintained; stocks of ancillary materials would also have to be replenished. This would probably be possible, and if necessary servicemen could be used to deliver fresh supplies; but a State of Emergency would first have to be proclaimed to allow them to requisition oil delivery vehicles.

30. The other drastic measure open to Ministers as a means of withstanding a lengthy miners' strike would be to reduce electricity demand severely, ie well below the 85 per cent threshold mentioned above.

31. To achieve a reduction of 50 per cent would mean that consumers would be without electricity supplies on average for 6 hours out of every 9 (although on some days supplies might be cut off for 12 hours or more consecutively). Shops, commerce and industry would have supplies equivalent to only about one quarter of their normal working week in isolated 3 hour periods. In practice this would leave industry in an untenable position and many companies would be forced to close. This in turn could lead to further closures as supplies of vital industrial materials became scarce. Some food supplies would also start to deteriorate and shortages of milk and meat might occur. Unemployment would also be likely to increase considerably. There is also the danger that whole areas might be without power for long periods of time if the electricity grid became difficult to operate normally.

32. Ultimately, when coal stocks were exhausted, supplies would level out at about 20-30 per cent of normal (but 50 per cent in Scotland), ie. the level which would be sustained by nuclear, hydro and oil-fired capacity alone. The electricity grid would probably continue to function even at that low level, although whole areas might be without power perhaps for days since its operation would be very unstable. Electricity would be available only for the most essential services, including some food distribution, and perhaps for one or two hours per day for domestic consumers, with disastrous consequences for industry and commerce.

33. The point has already been made that the timing and scale of electricity supply restructions would require careful consideration, and this would be particularly true of cuts in excess of the 15-20 per cent discussed above.

But even drastic reductions would have to apply for some time to extend endurance time significantly. For example, electricity demand would have to be reduced effectively to 50 per cent of its expected winter level for 3 weeks to increase endurance by $1\frac{1}{2}$ weeks.

SUMMARY OF ENDURANCE TIMES

34. The endurance times offered by the measures discussed in (a) and (b) above may be summarised as follows:-

| | | | |
|---|---|---|---|
| (i) | Expected power station coal stocks at 1 November | 9 weeks | |
| (ii) | Increase oil burn for 8 weeks | 2 weeks | if introduced early enough ie. almost as soon as a strike began |
| (iii) | Increase gas burn for 8 weeks | 1-2 days | |
| (iv) | Restrict electricity demand to 85 per cent (increases endurance by 1 week for every 6 weeks that these measures are applied) | 1-1½ weeks | if introduced early enough |
| (v) | Christmas holiday period** | Up to 1 week | |
| | Total in the absence of drastic measures | 13-14 weeks | |

If despite the difficulties involved the first drastic measure discussed in (c) above - ie moving NCB pithead stocks to the power stations - could be successfully taken the position might be as follows:-

| | | | |
|---|---|---|---|
| (i) | Expected power station coal stocks at 1 November | 9 weeks | |
| (ii) | NCB pithead stocks | 7 weeks | |
| (iii) | Coal imports and private generating capacity* | ½ week | |
| (iv) | Increase oil burn for 16 weeks | 4 weeks | if introduced early enough ie almost as soon as a strike began |
| (v) | Increase gas burn for 16 weeks | 2-4 days | |
| (vi) | Restrict electricity demand to 85 per cent (increases endurance by 1 week for every 6 weeks that these measures are applied | 3 weeks | if introduced early enough |
| (vii) | Christmas holiday period** | up to 1 week | |
| | Total endurance time | about 25 weeks | |

NOTES: *The extra endurance offered by coal imports and private electricity generating capacity is very uncertain. It is difficult to estimate how much coal might be immediately available for import during a miners' strike; and there are likely to be technical difficulties about feeding a proportion of privately-generated electricity into the national grid.

**If a strike were to include the Christmas holiday period, total endurance times would be increased by up to 1 week, depending on the level of electricity supplies.

35. <u>These endurance times assume that the various measures discussed would be fully effective and applied as soon as possible after a strike began</u>. They also assume that electricity demand was not allowed to fall below 85 per cent of its normal winter level; to the extent that it did endurance would be increased.

36. Thus, overall, in the absence of drastic measures a strike might be withstood for a maximum of 13-14 weeks. If despite the difficulties servicemen were successful in moving <u>all</u> the NCB pithead coal stocks to the power stations and in replenishing stocks of ancillary materials a strike might be withstood for up to 25 weeks. Put another way, a strike beginning on 1 November might be withstood until the end of January in the absence of drastic measures and until mid-April if servicemen managed to move all the NCB pithead coal stocks to the power stations. It would be possible, in theory, to withstand a longer strike than this, but this would entail reducing electricity supplies drastically, perhaps eventually to 20-30 per cent of normal (the level that could be maintained by nuclear, hydro and oil-fired capacity when all coal stocks have been exhausted) with the consequences discussed above.

<u>THE POSSIBILITY OF SEPARATE SIMULTANEOUS INDUSTRIAL ACTION BY OTHER KEY GROUPS</u>

37. This is discussed in paragraphs 73-78 of the attached report. A number of key groups - firemen, local authority manual workers, oil tanker drivers, water manual workers, dockers and gas manual workers - have pay settlement dates in the period November to February when a miners' strike over pay is most likely. The risk of simultaneous strikes cannot therefore be ruled out, although it is impossible at this early stage to reach a view on the liklehood of this happening. Manual and white collar workers in the gas industry are, however, already threatening to strike in January/February in protest at the Government's decision on the privatisation of gas showrooms (legislation on this might then be under consideration in Parliament). In the time available it has not been possible to analyse in detail what impact this (or a strike by any other key groups) might have on the scope for withstanding a miners' strike, but clearly possibilities

for endurance might well be reduced (for example, in the event of a strike in the gas industry, demand for electricity would increase) or at the least the extra inconvenience and discomfort caused to the general public might be sufficient to undermine their willingness to withstand a miners' strike and this could lead to pressure on the Government to facilitate a settlement. We do not think that simultaneous strikes by miners and others would be likely in itself to lead to more widespread industrial action; trades unions in many key sectors will probably prefer the miners to settle first before pressing their own claims. But if, for any reason, miners wee to be imprisoned, widespread industrial action with strong political overtones could quickly result leading in an extreme situation to a general strike.

COSTS OF A STRIKE

38. It would be extremely difficult without a great deal of detailed analysis to arrive at even a broad estimate of the costs, however defined, of a miners' strike. This is not, therefore, discussed in the attached report. But Ministers might find it useful to be reminded of what the main economic consequences are likely to be.

39. The costs to public expenditure of a strike would arise in two main ways: first, through the costs of measures to maintain electricity supplies, principally oil purchases (unless passed on to the consumer); second, through the payment of unemployment and social security benefits to those thrown out of work temporarily as a result of the strike. The report estimates the first cost at about £20 million per week, plus the cost (£25-50 million plus interest charges) of increasing power station oil stocks over the summer and ~~of~~ increasing supplies of ancillary materials. The costs involved in extra unemployment and social security benefit payments would depend on the numbers involved and therefore on the duration of the strike; every 40,000 extra unemployed would cost £1 million per week in benefit payments. There would also be losses in

tax revenue, because of the higher unemployment and lower level of activity generally. The loss of revenue of public utilities e.g. railways, electricity BSC, would be considerable.

40. The costs to industry are more difficult to quantify and would depend on how long a strike lasted, but the effects could be expected to be worse than in 1973-74 since company profitability, liquidity and international competitiveness have declined markedly since then. Companies' financial position and output would be affected even by a short strike; and a long strike would certainly lead to a significant increase in bankruptcies, as shortages of fuel and of raw materials and components spread throughout the economy. Some lost production would probably be made up as companies rebuilt stocks, but lost exports would be difficult to recoup and it might prove difficult to regain some domestic markets in the face of increased imports.

FURTHER WORK

41. Further work is required mainly in respect of the scope for increasing power station coal stocks throughout next year, and this is in hand; and on publicity.

42. There are two aspects to the role of publicity in withstanding a miners' strike, namely the routine provision of essentially factual information to Ministers and to the public, and the more complex question of influencing public attitudes. The Civil Contingencies Unit will be reporting separately to Ministers on the best form of routine publicity arrangements in the event of a major strike or other civil emergency; particular attention would have to be paid during a miners' strike to providing information on the operation of contingency arrangements eg the timing of rota cuts, and to reassuring the public generally. Such routine publicity would no doubt also have some influence on public attitudes.

But in the case of a coal strike, Ministers will no doubt want to consider special tactics eg the deployment of information about the costs to the economy of the coal industry including the burdens imposed by uneconomic pits, to maintain public support for a firm stand by the NCB and the Government and to undermine the solidarity of the miners insofar as that is likely to be possible. The role that such publicity might play before a strike was not within our terms of reference and we have not therefore considered it. But it seems to us that properly planned publicity would be likely to have its greatest impact well before a strike; once a strike has started the main objective will probably be to retain public support for the NCB and the Government, since miners' attitudes are unlikely to be significantly affected by publicity. Further work by officials on publicity is now in hand following the letter of 6 July from the Chancellor of the Exchequer's office to the Department of Energy.

IMMEDIATE DECISIONS FOR MINISTERS

43. The only point on which Ministers have to reach an immediate decision is the question of maximising power stations oil stocks over the summer, which is discussed in the paragraph 11 above and in paragraphs 33 and 34 of the attached report.

Signed R L WADE-GERY

Cabinet Office

21 July 1981

# WITHSTANDING A COAL STRIKE

## REPORT BY THE OFFICIAL GROUP ON COAL

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### THE TIMING AND POSSIBLE FORM OF INDUSTRIAL ACTION

1. The miners' pay settlement date is now 1 November. Negotiations are likely to begin in the second half of September and last some weeks. The National Union of Mineworkers' (NUM) Executive will not conclude a settlement without balloting the membership on a final offer and can be expected to press for this to be made before the settlement date; traditionally, the NUM is unwilling to continue the normal bargaining process beyond this date. A ballot would take about 2/3 weeks.

2. Given the NUM Executive's internal divisions, it is most unlikely that it would be able to recommend acceptance of any offer which can be visualised. At best the ballot question will be neutral. If, on such a question, the offer were rejected, it could be expected (unless an improved offer were then made) that a further ballot would be held on the question of industrial action, although this would not be essential. Under the NUM's rules a national strike needs to be approved by ballot by 55% of members voting. Action short of this, eg a national overtime ban, can be decided upon by the Executive or a national delegate conference. Area strikes on a pay issue, as experienced in 1969 and 1970, are very unlikely.

3. Depending on where a final offer is pitched, a first ballot could, however, well ask for authority for a national strike or for the Executive to mount unspecified industrial action which would provide sufficient authority for a national strike.

4. With this as background, the probability is that any industrial action could begin in November or in early December. Although in 1971 and 1973 an overtime ban and working to rule were first adopted before coming to a national strike (in the main to develop support for strike action), such a tactic is now unlikely. Miners would recognise that an overtime ban, given the stocking position and overt action to improve it, would itself be ineffectual. It would result in a much greater loss of earnings than in 1971 and 1973 now that earnings are significantly dependent on productivity, and the perceived effect of the threat of a national strike earlier this year would be remembered. Both the moderate and militant wings of the leadership might well therefore see every advantage in threatening an all-out strike from the outset with the minimum objective of securing a higher offer before it began.

5. As a national strike from the outset is the greater and more probable threat, the possibilities for endurance need to be considered against it.

6. This assessment is not based on knowledge of what is in fact planned; there has so far been no considered rehearsal within the NUM of possible tactics, and, indeed, no decision in favour of industrial action this autumn.

7. Attached at Annex A is a fuller description of the miners' strikes in 1971-72 and 1973-74 and of the main differences between now and then which seems to us to make an early all-out strike the more likely tactic for the NUM to adopt this autumn.

THE ENDURANCE OF THE NUM AND ITS MEMBERS

8. A national strike would begin only after a pithead ballot had demonstrated the support of at least 55% of members voting. The miners poll high (over 80 per cent in the 1980 pay ballot) and the outcome would be conclusive. There is a deep

tradition of unity of action and purpose, which owes nothing to its formal expression in a closed shop, and there could be no doubt that an official strike would be completely supported from the outset.

9. It must also be expected that the strike would continue until another ballot was held. It is most improbable that the NUM Executive would end it or conclude a settlement without formally again testing the views of the membership. The occasion for such a second ballot could only be an improved offer or an accumulation of internal and external pressures which led a majority of the Executive to believe that they had come to defeat. In 1972 the NUM could not be persuaded to suspend strike action whilst a Court of Inquiry reported.

10. On the hypothesis that no improved offer were to be made, (ie the Government accepted that the NCB should stand firm on its final offer and become publicly committed to that stance) the essential question becomes how and when the prospect of the need to accept tacticly the rejected offer, and accept the futility of continued strike action (and the total accumulated loss of wages), might emerge sufficiently strongly to move the Executive to hold a second ballot. In such circumstances it would only be likely to do so if at least a majority on the Executive were sure that there would be an overwhelming majority for surrender. The possibility that the miners' ranks would break (ie that a partial unofficial return to work could be visualised) before such a point was reached is not realistic.

11. The experience of previous national strikes is relevant. In both 1971-72 (a 9weeks' overtime ban resulting in some loss of earnings and increasingly difficult physical working conditions, followed by a 7 weeks' strike) and 1973-74 (a 13 weeks' overtime ban, followed by a 4 weeks' strike), the cost of a settlement progressively and observably increased.

12. Miners are stubborn and the tradition of endurance in hardship runs strong. It could not be expected that a sufficient perception of inevitable defeat would emerge for some long time. There would be strong motivation, however illogical, to continue the strike until at least some improvement was made to the previous offer, both as a symbol of achievement and as small recompense for wages lost.

13. The economic endurance of miners and their families would be a factor which could influence the length of a strike. Under its rules the NUM is under no obligation to make payments to members on strike; the rules provide that it is at the discretion of the Executive whether any payments are made and at what rate. In 1971-72 and 1973-74 (when strike pay could be authorised by the Executive at the rate of 50p a week) no payments were made. There were no indications that NUM members pressed for such payments or that the absence of financial support from the union weakened the possibilities for endurance.

14. It is most unlikely that the NUM would be able to contemplate affording strike pay but this has not so far been a restraining factor on its actions. It has an essentially federal structure with the NUM headquarters controlling only a small proportion of the union's net total assets which amounted to about £22m in 1979. The great bulk of these assets are under the control of the union's geographical and functional areas. The greater likelihood is that area councils would come to make individual hardship payments as the strike progressed. It is not possible to assess usefully for how long adequate payments might be made to how many.

15. State benefits provide for the possibility of some continued income. Child benefits would continue in respect of dependent children and claims could be made for supplementary benefit in respect of dependents (subject now to a deeming provision which reduces normal entitlement by £12pw for strikers' families) and,

in an emergency, to single persons. In 1973-74 the NUM actively encouraged claims for supplementary benefits and by the end of the strike some 68,000 had received payments. Tax rebates would be generally available, although they are to be withheld from strikers from April 1982. They would provide a useful contribution to family income, the other sources of which could be a wife's or children's earnings. Savings could be spent.

16. As the possibility of a strike neared, the folk memories in mining communities could be expected to result in a prudent deferment of expenditure (including the non-payment of bills) and additional savings. Credit cards, although by no means universal, could provide a ready source of credit. During strikes landlords do not press for rent, building societies for mortgage repayments, public utilities for the payment of bills or hire purchase companies for payment. It is not in their interests to do so. Extended credit at local shops in mining communities offers another possibility for endurance.

17. With all this in mind, there are no conclusive reasons to believe that miners would be forced back to work by severe economic hardship for some long time and there is no precedent for a major national strike collapsing for this reason in recent times. ISTC members endured a strike of 13 weeks in 1980 without strike pay.

18. As for external pressures, miners would be slow to be persuaded that the acceptance of the rejected offer and a return to work were necessary in the national interest. As consequential lay-offs took effect in other industries, these would be much more likely to increase the pressures from other unions and the TUC on the Government to facilitate a settlement than to lead to any urging on the NUM that the strike should end. Relationships between the miners and the TUC are still found to be coloured by the experience of the General Strike and the TUC has never so far

found it possible to bring an influence to bear on the NUM. It would not be found able or willing to condemn the miners' actions. The Official Opposition and all manifestations of the Broad Left would come to support the miners' cause.

19. Public opinion, as reflected by the media, might prove of small influence. Although not as isolated in distinct communities as once they were, miners more than any other group of employees have not so far been found receptive to such influence and as the strike continued their attitudes would be likely to harden. The last three strikes in the industry are accounted victories. The reduction of electricity supplies, although extending physical endurance, would be viewed as evidence that the strike was succeeding. Those of their leaders who have strong political motivation would prove determined to maintain the strike, once begun, as long as possible. The moderate leadership (Joe Gormley having been voted in a recent national opinion poll as the country's most popular trade union leader) could be found persuasive in exhorting further negotiations and an improved offer in a reasonable way as a sensible means by which the strike could be ended.

20. Therefore, on the asumption of no improved offer there can be no conclusion from such brief analysis other than any early collapse of a strike would be most unlikely.

THE CRUCIAL AREAS IN THE EVENT OF A STRIKE

21. It is clear from past experience that maintaining electricity supplies is the key to withstanding a miners' strike. This is discussed in detail in the following section of the report. But while the lack of coal supplies for those who use coal directly as a fuel would probably not be a critical factor until well into a strike, the effects would become increasingly serious the longer the strike lasted, particularly for industry.

22. No detailed information is available on the coal stocks held by industry, but the Department of Energy estimates that they are likely to be sufficient for about 6 weeks, with possibly more in the distribution network. Most companies would probably, therefore, be able to make their supplies last for about 10 weeks or so at the most, as they did during the 1973-74 dispute. But after about 10 weeks the position of the major coal consumers - metal manufacture and cement - would be becoming very difficult and large parts of these industries might be forced to close until coal supplies were resumed. If the rest of industry could not obtain alternative supplies from abroad they too might have to reduce and eventually cease production as their supplies of basic metal manufacture and cement ran out.

22a. The impact of a long miners' strike on both electricity supplies and coal-burning industries would therefore lead to cumulative shortages of vital components and materials, which would restrict output over an increasing range of industry.

23. Coal merchants, supplying mainly domestic consumers, will probably carry 4-6 weeks stocks by this autumn. The impact on the domestic consumer will therefore be felt fairly quickly (but we estimate that only about 10 per cent of households are now largely dependent on coal for heating and hot water). In the past the trades unions co-operated in ensuring that essential supplies of coal were available for the sick, the elderly, hospitals and other such priority cases, and we have no reason to believe that they would not do so again.

MAINTAINING ELECTRICITY SUPPLIES

24. There are four ways in which electricity supplies can be maintained, as follows:-

(i) by maximising power station coal stocks and ancillary materials before a strike begins;

(ii) by substituting oil or gas for coal, either when coal stocks are exhausted or in advance so that they last longer;

(iii) by replenishing power station coal stocks either from NCB stocks or through increased imports of coal, and ancillary materials; and

(iv) by reducing the demand for electricity.

The first three of these relate to the supply of electricity; the fourth to demand for it. We consider in the following paragraphs the scope for each of these courses of action, the impact that each might have on endurance times and the costs involved; and also the availability and likely impact of private electricity generation and standby capacity.

(i) power station coal stocks and ancillary materials

25. By 1 November power station coal stocks in England and Wales are likely to reach about 20 m tonnes and in Scotland 1.8m tonnes offering about 9 weeks endurance at the full level of electricity demand expected this winter (ie. taking no account of any statutory restrictions on electricity consumption that might be introduced). These estimates take account of the likely impact of the recession on

electricity demand this winter, and the decision now reached by Ministers, following consultations with the Electricity Boards, on the volume of extra coal supplies to be moved to the power stations over the summer (at least $1\frac{1}{2}$ m tonnes and possible more). They also assume the successful delivery of programmed supplies of coal, which would, of course, be interrupted if there were a rail strike over the summer, which cannot be ruled out ; and the normal pattern of oil station utilisation ie. minimal oil burn and maximum use of nuclear power stations. So far as we can judge without consulting the industry in detail, power station coal stocks are regionally distributed to be roughly in balance with the levels expected to be necessary for electricity generation, and the summer programme of coal deliveries should maintain that balance.

26. Electricity demand, and therefore endurance times, would be neglibly affected by particularly severe winter weather; but if a miners' strike were to extend over the Christmas holiday period, endurance times would be extended by up to 1 week, because of reduced electricity demand during that period.

26A. We have considered the scope for increasing power station coal stocks in the winter in advance of industrial action by the miners. During the winter the replacement of stocks is slower than use so that the duration of electricity supplies represented by power station coal stocks falls as the winter progresses. Stepping up the rate of delivery during the winter would therefore improve duration. In principle, the optimum rate of delivery would be that which kept power station stocks at a maximum at all times ie. so that deliveries matched consumption. However, this would involve substantially greater movements than are achieved at present in the winter months when rail capacity, which accounts for almost all power station coal deliveries, is fully utilised. Movements might be increased to some extent, particularly under present economic conditions when rail freight resources for other traffics are under-utilised, but capacity of rolling stock, track and loading and unloading facilities would limit the scope for doing this. Early planning involving BRB, NCB and the Electricity Boards would be essential and close co-operation be vital to carrying out the operation effectively. Without detailed consideration by industries involved, it is not possible to assess to what extent the duration of stocks could be enhanced during the winter. This aspect will be considered further in the context of the work now in hand on how power station coal stocks might be maximised throughout the next year.

27. Ancillary materials (such as lighting-up oil, industrial gases, water purification chemicals, frozen carbon dioxide etc) are essential to the utilisation of fuel in power stations. At present the Electricity Boards maintain stocks of ancillary materials at a level equivalent to 6 weeks expected consumption, but they have already been asked to bring their stocks of ancillary materials into line with the likely level of fuel stocks at power stations well in advance of any industrial action this autumn. The Boards are now considering this. But for some materials the construction of extra storage facilities may well be required; for lighting-up oil, in particular, storage facilities are, we understand, at present equal only to the 6 weeks stocks normally held. It is not certain at this stage that the work involved could be completed by the Autumn. However, the Electricity Boards have found it possible, though not easy, during previous miners' strikes to bring in fresh supplies of ancillaries to the power stations and also to eke out supplies by other means (although this involves increased fuel consumption). But if stocks of ancilliaries were to run low because of insufficient storage facilities or the impact of picketting (which is discussed in detail below) it would be possible, if necessary, for servicemen to delivery supplies, mainly by road, when they would have to cross (unlawful) picket lines, but also in appropriate cases by air since some of the loads involved are relatively small. It would however, be necessary to requisition oil delivery vehicles for which a State of Emergency would first have to be proclaimed. If new facilities were to be required the Boards might well seek compensation from the Government for the costs involved. These points are under separate consideration between the Department of Energy, the Scottish Office and the Electricity Boards.

(ii) substituting oil or gas for coal

28. The Electricity Boards have spare oil-fired generating capacity which is normally too expensive to operate at the present level of oil prices in relation to coal. Indeed, the use of oil-fired power generating capacity has been deliberately minimised on cost grounds, and in accordance with the UK's international obligations to minimise oil use. But this excess capacity could clearly be used to conserve coal stocks, either once a strike was underway, or beforehand.

29. Once a miners' strike had begun the Government could direct the Electricity Boards to increase their use of oil by Order in Council under the Energy Act 1976. A State of Emergency would not, therefore, have to be proclaimed before such a direction could be issued. By maximising the use made of the present spare capacity (which would mean burning about an extra 275,000 tonnes of oil per week) endurance times could be extended by about 2 weeks for every period of eight weeks during which the maximum amount of extra oil was burnt. But the cost of purchasing oil to do so would be high - about £200 m for each eight-week period - especially since the Electricity Boards would almost certainly have to purchase extra supplies of heavy fuel oil on the spot market, because they will not have already entered into contracts for the necessary extra oil.

30. Domestic supplies of heavy fuel oil (which is the only form of oil that can be used in electricity generation) are likely to be relatively restricted, because the oil industry has altered the pattern of refinery production to increase the output of gasoline and lighter products. Nonetheless, we think the necessary supplies of heavy fuel oil are likely to be available, although the entry into the international market of a major purchaser could send prices up in a matter of a few days. Although in theory,

the oil companies could increase the volume of oil that is processed through the refineries or adjust the pattern of refinery production to increase the proportion of heavy fuel oil produced from the current volume of refinery production, it is unlikely that they would be prepared to do so in practice, mainly because there is already an excess of supply in the oil market, but also because heavy fuel oil produces a lower profit for the oil companies. But if demand for heavy fuel oil were to increase dramatically and supplies seemed likely to become scarce, the Government could direct the oil companies to change their refinery patterns or take other measures to ensure that the Electricity Boards had adequate oil supplies. The delivery of oil to the power stations is unlikely to present particular problems. About half the existing oil-fired capacity is served by pipeline and most of the remainder is served by water-borne transport. Supplies by both routes have been maintained during previous emergencies and we have no reason to believe that this would not be the case in the autumn, although the excess of oil fired capacity was not as great then as it is now.

31. The Government could also encourage the Electricity Boards to begin to conserve their coal stocks in advance of a miners' strike by burning extra oil early in the winter, but there are no powers by which it could direct the Electricity Boards to do so. Indeed, in principle the Electricity Boards could burn extra oil over the summer to conserve coal stocks further. But we do not recommend this course. It is the course most likely to be seen as provocative by the trade unions, since they would become immediately aware that the utilisation of oil-fired capacity had increased and would have no difficulty in deducing the reason for this. It would also run directly counter to the Government's policy of pressurising the Electricity Boards to reduce costs generally throughout the industry, since to burn more oil than strictly necessary would increase costs. Such a policy would also run counter to the UK's international obligations to adopt policies to reduce oil use.

32. It is unlikely that the Electricity Boards could accommodate within their existing External Finance Limits the costs involved in burning extra oil unless they were passed on to the consumer, and the Boards are, therefore, likely to seek compensation in some form from the Government. But this question would not arise until a decision had been taken to ask or direct the Electricity Boards to increase their use of oil.

33. The Electricity Boards also have under-utilised oil storage capacity, which could be utilised to ensure that the maximum possible amount of oil was available immediately a decision was taken to increase power station oil consumption, or that any brief interruptions in oil supplies could be overcome; but they would not in themselves extend endurance .

34. By the autumn the Electricity Boards will probably hold oil stocks of about 0.9 million tonnes, which might be increased by additional purchases over the summer by a maximum of $\frac{1}{4}$-$\frac{1}{2}$ million tonnes. The cost would be in the range of £25-50 m plus interest charges (which would require an increase in the Electricity Board's EFLs and a corresponding claim on the Contingency Reserve). These oil purchases would probably have to be made on the spot market and carefully phased. Ministers would therefore need to decide immediately whether to authorise this expenditure.

34A. It would also be possible for the Electricity Boards to burn gas instead of coal as a means of conserving coal stocks, but the scope for doing so is not large because there is clearly a physical limitation on the volume of gas that can be piped to the power stations. Unlike in the case of oil, the substitution of gas for coal is not facilitated by the existence of substantial spare capacity. It would therefore be possible to do so in the winter, when demand for gas is at its peak, only by diverting a proportion of the gas supplied to industrial consumers under firm contract, for which it would be necessary to use powers under the Energy Act 1976. This would have serious implications for the firms involved. A limited amount of excess gas is available during the summer, but its use in the power stations in place of coal would extend endurance times by only a few days at most; and, since the formal consent of the Secretary of State for Energy is required before any gas can be burned in power stations, the fact that the Government had asked the Electricity Boards to take such a step would inevitably become known to the trades unions.

(iii) replenishing power station coal stocks

35. In principle power station coal stocks could be replenished by either or both of the following two ways, but very considerable practical problems are involved in each:-

(a) by gaining access to NCB pithead and other coal stocks; and

(b) by increasing coal imports.

These are discussed in detail in the following paragraphs.

(a) NCB coal stocks

36. By the autumn NCB coal stocks at the pitheads and in dumps away from the pithead, which are suitable for use in power stations, are likely to total about 15m tonnes (Out of total stocks of 23m tonnes). This is equivalent to about 7 weeks endurance this winter in the absence of statutory controls on electricity consumption. Thus if these stocks could be utilised they would nearly double (to a total of about 16 weeks) the endurance likely to be offered by stocks at the power stations. But if the miners are on strike, NCB coal stocks are certain to be picketed by the NUM. Such picketing would be legal so long as it was confined to peaceful persuasion at the place of work. The Employment Act 1980 has removed immunity from civil action from those who organise or take part in picketing (or secondary action) outside these limits and anyone whose commercial contracts were broken as a result of such picketing would be able to seek an injunction against named picket organisers. This would include the Electricity Boards and other NCB customers or suppliers. Electricity consumers, however, do not in general have a contractual right for electricity supplies to be

maintained in such circumstances, and would have no cause of action. If such an injunction was granted anyone who failed to comply with its terms could be subject to fine or imprisonment. Obstruction or threatening behaviour of course, constitutes criminal offences whether committed by pickets or by others. However, in practice, no trade unionist is likely to be prepared to cross an NUM picket line even if it consisted of no more than 2 or 3 miners. Moreover, the recent triple alliance between the NUM, the NUR and the ISTC will no doubt have reinforced the willingness of railwaymen to support a national strike by miners. Some non-unionised lorry drivers might possibly be persuaded to cross NUM picket lines but the impact that they could make on power station coal stocks would be negligible.

37. Our conclusion, therefore, is that NCB coal stocks are unlikely to be accessible except by the use of servicemen.

38. We have considered how servicemen might be used to transport coal to the power stations both by rail and by road.

39. Coal movements to power stations are dominated by Merry-go-Round trains (that is fixed formations of special high-capacity wagons/moving continuously from pitheads to power staions and back again making use of special automatic equipment for loading and unloading). Rail transport is responsible for about 80 per cent of all movements of domestic coal to the power stations, and of this 85 per cent is by Merry-go Round trains. Average carryings are 1,000 tonnes and there are more than 1,000 train deliveries in an average week. The largest lorries, however, carry only 20 tonnes, so that a minimum of fifty lorries would be required for each such delivery. Military plans have been formulated in the past for moving coal to the power stations by road involving the use of 4500 service drivers and requisitioned lorries, but these were

abandoned in 1979 because they were thought to be too limited to have much impact on endurance. We have considered whether these plans should be resurrected. The main difficulty is that since 1979 a number of small power stations, which might have been serviced by lorries in an emergency, have been closed and the remaining large power stations have been designed for deliveries of coal only by rail; their access roads and reception facilities would be too limited at present for an adequate supply of coal to be delivered by lorry. It would be possible to prepare plans for the improvement of the facilities at each power station, and we shall report further on this to Ministers. But this work could not be completed by the autumn.

40. Even if this problem could be overcome the use of lorries is not entirely straightforward The necessary vehicles would have to be requisitioned, which means that a State of Emergency would first have to be proclaimed. Quite apart from the industrial relations problems to which this might give rise in the road haulage industry, requisitioning would be a slow process. To requisition 4500 vehicles would take a minimum of 15 working days, and possibly much longer. The necessary vehicles would first have to be identified (they would probably come mainly from small operators) and in some cases might have to be adapted to carry coal. It would therefore be several weeks from the decision to commit servicemen before a substantial volume of coal was being moved to the power stations. But if all these difficulties could be overcome, it seems likely that at least half of normal power station coal deliveries could be maintained by using 4500 vehicles, provided that adequate access and reception facilities could be provided at the power stations.

41. However, if servicemen were to be used in the case of a miners' strike this autumn, it would probably have to be to maintain some form of rail service to the power stations since, for the reasons given above, we do not think that adequate

deliveries by road would be possible by then.

42. The services have only some 23 experienced train drivers - all of whom are attached to the BAOR and are trained to drive only small shunting engines in an army depot. Merry-go-Round trains are very much heavier than these and servicemen would therefore need about five weeks training in their handling as well as further familiarisation with the actual routes to be used before they could be brought in to deliver coal to the power stations. Some initial experience might be acquired on comparable operations abroad - although we have not investigated this possibility in detail - but the replacement drivers would have to undertake much of their training on actual Merry-go-Round operations on BR trains and under the instruction of BR employees. It is unlikely that BR staff will be prepared to co-operate in this, and indeed to ask them to do so carries a strong risk of provoking industrial action and thereby interrupting the build-up of coal stocks over the summer.

43. If, however, the problem of training could be overcome, it would not be necessary to restrict the training to the existing service drivers and it would therefore be possible, at least in principle, to train a sufficient number of servicemen (about 200- 300 drivers would probably be needed) to maintain Merry-go-round deliveries to the power stations at near normal winter levels, for as long as pithead stocks lasted.

44. We have considered whether it might be possible to recruit volunteer drivers from Railway Preservation Societies or elsewhere either to man trains themselves or to assist in the training of troops but our conclusion is that this is unlikely to be effective. The Railway Preservation Societies tend to have a strong sense of identity with the rail unions (and indeed they often make common cause in arguing

for the re-opening of closed railway lines) and, moreover, many of their members are working or retired railwaymen. In principle BR management staff would be capable of driving the trains, but in practice they are unlikely to be prepared to do so because of the industrial relations problems with their own staff to which this would undoubtedly give rise. Equally, they could in principle undertake the training of servicemen, although even if they were prepared to do so in advance of a strike, this is unlikely to be possible without the railway trade unions (and therefore the NUM) becoming aware of it.

45. Finding drivers for Merry-go-Round trains is not, however, the only problem. Co-operation would also be required from signalmen and level-crossing controllers as well as from the BR staff involved in refuelling and basic maintenance. Merry-go-Round train movements are not isolated from the main railway network; all involve at least crossing a line used for other services and in some cases the trains need to travel for at least part of their journey on the main network. These train movements cannot, therefore, be carried out without signalling and, under circumstances in which rail unions are refusing to handle coal movements, the necessary co-operation of signalmen and others would almost certainly be denied. Servicemen could not carry out signalling work without considerable training and any attempt to involve them in this would be almost certain to extend the scope of action by the railway unions. Comprehensive action by signalmen would effectively shut down the rail system.

46. But ironically, if the railway were shut down, it would probably be possible to provide some sort of Merry-go-Round service provided train drivers were available. Certain essential track jobs such as setting points would have to be done by other servicemen, as would fuelling and basic maintenance. Some co-operation from senior

railway management would probably be necessary. But in these circumstances the Merry-go-Round system would be a relatively easy target for disruption; the trains would run mainly through coal mining areas and their obstruction or derailment by placing obstacles on the tracks or actual damage to the rails would be very difficult to prevent, although disruption of this sort is by no means a normal trade union tactic. The services could probably make any such damage sufficiently good for coal deliveries to be maintained, but this might take time in some instances and as a result coal supplies could be seriously delayed.

47. Alternative arrangements for running trains to the power stations would only be effective if loading and unloading arrangements could be maintained. At some pitheads where the arrangement of stocks and sidings is suitable it might be possible to by-pass the automatic loading equipment and load trains with earth-moving equipment or its equivalent operated by servicemen or possibly volunteers, although this would be very much slower than the existing automatic systems. Where this is not possible some training and supervision of servicemen in the use of the automatic loading equipment would be essential. In principle this equipment could be operated or the training and supervision of servicemen undertaken by low-level NCB managerial staff, but in practice we think it very unlikely that they would be prepared to do either. Alternative arrangements - such as assistance from the manufacturers' staff might also be possible, and, in the last resort, the servicemen could attempt to operate the equipment without advice. This last possibility would inevitably result in a low through-put in the early stages and could in some cases result in expensive damage or even total breakdown of the equipment. Unloading would require co-operation from power station staff. Discharge of Merry-go-Round wagons is generally by gravity into special bunkers which are cleared to conveyor. If these bunkers are not cleared it is impossible to discharge the coal from further trains; the quantities of coal involved make manual loading or unloading of limited value.

48. Finally, in considering the scope for the use of servicemen Ministers will wish to bear in mind the likely reaction of the miners themselves. For historical reasons the appearance of troops at a pithead in particular (for example to load a coal train) could give rise to very severe public order problems.

49. On the other hand, the background against which the use of servicemen might take place would be one of very intense need for electricity. The claims of hospitals, the sick and elderly during the winter months, struggling UK industry and the ordinary domestic consumer would lend moral authority to any measures designed to ensure that publicly-owned or imported coal could be burned at the power stations. The balance of public opinion could well depend on whether or not the NCB's offer was widely seen as reasonable.

50. Overall, our conclusion is that although troops could, in principle, operate a Merry-go-Round train service to power stations which might extend endurance times significantly, to do so would raise practical problems which might prove insuperable. The servicemen involved would reqire some training, which would be impossible without co-operation from BR, which is unlikely to be forthcoming. Furthermore, the involvement of soldiers carries with it not only the possibility of considerable public order problems at the pitheads but also the danger that industrial action might spread from the mines to the railway. The successful use of servicemen would also depend on co-operation of the power station staff in unloading trains and in using the coal delivered by them. At this stage we have no way of assessing whether power station workers would, in fact, be prepared to co-operate but the possibility that they would not cannot be lightly dismissed.

(b) increasing coal imports

51. Coal could be imported either direct to power stations with their own port facilities or through other ports with existing or potential facilities for importing coal or other heavy materials. Some Central Electricity Generating Board (CEGB) power stations in the South East of England have the capacity to handle a total of $7\frac{1}{2}$-$8\frac{1}{2}$m tonnes a year of coal at their own docks; this is currently used mainly for coal deliveries by sea from the North East coalfields. The Electricity Boards expect to import no more than $\frac{3}{4}$m tonnes of coal this year of which only $\frac{1}{2}$ m tonnes would go to these power stations. Therefore, in the event of a miners' strike it would be possible for these CEGB power stations to increase their imports by about 150,000 tones per week if the necessary coal could be acquired on the world market.

51A. So far as other port facilities are concerned, previous studies have established that if, at relatively small cost, all suitable ports were to be switched to handling coal, their capacity could be increased from the present level of 2-3 m tonnes per year to possibly 10-12m tonnes per year. But this would involve major transfers of capacity including adapting existing British Steel Corporation(BSC) facilities to handle coal imports, and might take 12-18 months overall. The construction of some relatively small, rail links might be necessary; and the extent to which BSC's facilities could be adapted would depend on their likely pattern of use in the future for the import of iron ore. Further work, probably involving consultations with the industries concerned, would be required to clarify the scope for adapting BSC's facilities. But we do not recommend that this should be undertaken at this stage, since power station port capacity in the South East is likely to be more than sufficient for the level of imports which will probably be available on the world market within the period covered by this report.

52. There are, however, two limitations on the use of extra coal imports. The first is that additional imports are unlikely to be available in the short term. There is no significant spot market for coal in Western Europe as there is for oil and, while it might be possible to pick up odd cargoes, it is more likely that it would take between 1 and 3 months to secure single shipments. Moreover, the world market is under pressure following strikes in America, Australia and Poland while demand for coal is rising. Therefore, unless a decision to increase imports was taken well in advance the impact that they could make on endurance seems likely to be limited.

53. The second limitation is the impact of industrial action. In the past power station workers have been prepared to handle contracted coal imports during coal emergencies and we have no reason to believe that they would not do so in the autumn. But it is possible that extra coal imports during a miners' strike would be "blacked" by the National Union of Seamen (NUS), the dockers or the power station workers and it is unlikely that the NUR would be prepared to handle coal imports for power stations. It is also likely that the NUM would take steps to prevent additional coal imports being used.

54. If miners were to picket places other than their place of work (for example docks and power stations) they would have no immunity from civil action and anyone whose commercial contracts were broken as a result of such picketing would be able

to seek an injunction against named picket organisers; anyone who failed to comply with the terms of such an injunction could be subject to fine (which might be paid by the NUM) or imprisonment. However, the miners can be expected to have less regard than most for industrial relations law. When they see that the Government is determined to withstand a strike they are likely to take tough and determined action, as they have done before, for example by way of flying pickets at docks and inland power stations. They will be well organised, and capable of switching targets in such a way as to make it difficult for the police to match them in sufficient numbers at short notice. This will not in itself amount to criminal behaviour, but it may well give rise to it if it involved intimidation of people willing to cross a picket line and to violence against them or against the police trying to protect them. To assist the police in reacting to the threats of violence and intimidation posed by flying pickets, arrangements for mutual aid between police forces may need to be implemented. The National Reporting Centre in New Scotland Yard may need to be in operation throughout the strike; this is the machinery by which police support units can be moved away from any part of the country to assist a force in urgent need of reinforcement. The Home Secretary and the Secretary of State for Scotland have residual powers (never yet used) to direct one force to reinforce another.

55. Secondary action by, for example, the NUS, the dockers or the NUR, is also possible. The legal position in respect of secondary action is more complex. Secondary action in the form of blacking or a sympathetic strike would be unlawful if the employers of those taking the action had no commercial contract with the NCB, that is they were not direct customers or suppliers of the NCB. Thus secondary action by employees of transport undertakings which had contracts only with the Electricity Boards (for example, British Rail) but not with the NCB or by employees of other firms without commercial contracts with the NCB would be unlawful. Secondary action by employees of the Electricity Boards or of other firms which did have contracts with

the NCB would be lawful only if its principal purpose was to disrupt coal supplies between NCB and the Electricity Boards, and not if it went further and was aimed principally at other suppliers, for example of electricity or ancillary materials. Any employees taking such action would in any case be in breach of their employment contract and therefore subject to disciplinary sanctions or dismissal by their employer. If dockers or others were induced to black imported coal or to picket their place of work with the same object this would not attract civil immunity and actions for an injunction or damages might be brought by those whose contracts were affected. If the Electricity Boards, for example, wished to secure access to stocks of imported coal unloaded at ports but subsequently blacked by dockers, they could seek an injunction in the High Court against those responsible for the blacking. The action might, for example, name one or more of the dockers concerned and a senior official of his union. The injunction, if granted, would require those concerned to stop organising the blacking. If the injunction was ignored by those named in it, or by others who sought to take their place, this would constitute contempt of court which may be punishable by fines and in the last resort imprisonment. In practice, employers are often reluctant to prejudice relations with their own employees and to risk further industrial action which could arise out of an application for an injunction though this might not apply to employers not otherwise affected by the dispute who were anxious to secure deliveries of coal from the docks.

56. We have also considered whether the production of opencast coal mines could be increased, but we think it unlikely that this could make much impact on endurance times. Although the workers at NCB's opencast mines are members of the Transport and General Workers' Union and not of the NUM, we think it unlikely that they would be prepared to increase production and to allow the resulting extra coal to make good part of the deficiency arising out of a miners' strike. But even if they were, the

coal would be picketted at the power stations even though this would be unlawful. In any case, opencast pits currently account for only about 11 per cent of total coal production and we doubt if this could be increased to more than 12 per cent in the short term. Some power stations are supplied direct by conveyor from open-cast sites, and these supplies would probably be maintained during a miners' strike, but their contribution to endurance would be very limited.

57. Finally, supplies of coal are not in themselves sufficient to ensure that electricity supplies are maintained; adequate supplies of ancillary materials are also essential. This has already been discussed in paragraph 27.

(iv) reducing demand for electricity

58. There are a number of ways in which electricity demand can be restricted, as follows:-

(a) under powers contained in the Energy Act 1976, the Government can:-

(i) restrict industrial and commercial users to using electricity only on specified days of the week;

(ii) require specific percentage cuts in consumption; and

(iii) ban completely the use of electricity for certain purposes e.g. advertising, heating in public buildings (but this would have only a minimal impact on total electricity consumption).

(b) the Electricity Boards can also introduce rota disconnections, with the Government's authority, in addition to the measures listed above.

58A. Rota disconnections would apply equally to domestic and non-domestic consumers. A statutory requirement to reduce electricity consumption by a specified amount could be applied to all consumers or only to specified groups. But this would be difficult to enforce, and might not produce sufficient savings. A reduced working week, on the other hand, would concentrate the effects of the supply restrictions on industry and commerce and therefore to achieve a particular reduction in total consumption would mean reductions in industrial and commercial electricity consumption of about twice that level, unless supplies to domestic consumers were also restricted in some way. In practice the best approach would probably be a combination of rota cuts and a reduced working week.

59. However, the extent of the restrictions that can be introduced without causing severe industrial damage and great inconvenience to the domestic consumer, is limited. Generally speaking, provided electricity supplies to industry and commerce can be kept at or above 85 per cent of their expected winter level the risk of substantial long-term damage to the economy, is likely to be fairly low in a short strike but would be significantly greater if a strike were to last for a very long time. The experience of 1973-74 suggests that industry would be able to cope without suffering substantial damage if reductions to this level did not continue for more than about 10 weeks. However, industry is in a much weaker financial position now than it was in 1973 and consequently it would be unlikely to survive for as long during the coming winter without major damage and the collapse of companies already hard hit by the recession. There is very little experience of the impact of electricity supply restrictions over a long period; The only recent experience was early in 1974 during the miners' strike, when electricity supplies were cut by around 15 per cent for 2-3 weeks; these are the most severe electricity supply restrictions that have ever been implemented. It would clearly be important to maintain supplies so far as possible for essential services such as water and sewerage and public transport, key defence installations and important industrial processes such as food production, oil refineries and other fuel production facilities and certain continuous processes, interruptions in which could be very costly indeed. Therefore, remaining electricity consumption would have to be cut by about 20 per cent to achieve an overall reduction of 15 per cent. However, there is currently considerable slack in the economy and the introduction of rota cuts for reduced working might well have little impact on some sectors of industry and therefore produce little reduction in their electricity consumption. The brunt of electricity restrictions would therefore be borne by the successful parts of industry and domestic consumers. Past experience of rota cuts shows that domestic consumers tend to use more electricity than normal during the periods when supplies are on and that to achieve a particular level of reduction in consumption requures a much higher apparent level of restriction.

60. To achieve an overall reduction in consumption of 15 per cent by rota cuts would mean restricting supplies to domestic customers to 3 hours on and 3 hours off during daylight and evening hours for 3 days per week with much smaller cuts on the other days including Sunday; and industry and commerce (except for those afforded a degree of protection) would have electricity supplies equivalent for about half their normal working day. Street lighting would also be cut off during periods of rota disconnections, with implications for crime public order. The approach which the Electricity Boards would initially adopt to rota cuts would be designed to protect so far as possible essential services and vital industries and continuous processes during periods of disconnection. But this would require a large amount of manual switching and could be maintained for only 3-4 weeks at the most before the engineering staff concerned would not longer be able to cope. Once that point had been reached, the Electricity Boards would introduce a much cruder plan, entirely reliant on remote switching which would not distinguish to nearly the same extent between priority and other users, although it could be implemented for an indefinite period.

61. To achieve a similar level of reduction through the statutory control of days worked or a requirement to achieve specified reductions in electricity consumption would concentrate the burden on industry and commerce and probably therefore mean the eventual closure of those parts of industry which could not obtain materials or spares or which could not maintain financial stability under the prevailing conditions.

62. If the Government wished to withstand a very lengthy miners' strike more severe electricity supply reductions might eventually prove necessary. It is not possible in the absence of any experience of cuts of this magnitude to do more than speculate on what the consequences might be, but they would clearly be severe. For example, to reduce electricity consumption to 50 per cent of normal winter level by rota cuts would mean that consumption would have to be cut to $\frac{1}{3}$ of its normal level ie consumers would have electricity supplies an average for only 3 hours out of every 9 and on some days supplies would be cut off for 12 hours or more consecutively;and commerce and industry would have electricity supplies equivalent to only about $\frac{1}{4}$ of their normal

working week in isolated 3 hour periods. This would leave industry in an untenable position and whole industries might well be forced to close which could, in turn, precipitate the closure of others, either by reducing demand for their products or if it gave rise to shortages of vital industrial materials and supplies which could not be obtained from abroad. Other industries might be able to operate at only about 10 per cent of their normal level. Much of commerce might be completely closed down, and shops might be open for only about 3-6 hours per day unless they had emergency equipment eg gas lanterns. Food supplies would start to deteriorate and it might not be possible to maintain supplies of milk or meat. Severe shortages combined with lengthy periods without street lighting might well eventually give rise to looting and rioting particularly since unemployment by then would probably be very high. There is also the danger that whole areas might be without electricity supplies for long periods if the switches in the electricity supply grid were to fail or become difficult to manipulate properly.

63. Once coal supplies for the power stations run out oil-fired, hydro and nuclear-powered electricity generating stations could together produce about 20-30 per cent of expected electricity demand this winter (but up to 50 per cent in Scotland), for as long as oil supplies continued to be available. (Although the Scottish and Central Electricity Generating Board systems are inter-connected, they cannot be run as a single unit because the capacity of the inter-connector is limited and at its maximum could supply only 3-4 per cent of electricity demand in England and Wales). The electricity grid could probably still be maintained in balance even at this low level, but supplies would be available only for the most essential services and perhaps for some limited food distribution. Industry and commerce would be virtually completely closed down and domestic consumers would have electricity supplies for only about 1-2 hours a day. The electricity grid would also be unstable and whole areas might well be blacked out for days at a time.

64. The extra endurance bought through the restriction of electricity supplies is limited. Demand would have to be effectively restricted to 85 per cent of its expected winter level for 6 weeks for endurance to be extended by 1 week; and the restriction of demand to 50 per cent below its expected winter level for 3 weeks would extend endurance only by 1-1½ weeks.

65. The timing and extent of supply restrictions would clearly require careful consideration. The longer they are delayed and the smaller they are, the less their impact on endurance times. But to introduce large restrictions early in the strike could cause damage to industry and weaken public support for the Government. There is no technical reason why they could not be introduced immediately. But in practice it would probably take about a week for restrictions on electricity demand to be organised and come into force after a decision to do so had been taken and an Order and Council under the Energy Act 1976 signed. A few days are necessary for information about rota cuts to be produced and publicised in the news media and in Electricity Board showrooms. Similarly, to prohibit the use of electricity for certain purposes or on certain days or the introduction of a requirements to reduce consumption by a specified amount would require Orders to be made and publicity to be organised before they come into effect.

THE AVAILABILITY OF PRIVATE ELECTRICITY GENERATING CAPACITY

66. Industry itself generates about 13 per cent of its total electricity consumption, with capacity concentrated in a few large firms in those industries which are heavy users of electricity. These private generators carry some spare capacity and their output could probably be increased provided that adequate fuel supplies were available (about half of this capacity is oil-fired; the rest is coal or gas-fired). We think these private generators might provide 2-3 per cent of total normal electricity demand to the national grid, but it is difficult to provide a reliable assessment on the basis of the little information available. We have no information on the level of fuel stocks normally held by users of private generating equipment, but we do not think that the availability of fresh oil supplies would be a problem.

THE AVAILABILITY OF STANDBY ELECTRICITY GENERATING CAPACITY

67. If the standby generating equipment available to private <u>industry</u> could be fully utilised it might produce a further 10 per cent of industrial consumption but only over very short periods.

68. Health service policy on fuel supply emergencies in recent years has been directed to increasing standby capacity rather than protecting hospitals from disconnection when supply cuts are operating. Most <u>hospitals</u>, therefore, including all the main hospitals, have their own standby equipment, mainly diesel generators. Over half of all hospitals have sufficient standby equipment to meet 90 per cent or more of their normal needs; and 80 per cent of hospitals have sufficient equipment

to meet at least 60 per cent of their needs. In practice, therefore, most hospitals will have sufficient standby equipment available to maintain emergency services, at least, during periods of electricity cuts.

69. Of other key public sector installations, most water and sewerage authorities have now acquired standby equipment; all civil prisons have, or could be provided with, standby generators capable in an emergency of maintaining security and basic regimes; and the Property Services Agency (PSA) has installed some 243 generators to provide standby power in emergency suites in central government offices, regional offices (including Regional Emergency Committees), essential computer installations, government laboratories, government communication centres and air traffic control and metrological stations.

70. Finally, there are more than 5,500 local authority homes in Great Britain and also a large number of privately-run homes, most of which will lack standby equipment. It would not be feasible to supply these with standby equipment from central resources. In these circumstances, therefore, local authorities would probably wish to consider, if necessary, arranging for help from volunteers to look after those in their care, if , for example, electricity rota cuts were to be imposed.

71. In most cases, at least in the public sector, the fuel supplies held on the premises for standby equipment will be sufficient for only 8 or 9 days continuous running, although, in practice, since standby equipment will probably be used only during periods of rota cuts these fuel supplies should last for some time. But, in any case, we do not think that the availability of fresh fuel supplies (mainly diesel oil) is likely to pose a severe problem. This type of equipment is, however, not designed for long periods of continuous running, and if it were to be operated in this way would probably require frequent maintenance to avoid breakdowns. The

maintenance of standby generators would normally be the responsibility of the owner or operator. Most firms with such equipment are likely to have their own maintenance capability and those that have not will have access to commercial maintenance facilities. The Services, however, have a limited capacity for the repair of such equipment, although in some cases there might be difficulty because the equipment is unfamiliar or spares are not available. In the unlikely event that the owners' own resources could not cope with the task of regular maintenance, a restricted emergency service could therefore be organised at reasonably short notice.

THE USE OF VOLUNTEERS

72. The main role for volunteers is likely to be in offering assistance to local authority and other homes where, in general, standby electricity generation equipment is not available and to the elderly, the sick etc in the community who are likely to be most seriously at risk as a result of rota disconnections or other cuts in electricity supplies. As we discussed in an earlier section of this report, we do not think that volunteers, even if they were forthcoming, could make much contribution to the transfer of coal stocks from either the pitheads or the ports to power stations.

POSSIBILITY OF SIMULTANEOUS INDUSTRIAL ACTION BY OTHER KEY GROUPS ON OTHER ISSUES

73. It is impossible at this early stage to forecast with any certainty the likelihood of simultaneous industrial action in other sectors, but we review here briefly the main groups with pay settlement dates in the period November to February,

when a miners' strike over pay is most likely. Other key groups with pay settlement dates in November are firemen, local authority manual workers and oil tanker drivers. Firemen are already threatening 24 hour strikes from July unless the local authorities restore the index-linking of their pay. The risk of an intensification of strike action from November cannot be ruled out. Similarly, there is at least a risk of spasmodic industrial action by local authority manuals who will be reluctant to accept for a second year any offer much below what they conceive as the "going rate". Oil tanker drivers, who customarily continue bargaining for some long time beyond their settlement date, are likely to be finally offered a settlement they will accept.

74. The water manuals' due settlement date is early in December. In each of the last 3 years they have threatened industrial action before settling retrospectively. They might well do so again, although the likelihood is that the unions would want to avoid strike action until the outcome of the miners' negotiations was in prospect. If the miners came to a long strike, the risk of simultaneous action cannot be discounted. The cessation of mains water supplies would bring most large power stations to a halt within a few days.

75. In January, dockers at a number of ports, steelworkers (who were denied a pay increase at their last due settlement date for 6 months) and gas manual workers will be expecting to settle. Customarily, dockers are content to let their due date pass before pressing hard, but pressures are evident for enhanced severance terms in the industry and for an extension of the Dock Labour Scheme. A combination of these issues (and the risk that attempts to enforce civil legal remedies against action short of a strike in their pursuit) could lead to the threat of strike towards, or at the turn of, the year. In the aftermath of the 1980 strike, the steel unions will be reluctant to contemplate strike action on pay, but further closures of major plants might produce a climate in which strike action could be mounted. The gas unions are likely to be ready to wait for some time the outcome of a miners'

strike before taking industrial action themselves.

76. The power engineers in the electricity supply industry have a due settlement date at the beginning of February, but traditionally await the outcome of the manuals' settlement which is not due until March. Any possible simultaneous threat of industrial action in this industry can probably be discounted.

77. This assessment deals only with pay-related issues. But key groups might well strike over other issues. For example, in the case of British Rail, if further curtailment of services to secure economies were intoduced in the Autumn; and in the case of the BGC there is the possibility of a strike in January/February when legislation on the disposal of gas showrooms might be under discussion in Parliament.

78. It does not seem to us to be likely, on the basis of this preliminary assessment, that next winter the Services might face difficult problems of priorities in dealing with the consequences not only of a miners' strike but also of strikes by other key groups. If, however, there were to be strikes in other key areas at the same time as a miners' strike - and at this stage a strike in the gas industry in January/February cannot be discounted - possibilities for endurance could well be reduced (for example, if there is a gas strike, electricity demand will increase) or at the very least the extra inconvenience and discomfort caused to the general public might be sufficient to undermine their willingness to withstand a miners' strike and this, therefore, could lead to pressure on the Government to facilitate a settlement. We do not think that simultaneous strikes by the miners and by one or more key groups of workers would be likely to lead in itself to more widespread industrial action. In practice trade unions in other key sectors would probably prefer to allow the miners' dispute to be settled before seeking to conclude their own pay negotiations,

although in some cases if a settlement were to be seriously delayed pressure from the workforce might make industrial action inevitable. If, however, for any reason miners were to be imprisoned, for example for failing to obey an injunction, widespread industrial action, with strong political overtones could quickly result leading, in an extreme situation, to a general strike.

PUBLICITY AND PUBLIC ATTITUDES

79. There are two aspects to publicity. The first is providing on a routine basis essentially factual information to Ministers and to the public about the impact of a strike, and the second and more complex aspect is attempting to influence public attitudes.

80. So far as the mechanics of routine publicity arrangements are concerned, the Civil Contingencies Unit is already reviewing in consultation with the Prime Minister's Chief Press Secretary the form that publicity arrangements might best take in the event of a major strike or other civil emergency and will be reporting separately to Ministers. In the event of a miners' strike it would be particularly important to take steps to reassure the public and also to provide adequate explanations of contingency arrangements eg the timing of rota disconnections.

81. As for influencing public attitudes, routine publicity would probably have some effect, but in the event of a miners' strike Ministers will no doubt wish to consider special tactics eg the deployment of information about the costs to the economy of the coal industry including the burdens imposed by uneconomic pits -

i. to maintain public support for the NCB and the Government ie to ensure that the public continues to understand and accept the need for a firm stand by the Government and the NCB and, therefore, to ensure that the weight of public opinion does not begin to swing towards support for the miners; and

ii. to undermine the miners' solidarity, so far as that is likely to be possible.

82. The role that publicity might play in preventing a strike was outside our terms of reference and we have not therefore considered this aspect. But it seems to us that publicity is unlikely to make much impact on miners' attitudes once a strike has begun, and that properly planned it could be used to much greater effect well in advance of a strike; separate work by officials is now in hand on this following the letter of 6 July from the Chancellor of the Exchequer's private secretary to the private secretary to the Secretary of State for Energy.

PREVIOUS STRIKES IN THE COAL INDUSTRY

1. There have been only three major strikes in the coal industry this century - in 1926, in 1971-72 and in 1973-74. In 1926 the national economy differed so greatly from the present day that no useful lessons can be drawn from that experience. In 1971-72 (when the miners' pay settlement date was 1 November) industrial action took the form of an official ban on overtime lasting for 9 weeks from November 1971 followed by an official strike for 7 weeks from 9 January to 28 Feburary 1972. A Court of Inquiry into the dispute was set up under Lord Wilberforce on 11 February and reported a week later, but the NUM rejected the inquiry award, and normal working resumed only after discussions involving the TUC and the then Prime Minister when the Government conceded a yet more expensive settlement. When the industrial action began power station coal stocks stood at 18.7 million tonnes, which was then equivalent to 8 or 9 weeks endurance. The loss of coal production as a result of the overtime ban was only 5 million tonnes but the strike cut stocks by 19½ million tonnes. In 1973-74, (when the pay settlement date was 1 March) industrial action again took the form of an official ban on overtime, which lasted for 13 weeks from 12 November 1973, followed by a full strike for 4 weeks from 10 February to 11 March 1974. A return to work was achieved only following the dissolution of Parliament and a General Election. The loss of coal production under each form of industrial action was 10 million tonnes (total 20 million), compared with coal stocks of 19 million tonnes at the beginning of the industrial action, which was then equivalent to 8-9 weeks endurance.

2. The outstanding features of industrial action in 1971-72 were -

a. Widespread picketing (occasionally violent and intimidating) of power stations, industrial installations and coal merchants' depots significantly reduced the usefulness of stocks;

b. miners were successful in reaching agreements with some other workers (eg railwaymen) not to handle coal supplies; no other union took overt sympathetic action but it was widely accepted and endorsed that unionists should not cross official NUM picket lines;

c. power stations, which had some 8 weeks' supply when the industrial action started, began to run into severe trouble within about 5 weeks, largely because of interference by pickets with movements of ancillary supplies held by the CEGB.

3. The 1973-74 emergency differed in several respects from that of 1972. The overtime ban was operated much more severely and caused a heavier loss of production which would have been even higher without continuous weekend work by the small corps of management staff. Picketing during the strike itself was much less severe, the NUM limiting pickets at any one place to six; and priority consumers of coal as a primary fuel (ie. where life-support and hardship were considerations) continued to be sufficiently supplied by arrangement with the NUM.

4. In both strikes in the early 1970s the cost of a settlement increased progressively the longer the strike continued.

5. The crucial factor during both strikes was power station endurance and this remains the case. In 1973-74 erosion of power station coal stocks caused the then Government to introduce restrictions on the use of electricity and finally a 3-day working week. So far as the coal burning industries were concerned, coal stocks

proved to be just adequate, although in many places by the end of the dispute stocks were virtually exhausted. Overall, the effect during the period of the 3-day week was to reduce industrial production by about 8-9 per cent but there are indications that had the dispute continued for much longer the position might have deteriorated quite sharply. For domestic consumers, coal merchants succeeded, through the operation of a voluntary rationing system, in maintaining adequate supplies to those with compassionate needs; and the trades unions co-operated in allowing coal supplies to be delivered to those hospitals which relied on coal for heating.

6. The circumstances which obtain now are, however, significantly different from those in the early 1970s. Miners' earnings are now much more dependent on productivity than they were then, which may mean that they will be less willing to embark on a lengthy period of work-to-rule and overtime ban (which could cost individual miners between £15 and £20 gross per week) than has been the case in the past. The impact of this change has been particularly noticeable in NUM ballots over pay offers in the last few years when there have been marked differences in the levels of militancy between areas of high and low productivity. The rules governing the payments of Supplementary Benefit to strikes have also changed. Since November 1980 the amount of Supplementary Benefit to which a striker may be entitled for his family has been reduced by £12 per week and in most cases urgent needs payments are no longer made to strikers or their families. Furthermore, from April 1982 tax rebates are to be withheld from strikers until after they have returned to work.

7. A further difference between now and the early 1970s is that power stations are now much less dependent on oil than they were then. In the early 1970s coal accounted for 60 per cent of electricity generation, oil for 25 per cent and nuclear power for

9 per cent. The proportions are now: 78 per cent coal, 9 per cent oil and 12 per cent nuclear. This means that there is now considerable spare oil-fired electricity generating capacity and therefore much greater scope than in the past for substituting oil-fired capacity for coal-fired when coal supplies are scarce. There is also the impact of the Employment Act 1980 on picketing and secondary action to be taken into account.

8. Finally, industry is now more fragile than in 1973-74 and its ability to withstand and successfully recover from a lengthy universal strike will therefore be significantly less.

PART 3 ends:-

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

PART 4 begins:-

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