

PART 20

SECRET

CONFIDENTIAL FILING

Financial Position of the Coal Industry

NATIONALISED

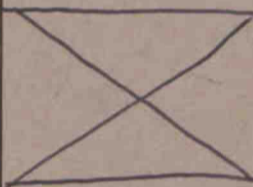
Mineworkers Pay

INDUSTRIES

PT1: JUNE 1979

(IN ATTACHED FOLDER - BOOKLET BY
CPS ON PRIVATISE COAL.)

PT20: AUGUST 1986

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
4.8.86		16.1.87		22.10.87		S 3002	
1.8.86		22.1.87		27.10.87			
22.8.86		30.1.87		29.10.87			
26.8.86		11.2.87					
27.8.86		16.2.87					
2.9.86		2.3.87		PART ENDS			
9.9.86		10.3.87					
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23.11.86		16.9.87					
7.1.87		18.9.87					
		28.9.87					

PREM 19/2352

PART 20 ends:-

SS/WALES TO SS/ENG 29.10.17

PART 21 begins:-

SS/ENG TO CST 4.11.17

cc Bly.



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GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
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Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
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0538
From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP

29 October 1987

Handwritten signature: Peter Walker

Handwritten initials: NRM.

THE WADDILOVE REPORT ON COAL MINING SUBSIDENCE

Thank you for copying to me your letter of 22 October to John Wakeham setting out the procedure for the publication of the White Paper on the Government response to the Waddilove Report.

In my letter of 12 October I expressed my satisfaction at the outcome of our deliberations on the Waddilove Report and agreed that we should publish the White Paper as soon as possible. I am happy to go along with the procedure outlined in your letter.

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

Large handwritten signature: Cecil Parkinson

The Rt Hon Cecil Parkinson MP
Secretary of State for Energy

30 2 ← AM 87

NAT IND COCA PT20



CCBQ
(letter only)

PRIME MINISTER

NEA.

I am sending to you, and all Cabinet Colleagues, for information, a copy of the White Paper on the Repair and Compensation System for Coal Mining Subsidence Damage which is the Government Response to the report of the Subsidence Compensation Review Committee (Waddilove). Together with Nicholas Ridley, Peter Walker and Malcolm Rifkind, I propose to publish this on Thursday 29 October at 3.30 pm.

In folder

Malcolm Rifkind

Secretary of State for Energy

27 October 1987



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

01 211 6402

The Rt Hon John Wakeham MP
Privy Council Office
Whitehall
LONDON
SW1A 2AT

✓
22 October 1987

Dear John,

I am writing to let you know that Nicholas Ridley, Malcolm Rifkind, Peter Walker and I are now in a position to publish the White Paper "The Repair and Compensation System for Coal Mining Subsidence Damage" which is the Government response to the report of the Subsidence Compensation Review Committee (Waddilove). This reply to the report, which was published in 1984, is overdue and I should like to take the earliest possible opportunity to publish it and lay it before Parliament.

Given that we have Energy First Order Questions on 2 November and Environment First Order Questions on Wednesday 4 November, we believe that it would be preferable to publish at the end of the preceding week. The usual objections to publication on a Friday apply so I propose that we should publish on Thursday 29 October. If you, and other recipients of this letter, agree, I shall arrange for an ordinary written question to be tabled. I enclose the terms of that draft PQ and answer. The draft Press Notice will follow as soon as possible.

My Private Secretary is writing separately to Sir Robert Armstrong's office about circulation of the White Paper to members of the Cabinet.

I am copying this letter to the Prime Minister; to the Lord President; to the Secretaries of State for the Environment, for Scotland, and for Wales; to the Chief Whip and to Sir Robert Armstrong.

James
Laird
Parkinson

CECIL PARKINSON

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Cecil Parkinson MP
 Secretary of State for Energy
 Department of Energy
 Thames House South
 Millbank
 London
 SW1P 4QJ

Prime Minister 2

To write

(i) the redundancy terms are agreed;

(ii) there is to be a review of British Coal's business strategy. DER

30 September 1987 1/10.

1/29/87 Cecil

ms

ms

REVISED REDUNDANCY TERMS FOR MINEWORKERS

Thank you for your letter of 28 September, which we discussed briefly at our bilaterals on 16 and 29 September.

It is disappointing that British Coal so misjudged the scale of redundancy benefits required to secure the objective for contracting manpower this year. Nevertheless I agree that it is imperative that the planned rationalisation does take place. I am therefore prepared to raise the shadow cash limit on restructuring grant to accommodate the cost of paying the supplements. I hope that British Coal will be able to absorb their share of the additional cost within the £90m loss target for the year. No doubt you will let me have your proposals for revising the EFL shortly.

Turning to the scheme itself, I should be grateful if you could look again at two important details. It seems surprising that British Coal recommend retrospection since it clearly cannot be justified by way of improving incentives. I wonder whether the reaction to denying retrospection in a discretionary supplement would really be very adverse. May I ask you to probe Sir Robert Haslam on this point?

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Second, I share your worries about the future of the scheme. It is already pretty clear that its design is not well suited to the likely redundancy objectives, and there must be a very strong danger that a similar adjustment will be required again next year if the scheme overall is to be sufficiently attractive to the target groups. The men will not respond if they come to expect an annual adjustment. I should therefore be grateful if you could ask Sir Robert Haslam to rethink the requirements of the scheme in good time for next year. As you mentioned, any successor scheme may need to take account of the possibility of compulsory redundancies, perhaps selective, to ease the closure programme.

I suggest that this second aspect could readily be explored in the context of the strategic review you suggest. I agree that our plans to privatise the electricity industry are bound to jolt British Coal's market very considerably. I therefore support your idea of a strategic review of British Coal's policy approach. It would be very helpful if my officials could take part in it since its ramifications will clearly have important implications for public expenditure as well as electricity privatisation.

I am copying this letter to the Prime Minister, Norman Fowler and to Sir Robert Armstrong.

*Yours truly,
John Major*

JOHN MAJOR



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CCB



SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

NBM.

28 September 1987

Dear John,

REVISED REDUNDANCY TERMS FOR MINeworkERS

As you know, British Coal's budget for the current year and their IFR proposals assume 6,300 redundancies among industrial staff in 1987/88. Because it was always inevitable that redundancies in the early months of this financial year would be depressed by the heavy outflow in the final weeks of 1986/87, it is hard to assess the trend. But redundancies to date total little more than 1,000; and British Coal's considered judgement is that there is no prospect of achieving the target of 6,300 without some further inducement.

Compared with the RMPS, the Corporation's redundancy scheme offers relatively little to younger men; there are few mineworkers over 50; and the average age of the workforce is under 35. British Coal therefore propose to offer an additional flat rate payment of £5,000 to men with at least two years' service who accept redundancy. This addition would be paid only for 1987/88 and would be restricted to redundancies resulting from the closure of major units (calling for at least 50 redundancies). British Coal propose to pay the supplement to those who have already gone during this financial year on the current terms. British Coal believe that excluding them would create considerable ill-feeling, and disproportionate opportunities for exploitation by the unions and mining MPs. Depending on uptake, the total cost is expected to be of the order of £30-35 million. Further details are given in the Annex to this letter.

In considering this proposal it is relevant that although British Coal's markets are holding up reasonably well in volume terms, prices are still under downward pressure. The future privatisation

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of the electricity industry will throw its shadow forward and add to those pressures. It will clearly be necessary to review with the BCC their business strategy in the light of these developments: any such review is almost certain to point to a need for even more demanding cost reductions and manpower savings. Even as things stand, Bob Haslam faces a most difficult task in securing breakeven in 1988/89; it will be impossible if he does not get the redundancies budgeted for 1987/88.

I have given careful thought to the risk that we could be setting a precedent for the future. However, whilst there is a risk, our first priority must be to maintain the momentum of the redundancy programme which Bob Haslam has established. He is determined to close unprofitable pits and achieve break even on target. He is quite clear that he must continue to reduce numbers to achieve these objectives; that he needs to increase the rate of redundancies this year; and that there revised terms are a minimum needed to achieve this. I have no doubt that we must support him.

A further consideration is that resumption of the manpower rundown will help discredit Mr Scargill: the men will be seen to be voting with their feet. This has been a significant factor during the period since the strike. I intend to discuss with Bob Haslam how best to present the new terms in the context of the current industrial action if it should continue.

Looking further ahead, the BCC accept that they should not assume indefinite continuation of the policy of no compulsory redundancies. However, any departure from that policy will need careful preparation; and I do not think that the time is yet ripe. The right course is to ensure that it is considered in the review of British Coal's strategy.

If we agree to British Coal's proposals, the sooner they are announced the more effective they will be. As I warned you at our bilateral meeting on 16 September, I am afraid that I must press you for an early reply.

I am sending copies of this letter to the Prime Minister and Norman Fowler and to Sir Robert Armstrong.

Yours Es,
Cecil

CECIL PARKINSON

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ANNEX

DETAILED PROPOSALS

Unlike the RMPS, British Coal's redundancy scheme for industrial workers pays only lump sums. The rates are £700 for every complete year of aggregate service from the age of 30, £450 for each year of such service between ages 21 and 29 and £250 between ages 16 and 20. On average, men aged between 30 and 34 get lump sums of £6,400; men aged between 35 and 39 get £9,650. The average for the scheme as a whole is £12,800. Redundancy payments under the State scheme are paid in addition.

The BCC propose to enhance these terms by a flat-rate supplement of £5,000. This would be payable only for 1987/88, and would be restricted to men with at least 2 years service and to redundancies resulting from closures of major units (calling for 50 redundancies or more). The BCC propose that it should be paid retrospectively to those who have left under the existing scheme earlier in this financial year, and who otherwise meet the conditions for the supplement.

Depending on uptake, the scheme would require supplementary provision of the order of £20-25m to the Restructuring Grant Vote in 1987/88. In theory, an alternative would be to let the additional costs increase British Coal's accounting deficit for 1987/88, and hence the deficit grant payable under Section 2 of the Coal Industry Act 1987. In the view of Department of Energy officials, this would be hard to reconcile with the philosophy of the Act: the appropriate method of contributing towards agreed restructuring costs is by grant under Section 3 of the Act. It could also prove imprudent: if the BCC found it necessary to raise higher than expected provisions in the 1987/88 accounts (for example, in respect of claims for noise-induced hearing loss), allowing the full cost of additional restructuring payments to fall on the Profit and Loss Account could bring total deficit grant dangerously near to the statutory limit of £200m.

The BCC hope to absorb the remaining costs, of the order of £5-10m. However, they are conducting a thorough review of their cash requirements for the rest of the current financial year and will be putting forward detailed proposals early next month.

SUBJECT

CC MASTER

NOTE FOR THE RECORD

MEETING WITH SIR ROBERT HASLAM

Sir Robert Haslam yesterday called to see the Prime Minister with the Secretary of State for Energy.

The Prime Minister said that her first concern was that British Coal should keep on side with the UDM, though this was not always easy. The pressures UDM members had faced during the coal strike should never be underestimated. If the NUM were to win concessions, the UDM would be put in difficulty. The UDM were now upset that some of their members had lost £23 a week by being compelled to accept a deal British Coal had done with COSA*. The power of Scargill should never be underestimated. He had a tremendous hold on the NUM Executive, and it would be quite wrong to expect the Executive to be reasonable. The NUM rule book had been redrafted to comply with the Act in relation to the election of officers, but not in relation to strike votes. They were still able to call a strike area by area. The Prime Minister said she would be prepared to face another strike provided there were good coal stocks, and the UDM stayed at work. The Prime Minister expressed the hope that the power stations had all the flashing oil and the like that they needed. It should never be assumed that if we had had one strike, there would not be another. Management should never forfeit the right to manage. There should be no agreement on arbitration.

Sir Robert said that the disciplinary code had been in force since 1981, and had been revised only to cope with violence and intimidation. Four (three from Notts) had been sacked in August, and three more had been warned. The Coal Board management had "gone over the top" for the UDM, and they were determined to protect and help the UDM in every possible way, but the UDM did not wish to be regarded as a sweetheart union. On the point about the staff losing money, this was the result of consolidation of bonuses which was being done to make NACODS members and other supervisory staff feel more like

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* Colliery Officials and Staffs Area

management. Some staff had gained, and others had lost from the consolidation, and the change had been popular on the whole. Kevin Hunt, Industrial Relations Director, showed no favouritism either to the NUM or to the UDM.

The Secretary of State for Energy said that Walter Marshall was quite confident that the electricity industry could survive a year long coal strike even if the UDM stopped work.

Sir Robert Haslam said the Board was investigating the legal situation, but was receiving conflicting advice.

The Prime Minister, concluding the meeting, said that the most important thing was to win the battle in the media. The UDM had to be kept at work, and the Board should never give in to the NUM. The redundancy payments asked for by Sir Robert Haslam would be money well spent.

JW

DN

18 September, 1987.

JD3BCM

2
PRIME MINISTER

DAVID HART

David Hart telephoned me today to report the concerns of the UDM. They had a list of five wishes/complaints:

- (i) there should be no more concessions to the NUM;
- (ii) there should be no more negotiations until the conciliation agreement had been signed by the NUM; (the conciliation agreement is apparently the master document from which the code of conduct hangs; the UDM have signed it);
- (iii) concerns about cuts in pay for office staff who are UDM members;
- (iv) the UDM wants negotiating rights for Ashfordby; they apparently do not have a majority there, but believe they would achieve it if they were given negotiating rights;
- (v) they would like to be put on some EC Committees, in order to raise their status with their members.

David Hart also said that the British coal management were not taking the UDM seriously enough, and this was why he (David Hart) had "conducted a campaign" in the Times this week. (There has been a leader and articles by Haslam and Liptrott.)

I said to David Hart that there were obvious reasons for not using No.10 as a conduit, and urged him to talk to Cecil Parkinson rather than to you or me. He should take Cecil Parkinson through what he had said to me. He agreed to do this, but said he would come back to you if he felt that to be necessary.

DN *DN*

18 September, 1987.

JD3BCL

SECRET

PRIME MINISTER

MEETING WITH SIR ROBERT HASLAM

You are meeting Cecil Parkinson and Sir Robert Haslam for up to an hour. I have arranged for Robert Haslam to come separately and to come into No. 10 through The Cabinet Office.

The Department have provided a brief on the latest position in the negotiations.

The key point will be to ensure that there is no risk of the UDM being made to feel that NUM intransigency may win concessions which their moderation has failed to secure.

You will also want to hear Sir Robert's assessment of the prospects if the NUM start an overtime ban and maintain that into the winter.

David Norgrove

Duty Clerk

pp. David Norgrove

16 September 1987

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cc: BG

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

01 211 6402

David Norgrove Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

16 September 1987

Dear David,

BC/NUM INDUSTRIAL RELATIONS

As promised I attach a note giving our latest assessment of the negotiations between British Coal and the NUM.

Yours,

MP S HADDRILL
Principal Private Secretary



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BC INDUSTRIAL RELATIONS
PROGRESS TO RESOLVE DISPUTE WITH NUM

The Department's note of 9 September ^{at Haslam} reported that BC were to meet with the NUM on Monday 14 September with the aim of resolving the dispute over the Disciplinary Code. They were also meeting the UDM on 11 September.

At the meeting with the UDM, the union made clear to BC their concern that the Corporation would make more concessions to the NUM over the Code. They also asked for and received assurances from BC that their members would be given management support for normal working. Sir Robert Haslam fully recognises the need to preserve the UDM's position.

After protracted talks with the NUM Executive on Monday 14th there is one outstanding point of dispute over the Code between BC and the NUM. The NUM are seeking a return to the old system of referring management decisions on dismissals to a pit umpire, agreed by the union, for binding arbitration. The basis of that system was that if the umpire found against the miner, the union supported him no further. The NUM are particularly concerned about the length of time taken in the normal industrial tribunal and subsequent appeal system, and at the end of the day there is no guarantee that the person will be taken back into his old job. In this context the NUM claim that the Code provides a charter for BC to get rid of union activists.

During the discussion with the NUM Sir Robert Haslam made three points:

- i) BC were totally unwilling to return to the old umpire system for disciplinary matters (a system opposed by the UDM);

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ii) BC stood by their undertaking that if an industrial tribunal recommended that a dismissed mineworker should continue to be employed, British Coal would provide similar employment at a suitable location, or the man could opt for compensation; and

iii) within 2 days, BC would put together a proposal for "fast track" procedure to moderate the delay of the industrial tribunal system.

The NUM expressed disappointment at BC's reply and arranged to see ACAS on 15 September.

Following the NUM's request on Monday to meet ACAS, ACAS asked BC for confirmation of their position. BC said they could go no further than the position outlined to the NUM and advised ACAS to talk to the UDM before meeting the NUM. ACAS did so, simply to report the current position. ACAS then met with the NUM in the morning of 15 September. The NUM questioned the "fast track" mechanism which had been proposed by Sir Robert Haslam, which ACAS had believed was an alternative procedure to the industrial tribunal system for considering dismissal cases. ACAS therefore adjourned the meeting with the NUM to seek clarification from BC. The Chairman told them that they were not proposing any different procedure from the industrial tribunal system: BC were merely looking at the possibility of speeding up those proceedings, (although BC recognised there may be little scope for this). Upon hearing this from ACAS, the NUM asked to adjourn and then walked out of the ACAS discussions.

Immediately following the walkout Mr Scargill said in a press statement that the national overtime ban from 21 September would go ahead. He claimed to have made significant concessions by offering to accept binding arbitration. (In reality these "concessions" amount to no more than was the practice under the

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old umpire system).

Mr Kevan Hunt later confirmed to the UDM that there was no change in BC's position, which was a relief to the union. There are no plans for any more meetings this week.

SITUATION IN YORKSHIRE

Although the unofficial overtime ban in Yorkshire began on 14 September in support of Mr Scott (the NUM Branch official dismissed from Shillingfleet), it has had little effect so far. A number of branches had in any case elected not to take part over the Scott case.

Department of Energy

16 September 1987

CONFIDENTIAL

Nat Industries: Coal, Pr2



Chairman: you should be aware of this

David Brandley
6/4

pa with pps to
do with mines
over the bar

15th September, 1987

Dear Mr Scargill,

You will appreciate the reason for anonymity but you will be interested to know that there has been collusion between the officials of British Coal and 10, Downing Street on the parameters of what can be agreed between the parties to the current dispute. The objective is to bring about a position whereby "reasons" can be given for a further round of pit closures in order to make the coal industry ostensibly more "profitable" as a prelude to privatisation.

A CIVIL SERVANT.

The President, The National Union of Mineworkers.

Copies to:-

- ✓ British Coal.
- 10, Downing Street.

15/9

Nat (no) Coral

CONFIDENTIAL

Prime Minister

Prime Minister?
Dew
11/9.

BRITISH COAL INDUSTRIAL RELATIONS: POSITION OF NACODS

In my minute of ⁴ August I reported that the position of NACODS was not clear.

NACODS have still not responded to an invitation from British Coal in July to discuss a Code tailored to the particular situation of the union. British Coal management are expecting them to declare their position following the meeting between the NUM and British Coal on 14 September. I shall of course keep you informed.

I am copying this minute to Nigel Lawson, Peter Walker, Norman Fowler, Malcolm Rifkind and to Sir Robert Armstrong.

Secretary of State for Energy

11 September 1987

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SECRET



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

10 September, 1987.

POWER STATION ENDURANCE

The Prime Minister had a word with your Secretary of State after Cabinet this morning about the threat of industrial action by the NUM.

The Prime Minister said her impression was that even under the present NUM rule book, it would still be possible for the Executive to secure authority for a strike, area by area. It was disturbing that Mr. Scargill seemed to have regained or retained some measure of credence. It would be important to help the UDM over the new rule book if possible; and most important to keep a close eye on developments.

Your Secretary of State explained that he and the Department were indeed keeping a very close eye on developments.

(David Norgrove)

S.R. Sklaroff, Esq.,
Department of Energy.

SECRET

file to 75.
18



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

David Norgrove Esq
Private Secretary to
The Prime Minister
10 Downing Street
London
SW1A 2AA

COPY NO **1** OF **11**

9 September 1987

Dear David,

Prime Minister!
You plan to raise this
with Mr Palumbo in the margin
of Cabinet tomorrow.

at flap

JEN
9/9.

POWER STATION ENDURANCE

Thank you for your letter of 8 September. I attach a note giving the Department's assessment of the current state of negotiations between the coal mining unions and British Coal on the new Code of Conduct and on the outlook for power station endurance in the event of industrial action. As you will see, the Department's current view is that given the CEGB's assurances on current endurance levels and stock building capacity in November it does not seem necessary at present to take additional action.

Yours,

S R SKLAROFF
Private Secretary



BC INDUSTRIAL RELATIONS AND POWER STATION ENDURANCE

NUM/UDM POSITION

1. Employers generally are under a statutory duty to ensure that their employees are made aware of disciplinary procedures. As long ago as 1981 British Coal produced a draft Code, basically similar to the present one. The NUM refused to discuss the draft. For some years it was left in abeyance, though it was operated, to varying degrees in different Areas, after May 1984, with little or no protest from the NUM.

2. The emergence of the UDM after July 1985 meant that BC had to resort to the matter of a disciplinary code suited to the existence of two unions representing mineworkers. BC produced the present Code, to which the UDM raised no objection. The Code was sent to the NUM on 6 March 1987. There were no new approaches to BC from the NUM for a discussion of the Code, or any aspect of it, even though it was being operated by management.

3. The present Code is thus largely derived from documents which have been available to the NUM for years, and to which they raised no objection until very recently, when Mr Scargill saw an opportunity for making mischief. The points to which he has objected could all have been discussed at any time between BC and the NUM, if the union had so requested.

4. The latest position is that following the invitation by BC to the Arbitration, Conciliation and Advisory Service (ACAS) to mediate, there have been meetings between ACAS, each of the two unions involved, and BC. BC's Director of Industrial Relations has written to the General Secretary of the NUM proposing to amend the Code in some respects:

- employee's representatives at disciplinary hearings;
- timetable for disciplinary action;



- the period for which formal warnings are retained on a man's record;
- the possibility of reinstatement (at a different pit) to a dismissed miner who wins his case at an Industrial Tribunal.

The letter also offered clarification on a number of points criticised by the NUM. These are changes of a nature which would no doubt have been made in discussion with the union under more normal circumstances.

5. The changes appear to have had some effect on opinion within the NUM Executive. However, the Executive is pressing for more, and particularly for the restoration of the system (which in practice had largely fallen into disuse) of binding arbitration by an independent pit umpire. BC are strongly opposed to this, as are the Union of Democratic Mineworkers (UDM). BC are to meet the UDM on Friday 11 September and the NUM on Monday 14 September. Sir Robert Haslam is keeping the Secretary of State fully informed of developments.

6. The NUM's position is that if BC fail to satisfy its demands it will take industrial action from 21 September. This would most likely take the form of an overtime ban (the union has no authority to call a strike). BC do not expect it to do much damage to production or to be long sustained. In Yorkshire, the main centre of discontent, the Area Executive has postponed the start of the overtime ban on which it previously decided from 14 to 21 September. The Area Executive has also taken the very unusual step of offering to maintain safety cover, which would much reduce the effects of the ban. Unofficial efforts to provoke industrial action on behalf of Mr Scott (the NUM Branch



official dismissed from Stillingfleet but offered re-employment at another colliery) have failed. In fact, during recent weeks less output has been lost through industrial action in Yorkshire than on the earlier part of the financial year, where there was an upsurge in the number of "ragouts". A further important factor is that the more determined the NUM become to take action on the Code, the more determined the UDM will become to minimise the impact of NUM action.

ENDURANCE

7. The latest report on endurance is attached.

8. The CEGB's estimate of up to a 1.5 million tonnes shortfall in reaching the autumn stocking target of 27 million tonnes has been discussed further with the Board. The slippage is due to higher consumption to cover lost output from the Advanced Gas Cooled Reactors and above average demand (particularly from industry).

9. Deliveries from BC are already running at some 1.7 million tonnes above planned levels and it is understood that there is not the capacity to handle a further 1.5 million tonnes deliveries to stock before the end of October without taking special measures. However, BC estimate that they have the capacity to make good the shortfall by the end of November, assuming the CEGB are willing to buy the coal.

10. Three steps could be taken to secure stock of 27 million tonnes by the original target date of the end of October: increase oil burn; increase coal imports; or take special measures to increase British Coal deliveries. All could attract NUM attention and heighten tension in the pits. The first two would result in a loss of revenue to British Coal of about £60 million.

11. The CEGB have, however, recently completed a review of operational flexibility and have indicated that the agreed endurance level of 9 months (given a complete stoppage of coal



deliveries) can be maintained with only some ~~25~~ 25.5 million tonnes of stocks. On this basis, the Board has assured the Department that the shortfall in autumn stocks will not weaken endurance; they are in a "very robust position". The Department will be considering the review with the Board shortly. The Secretary of State will also be seeing Lord Marshall tomorrow when he will discuss endurance.

12. In view of the CEGB's assurance that current endurance levels are not weakened and that there is a capability to build stocks to 27 million tonnes during November and the fact that it may prove possible to increase deliveries to stock before the end of October without attracting undue attention it does not seem necessary to take any additional action at this stage.

Department of Energy

9 September 1987

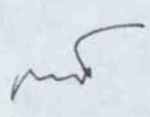


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ENDURANCE: FORTNIGHTLY REPORT TO 4 SEPTEMBER

1. Coal stocks at power stations are 24.1m tonnes as at 1 September 1987.
2. The CEGB estimate these stocks to be equivalent to 9 months endurance given a complete stoppage of coal deliveries to power stations and 24 months given a partial (ie UDM production maintained) stoppage.
3. Stocks have built by only 200,000 tonnes over the last fortnight. Although deliveries from pits are up increased coal burn (as a result of AGR outages and higher than average demand) and earlier production losses, have reduced the supplies available for stock build. CEGB estimate that stocks are now likely to be 1-1.5m tonnes below the target level of 27 million tonnes at the end of October/beginning of November. Even with this lower level of stocks, CEGB are confident that they can continue to meet demand for 9 months given a complete stoppage.

EL1A
4 September 1987



Nat Ind: Coal PT 20



SECRET



File JA
16 48

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

8 September, 1987.

POWER STATION ENDURANCE

Bf You will wish to be aware that the Prime Minister aims to have a word with your Secretary of State in the margins of Cabinet on Thursday about the prospect of industrial action by the NUM. It would be very helpful if I could have for the Prime Minister's box tomorrow evening, Wednesday, an assessment of the position with the NUM and UDM and of the outlook for power station endurance in the event of industrial action.

The Prime Minister is aware that the CEGB may miss the 27 million tonne target for power station stocks this Autumn and she will wish to discuss with your Secretary of State, among other things, whether it would be sensible to increase oil burn temporarily in order to secure larger stocks before the winter.

(David Norgrove)

Stephen Haddrill, Esq.,
Department of Energy.

SECRET



*Ice BG
cc Brigadier Budd*

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

*Prime Minister (2)
MBA 25/8*

Mark Addison Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

25th August 1987

Dear Mark,

As requested I enclose a note for the Prime Minister on the implications of the miners' ballot.

Yours

Stephen

S HADRILL
Principal Private Secretary



BRITISH COAL: INDUSTRIAL RELATIONS SITUATION

The NUM ballot result announced yesterday showed some 77.5% of those voting to be in favour of unspecified industrial action against British Coal's Code of Conduct. But 25% of the NUM membership did not vote and the UDM representing a further 21% of mineworkers has accepted the Code.

This result was anticipated by the Corporation. They last week invited ACAS to help overcome differences over the Code (ACAS has statutory responsibility for guidance on disciplinary procedures). Developments are now likely to await the outcome of meetings arranged by ACAS with the Unions (NUM on 27 and UDM on 28 August) and with British Coal (on 3 September). The NUM Executive is meeting the TUC in Blackpool on 6 September on the eve of the TUC Annual Conference possibly to press for a public display of TUC support by way of an emergency resolution. But the Executive's decision on any industrial action is also likely to await the outcome of the ACAS discussions.

The form of industrial action should this arise will be constrained by the degree of support it will be able to command. A selective overtime ban possibly aimed at the more profitable collieries is likely. Strike action is unlikely and, as pointed out in the Secretary of State's minute to the Prime Minister of 4 August, could expose the NUM to legal action by British Coal on the grounds that their ballot paper did not meet the statutory requirements for authorising a strike. Immediate strike action is being pressed in Yorkshire by unofficial NUM elements over the disciplinary case also referred to in the Secretary of State's minute. Support for this is doubtful; not least from the Yorkshire Area Executive of the NUM and public opposition has been voiced at a number of collieries. British Coal are considering the legality of any such strike action.



The Secretary of State, who is on holiday, has continued to keep in close touch with British Coal's Chairman on the situation. Sir Robert Haslam is of the view that despite the ballot there is no stomach among miners generally and the NUM Executive as a whole for industrial action over the Code. The Department is liaising with British Coal on any public comments we may be asked to make so as to be as helpful as possible to the Corporation. We shall continue with the line previously taken by the Secretary of State that while the Code of Conduct is a matter for the management of British Coal any action that damages the coal industry's reputation is likely to damage the interests of British miners.

On the coal supply situation, the CEGB inform us that coal stocks at power stations were 23.9 million tonnes as at 23 April. ^{August} They add that there are one or two factors, eg the recent increase in demand which make it likely that they will slightly miss their target endurance level of 27 million tonnes by late October/ beginning November. Nonetheless, the Board are confident that they will be able to meet demand over the nine months endurance period covering next winter.

CONFIDENTIAL



file DTS

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

5 August 1987

BRITISH COAL: INDUSTRIAL RELATIONS SITUATION

The Prime Minister has seen your Secretary of State's minute of 4 August. She has noted this without comment.

I am copying this letter to the Private Secretaries to the Chancellor, the Secretaries of State for Wales, Employment and Scotland, and to Sir Robert Armstrong.

M E ADDISON

Geoff Dart, Esq.
Department of Energy

CONFIDENTIAL

@TS

010
MT
Prime Minister

Prime Minister. ⁽¹⁾
Essentially for a meeting. The
NUM ballot paper is totally
one-sided (attached).
MEM 4/8

BRITISH COAL: INDUSTRIAL RELATIONS SITUATION

You might find it helpful to have a fuller appraisal of the situation in the coal industry I referred to briefly at Cabinet last Thursday.

The NUM's ballot for industrial action against British Coal's new Code of Conduct is taking longer than usual because of the current holiday period, but the result will be announced on 21 August. It seems likely that this will be in favour of industrial action, largely as a result of an extensive campaign of misrepresentation by the NUM.

In fact, the Code does little more than formalise disciplinary procedures that have evolved by custom and practice in the industry over many years. The NUM's own rule book is far more authoritarian. The only significant difference from the previous Code is the abolition of the right of appeal from management decisions to an independent umpire whose appointment was agreed by management and the NUM. Instead miners, like other employees, now have the right of appeal to an Industrial Tribunal.

The reason British Coal have come forward with the new Code now is that the emergence of the UDM has made it essential to revise their conciliation and related procedures to reflect the fact that they are no longer dealing with the NUM alone. A major factor in the NUM's refusal to accept the new Code - as they have not accepted revised conciliation agreements or felt able to negotiate wage settlements - is that to do so would be an implicit recognition of the UDM's existence.



Nor is it true, as the NUM have been saying, that British Coal have refused to discuss the Code with them. In fact they have consistently made it clear that they remain ready even at this late stage to hold constructive discussions, although not to meet the NUM's precondition that the Code should be withdrawn. A meeting has now been arranged for next week.

The NUM ballot paper (of which I enclose a copy) uses highly emotive language, describing the Code as "vicious". It asks for authority for the Executive "to call various forms of industrial action" if the Code is not withdrawn. There is real doubt over whether the ballot meets the statutory requirements for calling strike action, and British Coal appear to have good cause for legal action against the NUM should any form of strike be called. Grounds for taking the union to court on other forms of industrial action such as an overtime ban are less clear, but British Coal are taking Counsel's opinion.

The NUM cannot expect any support from the UDM, who have tacitly accepted the Code. The position of NACODS is less clear; the Code does not yet formally apply to them, although British Coal have indicated that its principles do. NACODS have yet to respond to an invitation to discuss the issue.

We have stressed to British Coal the importance of a sustained and well conducted campaign to counter the NUM's misrepresentations about the Code. There is already clear evidence that the resulting efforts - regular press briefings, sending detailed factual information direct to the workforce and fuller briefing for use by local managers - are having an effect and are being reflected in improved recent press coverage. For our part we have been stressing, for example during my appearance on Face the Press on Sunday, that it is irresponsible industrial action which is the greatest danger to the future of the industry because of the effect it has on British Coal's customers. These efforts will continue.

I should also mention a related issue which might spark off further industrial action in Yorkshire. This is the announcement last Friday of the result of an appeal against dismissal under the Code by a local NUM branch official at Stillingfleet colliery. The dismissal has been upheld, but the official (a Mr Scott) has been offered employment at another colliery, subject to assurances about his future conduct. Attempts may be made to promote unofficial protest action in North Yorkshire, although the Yorkshire Area NUM appear to wish to avoid premature action before the ballot result is known. Any immediate action could well be frustrated in any case by pit holidays.

The current situation poses no danger to coal supplies because production is always at a low ebb during the holiday period, and the CEGB's stocking plans have been arranged accordingly.

I am in regular touch with Bob Haslam, who has, with our encouragement, been taking a firm line. I will also be in contact with friendly editors, firstly to see what can be done to try and encourage miners not to support unjustified and self-defeating industrial action, and secondly to see that the ballot result is presented in as politically helpful a way as possible.

I am copying this to Nigel Lawson, Peter Walker, Norman Fowler, Malcolm Rifkind and to Sir Robert Armstrong.

C.P.

SECRETARY OF STATE FOR ENERGY

4 August 1987

N U M

NATIONAL UNION OF MINING WORKERS



BALLOT PAPER

BRITISH COAL CODE OF CONDUCT AND DISCIPLINARY PROCEDURES

Are you in favour of giving authority to the National Executive Committee to call various forms of Industrial action in the event of British Coal refusing to withdraw their new vicious Disciplinary Code and discuss the questions involved with the N.U.M.?

You must place a cross (X) in one and only one of the two spaces provided. otherwise your vote will not be counted.

YES	
------------	--

You must not sign or make any other mark on the paper. If you do, your vote will not be counted.

NO	
-----------	--

(N.B. T.U. Act 1984 Industrial action may be in breach of your Contract of Employment)

BRITISH COAL'S NEW DISCIPLINARY CODE

- British Coal unilaterally terminated an accepted disciplinary procedure which operated within the coalmining industry for 40 years.
- As a result of their new Disciplinary Code, British Coal can sack, fine or discipline you for an incident allegedly committed miles away and unrelated to your place of work.
- For example, you can be sacked, fined, or disciplined for incidents which occur at a football match, in a pub, club, in a meeting, or a demonstration.
- Under this new Code of Conduct, you can be sacked, fined or disciplined for taking industrial action on a local or Area basis.
- Members can and have been disciplined under this new vicious Code for trade union activities or supporting Branch, Area and National N.U.M. policy.
- British Coal having introduced this new Code without discussion are refusing to withdraw the procedure and discuss with the N.U.M. an acceptable Disciplinary Code to operate within the industry

THE NATIONAL EXECUTIVE COMMITTEE URGES ALL MEMBERS IN THE FORTHCOMING BALLOT TO SUPPORT THEIR UNION IN ITS EFFORTS TO GET THIS VICIOUS NEW CODE WITHDRAWN. WE ASK ALL MEMBERS TO . . .

VOTE

YES	X
------------	----------

JK JK

PRIME MINISTER

14

BRITISH COAL

I attach a revised version of John Wybrew's note for you to give to Mr. Parkinson on Sunday.

You asked about the history of discussion on the future of coal since the coal strike. The files show that you had a brief discussion with Mr. MacGregor in May 1985 which touched on open-cast mining, and again at a meeting with the Executive. But for the most part the discussions were concerned with closures and redundancies, NACODS and the review procedure, and management and Board changes. Restructuring the coal industry recurs once or twice up to the summer of 1985 but it was not a major theme. In the autumn of 1985 (after my arrival) the Chancellor proposed major changes to the coal industry. But Mr. Walker was very resistant, and argued the need for Sir Robert Haslam and new Board members to be allowed time to settle in. That was where matters rested.

You might tell Mr. Parkinson that you will look forward to a thorough discussion of the options in September. But you would also like him to consider what might be done to open things up during the next year, under the terms of existing legislation.

You will also want to look at the Chancellor's minute below about the programme of MMC references for this year. Mr. Parkinson has accepted that British Coal should be referred. It is important that this review should not be drawn in a way which might delay or inhibit consideration of privatisation options. I suggest you ask that when Mr. Parkinson, Mr. Clarke and the Chief Secretary have discussed the scope of the review they should report their conclusions to you.

Agree?

DAVID NORGROVE

24 July 1987

VC2APB

K

CCB/UP.

PRIME MINISTER

23 July 1987

THE IMPLICATIONS OF ELECTRICITY PRIVATISATION FOR COAL

Warned by anxious officials, Cecil Parkinson has been tiptoeing around the slumbering dragon of NUM militancy; his line has been that liberalisation and privatisation of the coal industry has no part in the Government's plans for electricity privatisation. Recent signs that the dragon is stirring again are likely to reinforce this view in the Department of Energy. Regrettably this is misguided. The link between the electricity industry and the coal industry must be confronted and tackled from the outset.

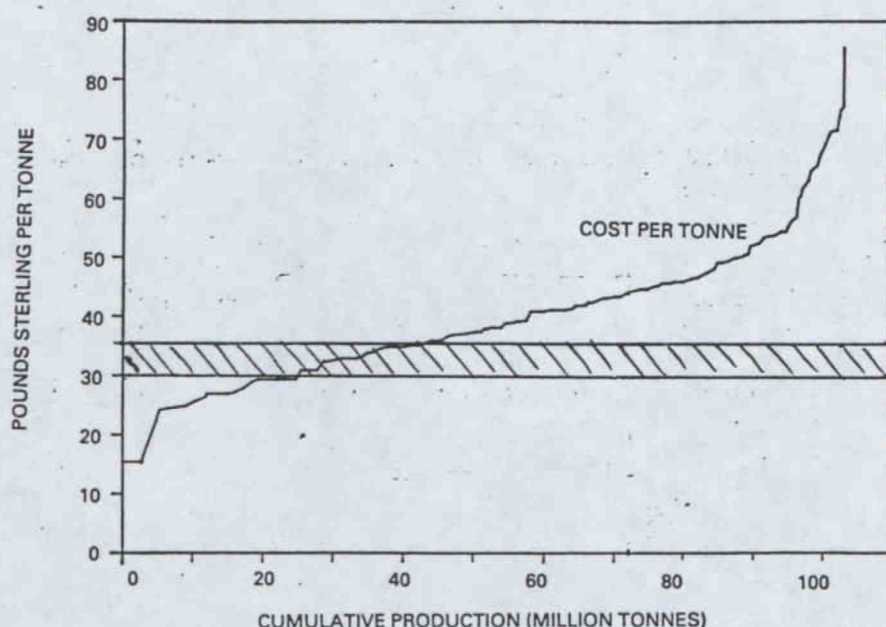
We cannot deliver the benefits of electricity privatisation to consumers and the economy without liberalising the generation of electricity and introducing vigorous competition. Since 80% of our electricity is generated from domestically-produced coal (accounting for over 50% of the CEBG's costs) this cannot be done without scrapping the Joint Understanding between British Coal and the CEBG. This illiberal supply contract very largely denies CEBG access to cheap imported coal and severely limits the supply of low-cost coal from our own small private sector.

For British Coal, the implications of terminating the Joint Understanding with the CEBG are profound. The CEBG represents 75% of its total market. A significant and growing proportion of this market would be exposed to competition from cheap coal imports. The market will also be penetrated, perhaps rapidly, by gas - fuelling, efficient combined cycle gas turbine plant operated by third-party generators competing against the CEBG.

In their excellent analysis of the UK coal industry, (CPS paper - "Privatise Coal", copy attached) Sykes and Robinson estimate that British Coal will have to be produced for less

IN ATTACHED FOLDER

than £35 per tonne (or ultimately even £30 per tonne) to be sustainably competitive against imports. The measure of Bob Haslam's task is illustrated by the following comparison of this competitive target against British Coal's cumulative cost curve per tonne of total production in 1986:



Formidable as this task may seem, the only real barrier to its attainment in say five years time is the NUM's tenacious adherence to work practices rooted in the days when coal was won with pick and shovel - the 1908 Powers of Work Act and the 40-year-old Five-Day-Week Agreement. The new pits which will determine British Coal's future competitiveness are highly mechanised and four times more capital intensive than the old pits still in operation. To yield the economic benefits of such capital investment and mechanisation, they need to be operated intensively; hence the compelling requirement for flexible shifts and weekend working. For the mineworkers this implies not more, but more flexible working time - and more reward. In any other capital-intensive industry this would be long established practice.

With the Government set to liberalise the supply of

electricity and privatise the ESI, the coal industry is approaching a crossroads. Either it shapes up and becomes a competitive modern business enterprise, or it remains dogged by Luddite attitudes and practices, becoming decimated by competition from imported coal and alternative fuels.

When Cecil Parkinson announces his plans for electricity privatisation in the Autumn he can fudge this issue to avoid arousing the miners. But as the details and significance of these plans unfold during the passage of the legislation and the preparation of the ESI for privatisation, the implications for the coal industry will become starkly apparent. If there has to be another confrontation with the miners over the issue of whether the coal industry becomes a competitive business rather than remaining a social service for miners, it is surely better to face it now on our terms; the alternative is a time bomb set to go off in perhaps 2-3 years with the miners taking up common cause with the power workers to defeat the Government's plans in the run-up to the next election.

We need to seize the high ground from the start. This would entail Cecil Parkinson outlining plans for the parallel liberalisation of electricity generation and coal production - two activities neither of which is a natural monopoly and together accounting for at least 75% of the cost of our electricity. Far from destroying our domestic coal industry, the aim of the liberalisation of the UK coal market would be to complete the recovery of the coal industry to sustainable commercial health.

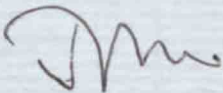
For the time being, British Coal would be left essentially intact. The licensing and regulatory functions of British Coal would be transferred to the Government; likewise the receipt of royalties on coal production.

The restrictions on coal imports would be removed. The illiberal Joint Understanding between the CEGB and British Coal would be scrapped and replaced by new arrangements conducive to competition and enterprise. The severe limitations on the scope of our small, private sector coal industry would be removed. Licences for coal exploration and the development of new deep or open-cast coal mines would be tendered competitively.

Management/employee buyouts of British Coal's deep mines would be welcomed and facilitated.

Conclusion

The link between the electricity industry and the coal industry must be confronted and tackled from the outset. If we try to proceed by stealth as regards the implications of electricity privatisation for coal, we face the serious risk of miners and power workers finding common cause at the least favourable time.



JOHN WYBREW

file
to

13

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

20 July, 1987.

COAL STOCKS

The Prime Minister has seen your letter to me of 15 July and has noted that the CEGB believe they are on schedule to meet the target of 27 million tonnes for winter stocks at power stations.

I am sending copies of this letter to Tony Kuczys (HM Treasury) and Brian Unwin (Cabinet Office).

(David Norgrove)

Geoff Dart, Esq.,
Department of Energy.



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

David Norgrove Esq
10 Downing Street
LONDON
SW1A 2AA

*Prime Minister!
Content with
27 million tonnes still?*

15 July 1987

Dear David,

COAL STOCKS

*top me
Der
17/7.
mf*

Thank you for your letter of 10 July.

As you know, following the second report on the lessons of the miners' strike, it was noted that the CEGB's normal coal purchase profile in 1986/87 would result in winter stocks at power stations of 27 million tonnes. This would give 9 months endurance in the event of a total stoppage of coal deliveries and 27 months should the UDM continue to work. Ministers agreed - your letter to me of 20 December 1985 refers - that winter stocks of 27 million tonnes would provide adequate security. (As a consequence it was subsequently agreed with the CEGB that spring stocks of 22 million tonnes were necessary to maintain this level of endurance the year round).

The position has been kept under close review since then, and the CEGB regularly assess endurance against operational changes. For this financial year the CEGB intend maintaining stocks at the 27/22 million tonnes level in order to continue to provide 9 months endurance cover. This is consistent with their EFL.

In addition to the weekly stocking figures for all fuels at power stations, my Secretary of State also receives a fortnightly report on endurance. The most recent of these is attached. This shows that the CEGB believe that they are on schedule to meet the 27 million tonnes target. Mr Parkinson believes that it would not be appropriate in present circumstances to risk a reduction in coal stocks.

Endurance is obviously one of the issues we will be examining closely in the context of privatisation of the electricity supply industry.

I am copying this letter to Tony Kuczys (Chancellor's Office) and Brian Unwin (Cabinet Office).

G S DART
Principal Private Secretary

*Yours,
Geoff*

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ENDURANCE : FORTNIGHTLY REPORT TO 10 JULY 1982

- 1 Coal stocks at power stations are 22.87m^t as at 6 July.
- 2 The CEGB estimates these stocks to be equivalent to 9 months endurance given a complete stoppage of coal deliveries to power stations and 27 months endurance given a partial (ie UDM production maintained) stoppage.
- 3 The target is for there to be 27 million tonnes of coal stocked at power stations by the end of October/beginning of November. Stocks have built by 160,000 tonnes over the last fortnight and CEGB advise they are on schedule to meet the target.

EL1(a)

10 July 1987

cc: CST
FST
Sir P Middleton
Mr F E R Butler
Mr Monck
Mr Byatt
Mr Moore
Mrs M Brown
Mr Houston
Mrs Diggle
Mr Cropper
Mr Tyrie
Mr Williams

1. NW to see
2. NRP.



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

The Rt Hon Cecil Parkinson MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON SW1

1. cc for Nybrow
(wespoke - performance)
15.7

14 July 1987

Handwritten signature: Stan C...

2. to me psc.

PRIVATISE COAL

I was interested to read Sykes' and Robinson's recent CPS booklet.

I know, of course, that you are alive to the need to develop a strategy for the coal industry in parallel with our strategy for electricity privatisation. It is essential that electricity consumers are given the benefit of coal prices closer to those that would rule in a more open market. That may well mean giving the electricity supply industry greater scope to import coal (and indeed Sykes and Robinson suggest we should actively encourage the construction of a modern coal terminal). But our present strategy to secure lower coal prices is primarily directed at British Coal, seeking to encourage them further to improve their performance and to adjust their operations to the size of their market.

I fully support the effort that you and Bob Haslam are putting into improvements by BCC, and agree this should continue. But I am doubtful if this alone will deliver a sufficiently strongly based UK industry that can compete with imported coal other than at highly protected inland sites. In this context, I find Sykes' and Robinson's analysis attractive. Were British Coal to prove incapable of responding sufficiently to the challenge of imports, we would risk going into electricity privatisation with higher costs either for the consumer, through continuation of the protective regime for BCC, or for the taxpayer, by way of further subsidy to BCC.

We cannot of course consider privatisation to the timescale of Robinson and Sykes, and some of their figuring may well be

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optimistic. Certainly, detailed analysis is needed before conclusions can be drawn. But I hope that you will be giving their ideas full consideration in deciding your strategy for the coal industry generally. In particular, we might consider whether it would be sensible to envisage a measure of liberalisation, by loosening the constraints on private sector mining, and possibly also putting opencast directly into the hands of the private sector. It might perhaps be possible to legislate in 1988-89, by when we shall anyway be looking at British Coal's grant arrangements.

Do let us meet soon and have a chat about all this.

A handwritten signature in dark ink, appearing to read "Nigel Lawson", with a large flourish at the end.

NIGEL LAWSON

6 July 1987

DISCUSSION NOTE FOR MEETING WITH SECRETARY OF STATE FOR ENERGY

1 Background

In recent years the Electricity Supply Industry has been at a low point in its investment cycle. Now the combination of electricity demand growth and the retirement of ageing power stations is foreseen as creating a rapidly growing electricity supply gap starting in the early to mid-1990's. In consequence, the CEBG faces an exceptional investment programme - perhaps £20 billion by 2000.

On the one hand, this reinforces the case for electricity privatisation. With the ESI needing to renew its assets over the next 20-30 years, what better time to privatise the industry; in a liberalised private sector industry the renewal process will then be shaped by competition and the disciplines of the market; and the Government's public expenditure programme will be relieved of a substantial burden.

On the other hand, the Government faces a dilemma. Unless the higher cost of funding an investment programme of perhaps £20 billion in the private sector is exceeded by the efficiency gains from privatisation, the effect of electricity privatisation will be to increase electricity prices to the disbenefit of consumers and the economy. This problem is made more acute by the fact that in fighting inflation the Government has held back electricity prices so that the current real rate of return on the ESI's assets is only 2.75% compared with the Treasury's norm of 5% real. Just to get back to the Treasury norm would entail electricity price increases of

some 2% pa above inflation for the next 3 years.

There will of course be efficiency gains associated with electricity privatisation, but they will only be substantial if the form of privatisation adopted makes provision for vigorous competition in liberalised coal production and electricity generation industries, neither of which is a natural monopoly.

The link with coal production is crucial. Nearly 80% of our electricity is generated from domestically produced coal. (This proportion will change little before 2000 since the increase of nuclear capacity from new stations will be offset by the retirement of old nuclear plant.) The CEGB represents 75% of British Coal's total market. The present regime is illiberal and uncompetitive. The CEGB is very largely denied access to cheap imported coal. Supplies of low cost coal from our own small private sector are severely limited. Yet coal production and electricity generation - roughly half and half - account for at least three-quarters of the cost of our electricity supplies. The CEGB describes the reduction in its coal supply costs as the "greatest single opportunity for the CEGB to reduce electricity costs and hence keep electricity prices, particularly to industry, more competitive".

2 Problem

The problem is how to make sufficient provision for vigorous competition in liberalised coal production and electricity generation industries whilst taking realistic account of the practicalities and the following constraints:

- the need to command the support of the ESI's management;

- the need - with ESI management support - to gain the acceptance of electricity unions who have already launched a campaign against electricity privatisation and who have frightening power to disrupt the life of the community and damage the economy.
- likewise, without management support there is a serious risk that work on the ESI's heavy investment programme would be disrupted, jeopardising the adequacy of electricity supplies in the 1990's and beyond.
- The limitations of the 4-year window for action provided by the Government's third term.

3 Conclusions

- Long term sustainable benefits to electricity consumers and the economy at large should be the primary objective of electricity privatisation.
- The link between the ESI and the British coal industry must be confronted and tackled from the outset. We need a co-ordinated plan for the privatisation of both electricity and coal.
- Although it is essential that the objective of this plan is vigorous competition in liberalised coal production and electricity generation industries, the requisite restructuring of the electricity and coal industries cannot be achieved in a traumatic "big bang"; the development of competition in liberalised markets will have to be progressive and evolutionary. But the seeds must be sown at the outset.
- Although the Government will want to lay the foundations for liberalised private sector electricity and coal industries as fully as possible in the third

term, the four year period available in practice should not be regarded as an absolute constraint. (It is more important that the foundations are well laid to secure the benefits for electricity consumers and the economy than that the process is completed in four years.)

4 Outline Proposal

Electricity

- Privatisise the 12 Area Boards as individual plc's. Some, but not much, grouping of individual Area Boards into larger organisations could be considered.
- The CEGB would remain intact and be privatised in such a way as to force it to compete on an equal footing with third-party generators. To ensure fair competition, the national grid would either be separated from the CEGB or left under CEGB operatorship subject to tight regulation to ensure market access by competing generators.
- The privatised distribution companies would inherit electricity supply contracts with the CEGB whereby the supply of bulk electricity would taper away over time. This will leave an electricity supply gap to be filled through competition between the CEGB and alternative supply options including, for example, imports from say France or a number of smaller energy-efficient initiatives such as Combined Heat and Power schemes.
- The regulatory regime for the distribution companies would be designed to encourage them to exercise initiative and enterprise in procuring electricity and developing the electricity market to the mutual benefit of supplier and customers. For example, wherever possible and practicable (eg in the industrial market)

competition between the distribution companies would be encouraged.

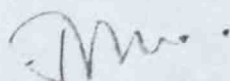
The formula for regulating electricity prices to end users (akin to RPI-X+Y for gas) would be based on assumptions - and later, experience - of performance and capability close to industry best ~~to~~ practice. Thus the best performers would be rewarded with higher margins than the indifferent performers. Competition through emulation would show up in the bottom line.

- Third party generators are likely to compete fiercely with the privatised CEGB for supplying incremental electricity. A Hong Kong based company has just completed a 700 MW power station in mainland China in 22 weeks for a cost of some £250 million. By comparison, Sizewell B will cost over £1500 million for 1200 MW of capacity and will take 7-8 years to complete. (There could be parallels with the effect of new printing technology on Fleet Street or the effect of the minibus revolution on the local bus industry.)

Coal

- At an early stage, the framework of the coal industry should be liberalised along the lines already proposed by the Energy Select Committee, ie akin to the existing regimes for oil and gas production.
- The Government would undertake to keep British Coal essentially intact whether in the private or public sector, but the licensing and regulatory functions of British Coal would be transferred to the Government; likewise, the receipt of royalties on coal production. British Coal would be expected to pay an appropriate royalty on the coal produced from its low cost, open cast operations.

- The severe limitations of the scope of our small, private sector coal production industry would be removed. Licences for new deep or open cast coal acreage would be tendered competitively.
- Management/employee buy outs of British Coal's deep mines would be invited and encouraged.
- The restrictions on coal imports would be removed. The illiberal supply arrangements between the CEEB and British Coal would be scrapped and replaced by new arrangements conducive to competition and enterprise.



JOHN WYBREW

SECRET



DC
11

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

10 July 1987

Dear Geoff,

COAL STOCKS

BF|| The Prime Minister has noted from the weekly coal and power station statistics that coal stocks at power stations are now rising again, from a level somewhat higher than at this time last year. It is not clear, however, that the same rate of increase as last year will be achieved, and indeed there has been no decision on what the appropriate level for the start of next winter should be. The Prime Minister would be grateful for advice on the level of coal stocks needed to secure maintenance of electricity supplies in the coming winter against the possible threats.

I am copying this letter to Tony Kuczys (H.M. Treasury) and Brian Unwin (Cabinet Office).

Jan,

David.

David Norgrove

Geoff Dart, Esq.,
Department of Energy.

SECRET

CONFIDENTIAL

PRIME MINISTER¹

COAL STOCKS

You will see from the chart below that coal stocks are rising this year from a higher level than last year, by nearly one million tonnes for Great Britain as a whole and by over half a million tonnes for the CEGB.

Last year the CEGB target was set at 27 million tonnes by October. I think it would be worth making sure that endurance this year will be adequate: even though we are starting from a higher level there can be no guarantee that the CEGB and the NCB will make the efforts necessary to reach an appropriate level.

Agree to ask for a report from the Department of Energy?

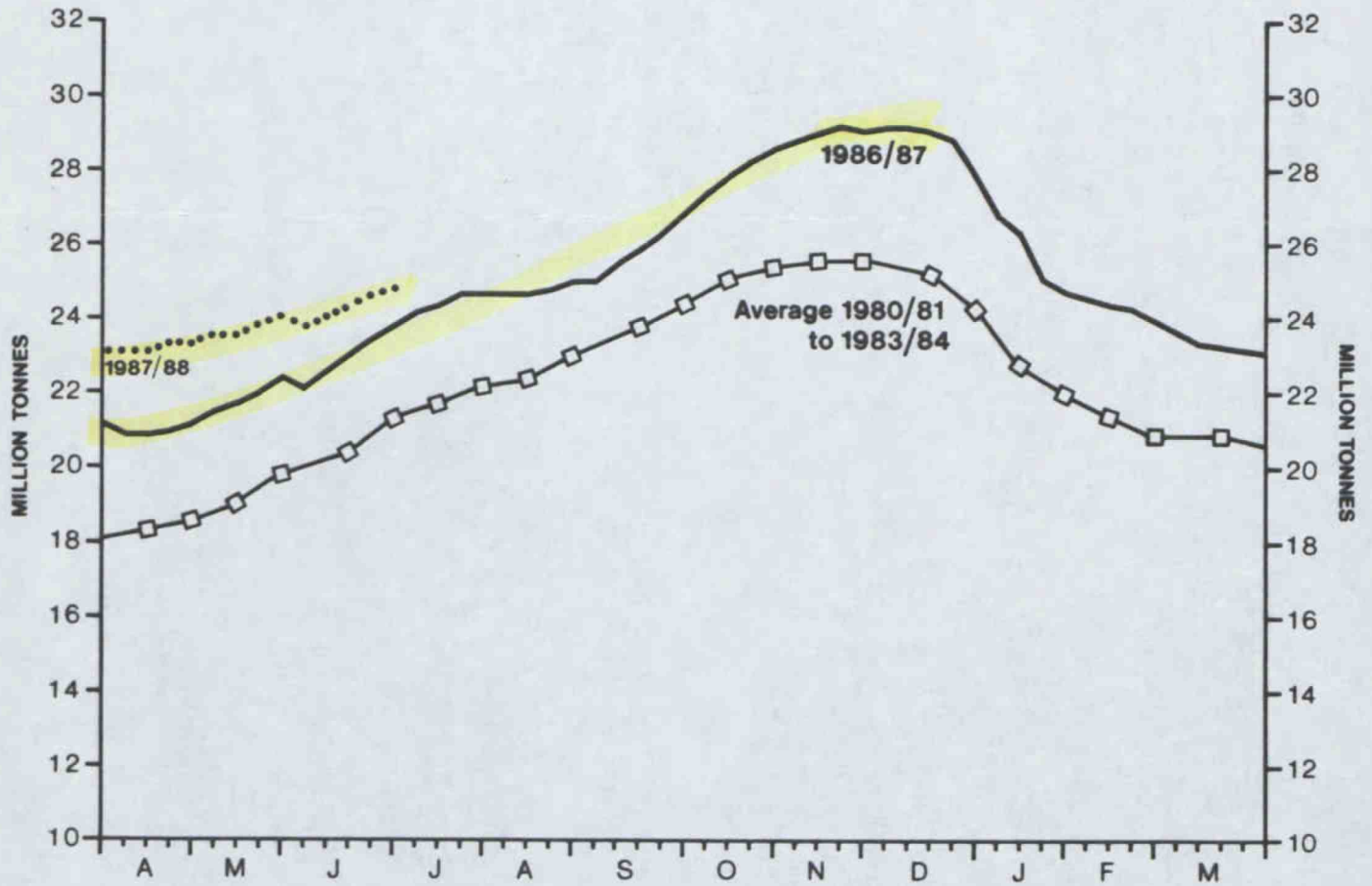
Yes mt

DNW

DAVID NORRGROVE

9 July 1987

COAL STOCKS AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN



EJ

CONFIDENTIAL

WEEKLY COAL AND POWER STATION STATISTICS (1)

EcS Division, Dept. of Energy, Thames House South,
Millbank, London SW1P 4QJ

phone:01-211-4368

9 JULY 1987

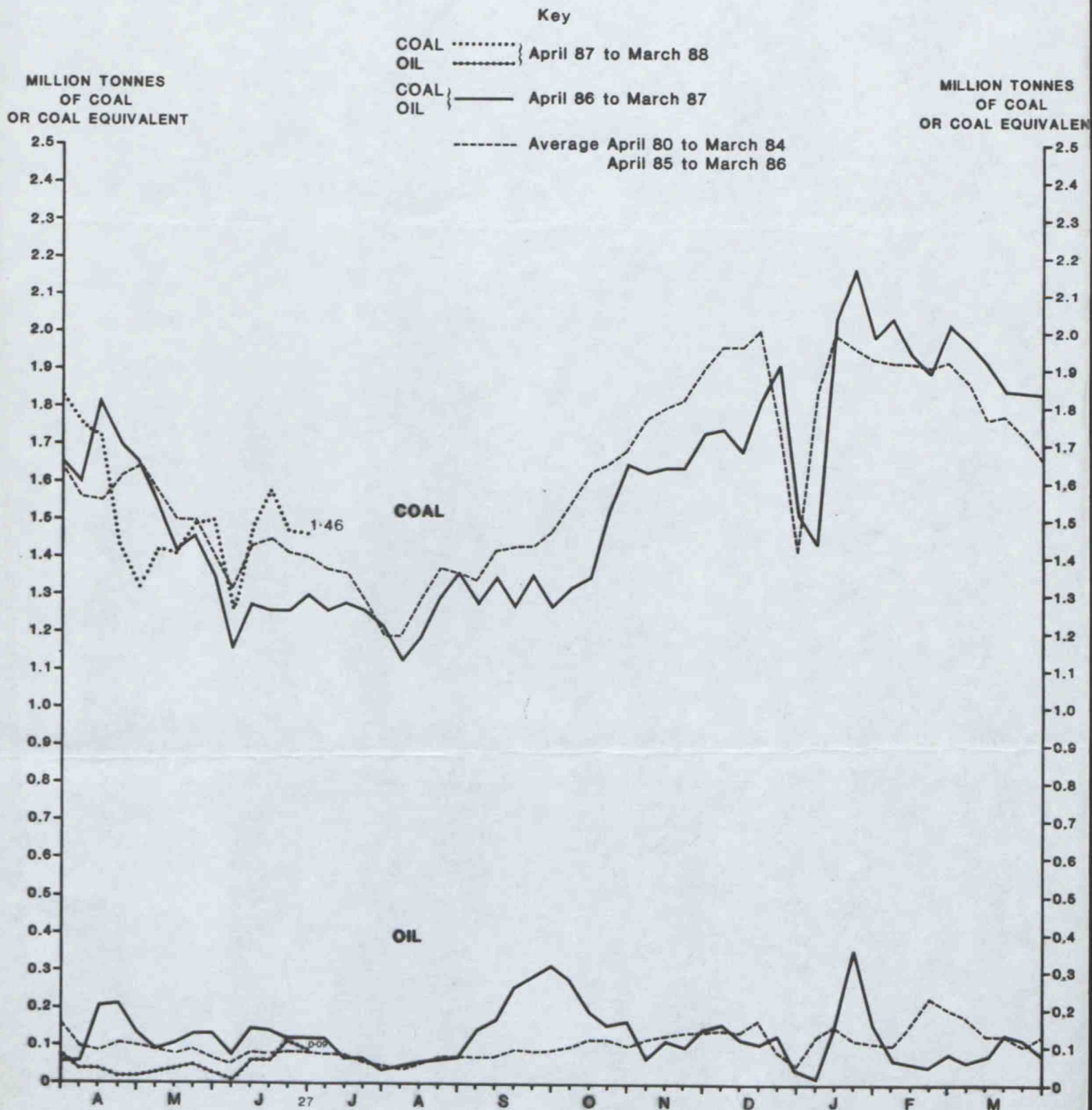
Week ending.....		28.6.86	6.6.87	13.6.87	20.6.87	27.6.87
C O A L	PRODUCTION (m. tonnes)					
	deep mines+	1.79	1.76	1.75	1.82	1.80
	opencast+	0.34	0.32	0.31	0.31	0.34
	TOTAL	2.13	2.08	2.06	2.14	2.14
	PRODUCTIVITY(2) (tonnes/manshift)					
	'overall'	3.14	3.69	3.67	3.74	3.71
	'production'	13.58	16.04	15.89	16.38	16.29
	UNDISTRIBUTED STOCKS (m. tonnes)					
	deep mines:					
	England	1.82	3.88	3.83	3.80	3.71
	S.Wales	2.22	2.32	2.30	2.27	2.21
	Scotland	0.96	0.65	0.65	0.67	0.67
	opencast	2.92	2.22	2.19	2.15	2.15
	TOTAL	7.92	9.07	8.98	8.89	8.74
	COAL STOCKS (m. tonnes)					
	TOTAL CEGB	22.12	22.03	22.20	22.47	22.72
	Scotland	1.71	1.96	1.97	1.99	2.03
	TOTAL Gt. Britain	23.83	23.99	24.17	24.47	24.75
	COAL CONSUMPTION (m. tonnes)					
	TOTAL CEGB	1.26	1.39	1.47	1.37	1.38
	Scotland	0.04	0.08	0.10	0.10	0.09
	TOTAL Gt. Britain	1.30	1.47	1.57	1.47	1.46
P O W E R	COAL RECEIPTS (m. tonnes)					
	CEGB	1.65	1.60	1.65	1.65	1.63
	Scotland	0.07	0.13	0.11	0.12	0.12
	Gt. Britain	1.71	1.73	1.76	1.77	1.75
S T A T I O N S	OIL STOCKS(3) (m. tonnes)					
	CEGB	0.76	0.40	0.38	0.38	0.39
	Scotland	0.11	0.09	0.09	0.09	0.09
	Gt. Britain	0.87	0.50	0.48	0.47	0.48
	OIL CONSUMPTION (3) (m. tonnes)					
	CEGB	0.05	0.03	0.03	0.07	0.05
	Scotland	0.02	-	-	-	-
	Gt. Britain	0.07	0.03	0.03	0.07	0.05
	OIL RECEIPTS(3) (m. tonnes)					
	CEGB	0.05	0.01	0.01	0.06	0.06
	Scotland	0.03	-	-	-	-
	Gt. Britain	0.08	0.01	0.01	0.06	0.06
	GAS CONSUMPTION (m. therms)					
	CEGB	-	-	-	-	-
	ELECTRICITY(4) SUPPLIED (GWh)					
	Nuclear	908	725	548	600	574
	Other Steam	3,204	3,518	3,759	3,630	3,550
	TOTAL	4,112	4,243	4,308	4,230	4,124
	TOTAL, temperature corrected	4,217	4,173	4,056	3,989	4,031

(1) Great Britain unless otherwise stated. All latest figures are subject to revision. (2) British Coal mines only. (3) Oil-fired boilers only. (4) Steam stations only. +includes licensed production.

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COAL CONSUMPTION AND OIL CONSUMPTION (OIL FIRED) AT
PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN



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cc(35)
↓

Treasury Chambers, Parliament Street, SW1P 3AG

David Hunt Esq MBE MP
Parliamentary Under Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London
SW1P 4QJ

23 April 1987

NBM

Dear David,

COAL INDUSTRY PAY

at trap

Thank you for your letter of 13 April.

Naturally, I hope that the latest offer of the UDM will produce a satisfactory response. As usual I would be grateful to be kept informed of developments.

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

Yours ever,
JH

JOHN MacGREGOR

NAT 110 : Coa1 P100





PARLIAMENTARY UNDER
SECRETARY OF STATE

The Rt Hon John MacGregor OBE MP
Chief Secretary
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ

Direct Line 01-211 3932
Switchboard 01-211 3000

CCBG
nbpm

13th April 1987

Zear Tol

at trap
Peter Walker wrote to you on 7 November 1986 to tell you of the pay offer which British Coal had made to the Union of Democratic Mineworkers.

Following further discussions with British Coal the offer was amended. The second year element was dropped and there was an increase from £50 to £100 per half year in the no-strike bonus, or "continuity bonus" as it became known. Payment of the extra £50 per half year was, however, dependent on the strike free record of a whole unit (which had still to be defined); the first £50 per half year being dependent upon an individual's own strike-free record.

In a ballot in March, the UDM voted overwhelmingly to reject British Coal's offer. As a result British Coal have again revised their offer to the union. This now comprises:

an increase of £4 per week on grade rates, and £1 per week on incentive rates (as before); and

up to £50 per half year continuity bonus only dependent upon an individual's own record; and

up to £50 per quarter attendance bonus.

The new offer is estimated to add 4.65% to the wages bill and be worth about 5% on earnings to a man on average wages and incentives in Nottinghamshire.

I am copying this letter to the Prime Minister, Members of E(PSP), and to Sir Robert Armstrong.

Just over

DAVID HUNT *Di*

NAT IND : Coal PT20



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

6 April 1987

COAL INDUSTRY

The Prime Minister was grateful for your Secretary of State's minute of 3 April reporting the way in which employment in the coal industry has changed in the past few years.

(David Norgrove)

Geoff Dart, Esq.,
Department of Energy.

DS

COBC



Prime Minister²
mt Dhw
3/4.

PRIME MINISTER

COAL INDUSTRY

I thought you would be interested in seeing the figures illustrating the total transformation of the coal industry that has taken place over the last 3 years. It is remarkable that from September 1983 until the end of this month the total number employed by the industry has been reduced by more than 100,000 and the numbers since the conclusion of the strike have been reduced by nearly 80,000. Perhaps even more staggering is that in the period in which the number of men on the colliery books has gone down by more than 40% coal production has gone down only 3%. It is a staggering illustration of the colossal waste of resources that has taken place under nationalisation in previous decades.

I am sending a copy of these figures to the Chancellor and the Secretary of State for Trade and Industry.

SECRETARY OF STATE FOR ENERGY
3 April 1987

	End Sept 1983	End March 1985	End March 1986	End March 1987 est- imated	% reduction Sept 1983 to March 1987
MEN ON COLLIERY BOOKS	191,658	171,379	138,490	109,000	-43%
OTHER INDUSTRIALS	28,042	25,327	19,363	14,600	-48%
NON INDUSTRIAL STAFF	27,135	24,592	21,792	18,650	-31%
TOTAL EMPLOYEES	246,835	221,298	179,645	142,250	-42%
Deepmined output (million tonnes per annum)	90.1	27.6	88.4	87.0	-3%
Annual productivity (tonnes per manshift)	2.43	2.08	2.72	3.3	+36%

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CCP

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Peter Walker MBE MP
 Secretary of State for Energy
 Department of Energy
 Thames House South
 Millbank
 London
 SW1P 4QJ

NBM

April 1987

Dear Peter,

BRITISH COAL: RESTRUCTURING GRANT

at the

Thank you for your letter of 25 March.

I am grateful that you have been able to persuade British Coal to adopt a shadow cash limit on this grant in the usual format. It is disappointing that the policy framework we agreed in the IFR last autumn has so rapidly become out of date. It would have been more satisfactory to work against a consistent background for both the EFL and restructuring grant limit. I very much hope that it will be possible for us to agree on a new 1987-88 EFL for British Coal very shortly.

However, I do understand that it would make administrative sense to lay the order for restructuring grant now. On the understanding that you expect your proposed limit of £168 million to be consistent with the EFL, I have no objection to your laying the order.

I am sending copies of this letter to the Prime Minister and Sir Robert Armstrong.

John MacGregor
John

JOHN MacGREGOR

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CCBS



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London
SW1P 4QJ

31st March 1987

NBAN

Dear Peter,

BRITISH COAL: MARGAM

Thank you for your letter of 23 March.

I recognise the attraction of launching a new mine investment project in South Wales at the moment, especially if the prospect of 6 day working could be secured. However, the financial case for the new mine does not strike me as robust. The rate of return is not only vulnerable to the usual range of mining uncertainties, but is also particularly sensitive to exchange rate fluctuations - more so than investment in steam coal, partly because there is nothing equivalent to the agreement with the CEBG and partly because so many power stations are sited inland whereas most of the major steel works are on the coast.

I understand British Coal's argument for expecting the current international price to be maintained over the life of the Margam pit. But in normal circumstances I do not think that this would be reliable enough for the scheme to go ahead without a substantial margin in the prospective rate of return. In fact I understand that the project would not meet British Coal's own normal criteria. If geological mining risks materialised, the project's return would drop to only 3 per cent after mining risks; it would fall to zero if the current exchange rate were to hold through the life of the mine.

I recognise that the prospect of achieving 6 day working has to be set against the relatively low profitability and high risk of this project. To secure that would indeed be a prize and British Coal are of course quite right to make it a condition.

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COAL
PT 20

There must of course still be considerable risk that miners elsewhere will not adopt the practice readily even if it is agreed at Margam.

I am therefore not convinced of the economic justification for this project, even taking into account the prospect of 6 day working. I nevertheless recognise that there are wider potential benefits, and also that to withhold approval could be damaging to the continuing efforts of British Coal's management to improve productivity. If you judge therefore that these wider considerations outweigh the weak economic case, I would be prepared, in these exceptional circumstances, for you to approve the project.

I am grateful for your assurance that the capital expenditure would be met within the agreed capital allocation. I agree that the scope for an ECSC loan should be explored. Whether or not it or other finance is uncovered, will depend on the other initiatives, being discussed between our officials, to extend BC's uncovered borrowing. I very much agree with your view that regional selective assistance should not be given to the project.

I am copying this letter to the Prime Minister, Nick Edwards, Kenneth Clarke, Paul Channon and Sir Robert Armstrong.

Yours etc,
JH

JOHN MacGREGOR





SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

The Rt Hon John MacGregor OBE MP
Chief Secretary
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

PM
CCB
NSM at his stage

25 March 1987

Ag *at trap*
In your letter of 16 January you accepted that the rate of grant support towards British Coal's restructuring costs in 1987/88 should be 75%. British Coal have now settled their 1987/88 industry budget, and we need to fix the cash limit to be applied to grant under Section 3 of the 1987 Coal Industry Act for the year.

In my letter of 22 January, I outlined discussions I had with Bob Haslam on his plans for British Coal and his view of short to medium term prospects. Despite the tremendous progress that the industry has made, he was concerned that market weakness was leading to a shortfall of market revenues which without further action would jeopardise his ability to achieve his objectives. He therefore proposed further measures to reduce costs through manpower reduction in the current year, in addition to aiming at 4,500 as the number of industrials leaving under British Coal's own scheme next year, in line with the industry's bid in the 1986 IFR. The industry has pursued these measures energetically, and it is now clear that the number of men leaving through redundancy under the RMPS during the current year will comfortably exceed the 31,000 he then expected. The industry's 1987/88 budget seeks to build upon this progress with further cost cutting measures, particularly in the area of staff costs.

The immediate effect is inevitably to further increase restructuring costs, and British Coal now estimate that on the basis of 75% grant they would need cash grant under Section 3 in 1987/88 of £168 million.

The measures proposed are sensible and in line with the objectives we have set the industry. I would see no justification for setting a figure below that sought and therefore propose a limit of £168 million. At the appropriate time I will need to seek a Summer Supplementary estimate increasing provision for grants under Section 3 to accommodate this limit.

To ensure the necessary secondary legislation is in place by the time the first payment would fall due, and to minimise the risk that

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the order might fall in the event of an early dissolution of Parliament, I propose to lay an order under Section 3 before Parliament in draft on 6 April. There is some urgency in our settling this, therefore.

I am sending copies of this letter to the Prime Minister and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read "Peter Walker". The signature is stylized and somewhat cursive, with a large loop at the end.

PETER WALKER

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NAT IND Coal PT20



CDBG

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 GWYDYR HOUSE
 WHITEHALL LONDON SW1A 2ER
 Tel. 01-270 3000 (Switsfwrdd)
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 0538
 Oddi wrth Ysgrifennydd Gwladol Cymru



WELSH OFFICE
 GWYDYR HOUSE
 WHITEHALL LONDON SW1A 2ER
 Tel. 01-270 3000 (Switchboard)
 01-270 (Direct Line)
 0538
 From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

De - JR

NBM

24 March 1987

MARGAM

I have seen a copy of Peter Walker's letter of 23 March to you and I am writing to register my wholehearted support for this proposal.

Peter makes all the relevant points which demonstrate the clear case for going ahead. I would like to emphasise how important this project is to South Wales, as well as the UK as a whole.

Margam is located in an area which is experiencing a high rate of unemployment. For example, the latest male unemployment figure for the Bridgend ttwā, from which much of the workforce for the mine would be drawn, is 19.9%. The project will obviously make an immediate and significant contribution to the alleviation of the unemployment situation in the area.

Peter mentioned the radical restructuring that has taken place in the South Wales coalfield since the end of the strike. The positive response of the remaining workforce which has resulted in an 83% improvement in productivity since 1984/85 provides encouragement to our belief that the output projections made by BC are realistic.

As colleagues will readily appreciate, politically, a decision by Government to support this project could hardly come at a more propitious moment.

I am copying this letter to the Prime Minister, Peter Walker, Kenneth Clarke, Paul Channon and to Sir Robert Armstrong.

J. [Signature]

Neil

The Rt Hon John McGregor OBE MP
 Chief Secretary

Noted: Coax PT 20.



NBPD at this stage.

MR NORGROVE

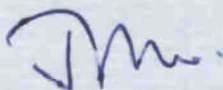
24 March 1987

BRITISH COAL - MARGAM PROJECT

Peter Walker is not exaggerating when he describes the "enormous potential benefits" of breaking the stranglehold on coal mining productivity of work practices, prescribed nationally in accordance with the 1908 Hours of Work Act and the 40-Hour 5-Day Week Agreement. It makes no economic sense to invest £90 million in the new Margam mine using the most advanced mining technology and then not to realise the full production potential of the equipment. British Coal are rightly putting high priority on transferring responsibility to local managements for devising the most productive work practices appropriate to each pit, with the miners rewarded through local productivity deals.

Arthur Scargill has chosen to defend his leadership of the NUM on this crucial issue. The signs are that he is losing the battle over Margam; South Wales miners want the investment, the work and the rewards for high productivity. Others are likely to follow as NUM members recognise the financial incentives for greater flexibility over work practices.

Even if we regard the Margam project as borderline in narrow economic terms, there is a compelling case to endorse British Coal's proposed go-ahead.



JOHN WYBREW

cc BG.



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

NBPQ at this stage.

The Rt Hon John MacGregor OBE MP
Chief Secretary
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

23 March 1987

BRITISH COAL: MARGAM PROJECT

British Coal are obliged under a long-standing convention to seek our comments as to the public interest in respect of proposed new mines. We have now been consulted about the proposal for a new £90 million drift-mine at Margam near Port Talbot in South Wales. I attach a background note on the project which has been approved by the Board of British Coal and is strongly supported by the Chairman, Bob Haslam.

The Margam prospect contains the last major deposit in the UK of prime quality coking coal. It is well suited in terms of both quality and location for sale to British Steel's plants at Port Talbot and Llanwern. British Coal wish to proceed with the project, subject to two important conditions:

- (a) that the NUM and NACODS agreed to 6 day working;
- (b) that satisfactory arrangements are made for financing, in discussion with the Government and the European Coal and Steel Community.

In my judgement the project is financially sound. The base case offers a real rate of return of 12%; and even the "worst proceeds" case, at 6.4%, offers more than the required rate of return of 5%. The output would help the balance of payments by displacing imports; and a new mine would provide an excellent showcase for the mining equipment industry.

Moreover, there are prospects of substantial benefits for both British Coal and the Government which are difficult or impossible to allow for in a financial appraisal. Since the end of the NUM strike two years ago, 60 collieries have been closed or merged; 60,000 jobs have disappeared in the pits themselves, and nearly 20,000 ancillary and non-industrial jobs elsewhere. In South Wales alone, the number



of collieries has fallen from 28 to 14, and the men on colliery books from almost 19,500 to 10,500. Against this background, Margam represents the other, positive side of the industry's restructuring; and it has great significance for both men and management. As well as demonstrating a commitment to the industry's future, the project would create 780 jobs directly, and a similar number indirectly in an area of high unemployment.

Secondly, it would be extremely beneficial to the industry's finances if it were possible to introduce more flexible working practices. Bob Haslam has publicly emphasised the need to move to six-day production in place of the five day week that has been firmly embedded in the industry for so many years. Margam is an ideal opportunity to start this process of change. As already seems clear from the South Wales NUM's decision, the unions will find it hard to resist six-day working if the effect of doing so is to block the project. The workforce at Margam will be almost entirely new recruits rather than transferees long accustomed to the traditional 5 day week. And there is the welcome willingness on the part of the local Area NUM to consider six day production in defiance of the national NUM leadership. If six day production can be agreed at Margam, British Coal have every chance of getting it accepted at other new mines; and it will put them in a stronger position to introduce it at existing pits. The potential benefits are enormous.

British Coal have confirmed to me that they are prepared to create room for this project within the capital allocations agreed in the last IFR round. However, they are subject to strict cash rationing and are having to set very stiff internal criteria for investment projects. In order to maintain those criteria, they are looking for financial support from the ECSC and the Government sufficient to raise the rate of return by rather over three percentage points. In particular they are looking for assistance under three heads:

- (a) an ECSC loan with an interest rate subsidy of 3%, equivalent to 2-3m ecu for the first stage of the project with further subsidies for subsequent stages;
- (b) a dollar-denominated loan for the full amount of the project, guaranteed by the Treasury but uncovered by the Exchange Guarantee Scheme (so as to offset the exchange rate risk under the project); and
- (c) regional selective assistance.

The first two elements of this look straightforward - in particular, it must make sound commercial sense to finance by dollar borrowing a project so exposed to the sterling/dollar exchange rate. We should do all that we can to persuade the European Commission to provide finance on favourable terms; and we should tell British Coal that we are willing to approve dollar borrowing for the full cost of the project, subject to discussion of the details between officials.



I do not, however, believe that it would be right to offer regional selective assistance (RSA). Although it is understandable that British Coal should compare themselves with those investors in South Wales who are eligible for RSA, and that they should seek to maximise the benefits of the project to their own finances, Margam is perfectly viable without assistance from Government, and its very advantages in terms of specialised quality of coal and nearness to the market mean that it is not in close competition with projects in other Areas. In any case, since the introduction of RSA, it has been regarded as inappropriate for assistance to be offered for mainstream activities of Nationalised Industries as has been made clear in the RSA Operating Guidelines. I see no basis for our making an exception for this project.

British Coal have not reached their decision lightly. It comes at what I believe could be an important turning point in the industry's fortunes, and I very much hope that we can agree to back Bob Haslam's judgement.

I strongly believe that the politics of Margam call for an immediate and positive response. A favourable decision would have a very important impact on South Wales and also of course in supporting the realistic attitudes now developing within the NUM. I therefore seek quick and speedy approval as of course I still have to persuade British Coal to go ahead without Regional Selective Assistance.

I am copying this letter to the **Prime Minister**, Nicholas Edwards, Kenneth Clarke, Paul Channon and to Sir Robert Armstrong.

PETER WALKER

MARGAM DRIFT MINE

1. This is a proposal to develop an area of coking coal reserves at Margam on a site about 5 miles from the British Steel Corporation works at Port Talbot. Planning permission for the new development has already been obtained. The coal would be exploited by drift access and would be for supply to the British Steel Corporation works at Port Talbot and Llanwern.

2. The main aims for the proposed project would be:

- (i) to contribute to profitability in South Wales by developing the only substantial untapped reserves of prime coking coal at present known in the UK;
- (ii) to displace coking coal imports and in doing so to provide employment in South Wales to mitigate the effects of the rundown of the coal industry there;
- (iii) to recapture for British Coal part of the BSC market, while giving BSC a dedicated source of supply very close to their two South Wales plants. In 1981/82 British Coal supplied 63% of the 8m tonne BSC market; this year it will be some 34%.

3. The new Mine is estimated to take some 4.5 years to construct at an estimated cost of £79.9m (December 1986 prices) equivalent to £89.8m at outturn. The project prospectus is based on production on 6 days per week. It assumes initial output of some 0.75 tonnes in year 5, with full output of 1.2m tonnes occurring in year 6. At this level there are reserves to support a production period of 16 years. The manpower requirement is 780, and a similar number of jobs are likely to be generated in support services, etc.

Assessment of Mining Proposals

4. British Coal stress that the project has been carefully planned in detail over some considerable time. Inherent in any major mining proposals of this nature are a number of physical mining risks. The particular risks which British Coal have identified in this project are as follows:

- (i) Physical Access - The reserves are almost surrounded by major geological barriers which have previously made drift access appear difficult and costly. New geological techniques - high resolution seismic surveys developed for South Wales - have made it possible to design low risk drift access which will avoid the geological

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barriers.

Drivage of twin 3000 metres long drifts at average progress rates of 25m/week to access the reserves is critical to the timing and ultimate cost of the project. Valuable experience has however been gained at Betws Drift recently and by the proposed use on a competitive basis of outside contractors on continuous operation.

- (ii) Mining Performance - The project provides for mining the coal by two full retreat shield supported faces using the most modern available equipment on 6 days and 26 machine shifts per week. This implies an output per machine shift at a sustained rate of over 700 tonnes per machine shift - which some of South Wales Area's faces are already starting to record. The project assumes output per manshift of 7.52 tonnes.

5. The majority of the manpower required for Margam will come from the ranks of new adults in the Margam catchment area with a small number of men who have continued to live in the catchment area offered the opportunity to transfer from adjacent collieries to form a nucleus of experienced labour. Thus, despite the recent closures of Cwm and Nantgarw collieries, the manning of Margam can be accomplished without major difficulty.

Assessment of Markets

6. British Coal consider that any decline in the total UK market for coking coal will fall mainly on imported coal, and that their own sales will continue to be constrained not by the overall market need, but by the tonnage they can produce at internationally accepted quality standards. The present total market for coking coal in South Wales is about 4 mtpa most of which is taken by BSC's works at Port Talbot and Llanwern. Given that the combined outputs of Marine (which will be the only existing coking colliery - producing inferior qualities - likely to be still operational in the early 1990s, when Margam would be coming into production) and Margam itself, together with limited tonnages of opencast coking coal, will only amount to about 2 mtpa, there should be no problem in accommodating Margam in the market.

7. The Margam reserves are Rank 301B prime 'medium volatile' coking coal of excellent quality comparable with the best on the international market. It is the only remaining deep mine reserve of this type of coal in the UK. BSC have confirmed the suitability of the predicted specification for the Margam coal and that it would fit in to their supply pattern in replacement for imported coal provided its price is acceptable.

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8. British Coal sell coking coal to BSC at prices aligned to the delivered price of comparable imported coking coal plus a small premium of around 2% for security of supply. At present, international coking coal prices are extremely low - a figure of \$53 per tonne has been used in the calculation converted to £35 per tonne on the basis of a sterling/dollar exchange rate of \$1.52. At current dollar prices, British Coal report that higher cost Australian, US, and Canadian export mines are experiencing financial difficulties. There is a distinct possibility of closures which would reduce the extent of the oversupply in the market: this, together with the prospect of firmer demand, should serve to maintain and, other things being equal, strengthen international prices in the longer term.

Financial Assessment

9. British Coal's central estimate of the financial outcome to the project is set out below:

Proceeds per Gigajoule	£ 1.26
Operating Cost per Gigajoule	£ 0.97
Operating Profit	£10.4m
Profit after Interest	£ 0.3m
Net Present Value when discounted at 10%	£10.8m
DCF Yield	12.2%

10. This central estimate, reflecting the risks at paragraph 4 above, incorporates an allowance for a delay of six months in completing the project and a 10% increase in capital cost, together with a 5% shortfall in output and a 5% increase in operating costs. The cash flow assessment incorporates ongoing routine capital expenditure totalling some £25m over the 16 year production period assumed in the cash flow.

11. British Coal have also pointed out that a 10% deterioration in the sterling proceeds would reduce the 12.2% DCF yield to 6.4%. Such a deterioration in sterling proceeds could arise either because of a long-term rise in the sterling/dollar exchange rate to nearly \$1.70, or because of a decline in the dollar price of international coking coal. For the reasons set out at paragraph 8 above British Coal believe that a fall much below current dollar prices is unlikely.

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Prime Minister
You have in mind a meeting with
the Chancellor and Q. Walker for
1-2 months time.

PRIME MINISTER

6 March 1987

DWS 6/3.

Yes - but a
mechanical talk
would be a good
thing - otherwise
too little
will be done
etc.

ENERGY COMMITTEE REPORT ON THE COAL INDUSTRY

Last week the Commons Energy Committee published its report
on the coal industry. Shortly after, Sir Robert Haslam
addressed the Coal Industry Society on the "Way ahead for
British Coal".

Both sources comprehensively chart the industry's impressive
recovery since the 1984/85 strike:

- overall labour productivity increased by a quarter over
the year following the strike;
- unit operating costs this year are expected to be 20%
lower in real terms than those before the dispute;
- since the strike 60 uneconomic pits have been closed or
amalgamated;
- some 60,000 mineworkers and 78,000 staff in all have left
BC since the end of the strike - the average age of BC's
mineworkers falling to 34.

This looks encouraging and the Energy Committee is all for
letting the recovery continue with the minimum of disruption.
However, some of the old rocks remain. The unions are still
tenaciously defending outdated work practices on spurious
grounds of miners' safety and welfare. Half the recent 25%
increase of productivity derived from greater use of
highly-mechanised face equipment. Yet due to the constraints
of the 1908 Powers of Work Act and the 40-year-old Five-day
Week Agreement, costly capital equipment is only being used
for a third of the available time. This would be unthinkable
in comparable capital intensive industries, including deep US
coal mines.

So far BC has made no progress in devolving the negotiation
of wages and conditions to area or coal field level, with the
aim of giving miners appreciably higher rewards for adopting
work practices tailored to the highly-mechanised equipment at
their disposal. Regrettably the short-sighted, defensive

leadership of the UDM is showing no more inclination than the NUM to respond to BC's encouragement in this direction. The need for modern work practices to realise the full benefit of today's mining techniques is central to the questions of how and when the coal industry should be restructured and privatised.

The Conservative majority on the Energy Committee advocates a step-by-step approach; first, correct a basic flaw in the industry's structure by vesting the ownership of coal in the Crown and transferring to the Department of Energy the licensing of coal, the regulation of the industry and the collection of royalties - i.e. the same regime as for oil and gas production; then use these powers to liberate and expand the small private sector component of the industry which currently accounts for only 2% of UK coal production; leave BC in the public sector at least until the trend of rising productivity returns the business to profit.

The snag is that BC's productivity improvements still have a long way to go before the business is commercially sound. Bob Haslam reckons that BC must aim for a target of 5 tonnes/man shift for average labour productivity, compared with the present much-improved 3.5 tonnes. Unit operating costs need to be reduced by another 20% in real terms. Further improvements on this scale cannot be achieved without the introduction of modern work practices tailored to local circumstances. But this essential reform may well prove impossible with the industry as currently constituted; the forces of reaction are too deeply entrenched. Here lies the case for a bolder and more rapid process of restructuring and privatisation to force the requisite changes.

A Conservative Government beginning its Third Term with a good working majority will have to choose between:

- (a) postponing reform of the coal industry in the hope that BC can first be returned to profitability (Haslam);

- (b) laying the foundations by separating BC the business from BC the licensing authority, regulator and tax collector, whilst liberalising the small private sector industry to act as a competitive spur to BC (Energy Committee);
- (c) as well as doing (b), breaking up BC by privatising the profitable opencast mines and encouraging management/workforce buyouts, perhaps in joint ventures with private sector mining or energy companies (Redwood).

The Pros and Cons

Option (a) misses the window for bold early action. If the Government postpones reform we could easily end up approaching the following election with BC stuck in third gear and unable to sustain the productivity increases needed to return to profitability.

Option (c) entails early bold action but may not ultimately lead to the best result. Privatising the opencast mines will be easy, but they are already privately operated under competitively-tendered contracts. The real target for reform is BC's deep mines which account for at least 85% of BC's total production. If only the UDM was showing more enlightened vision and could be relied upon to respond positively to the opportunity of management/workforce buyouts.

Option (b) is fine as an initial step, but the Government will probably need two terms to achieve its ultimate goal.

We must not overlook the closely-related privatisation of electricity. The privatisations of BC and the ESI need to be planned and executed as a carefully co-ordinated programme. In the end this more than anything may determine the Government's preference for a step-by-step approach to coal privatisation (b) or the fast-track approach (c).

Conclusion

In the case of coal and electricity privatisation we are playing with high political stakes for a big economic prize. For such a task, even a full Parliamentary term may not be sufficient; particularly if the Government embarks on a Third Term with no more than hazy concepts and bold rhetoric. We need to start developing a carefully-planned and realistic blueprint so that the new Secretary of State can, as it were, "hit the deck running".

→

JW

JOHN WYBREW

CC/S

023/2984



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London
SW1P 4QJ

WWR

6th March 1987

Dear Peter,

OBJECTIVES FOR THE CHAIRMAN OF BRITISH COAL

Thank you for your letter of ^{at 11ap} 2 March.

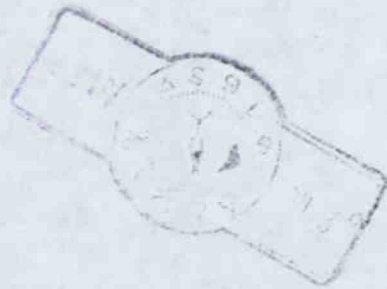
I am now content that you should announce Sir Robert's objectives.

I am copying this letter to the Prime Minister and Sir Robert Armstrong.

Yours,
JM

JOHN MacGREGOR

NAT IND Coa PT20



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

NBM

The Rt Hon John MacGregor OBE MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

2 March 1987

[Handwritten signature]

16th Feb, at 11am

Thank you for your letter of 15 February to Alick Buchanan-Smith.

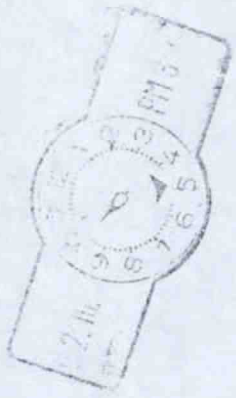
I do not expect any unwillingness on Bob Haslam's part to provide information on the strategic issues set out in your letter of 10 January. As Alick said in his letter of 11 February, we obtained at one stage or another in the 1986 round most of the information you mention; and I have every hope that we shall get it in future in a more structured form that we can pass to your officials. What is new is Bob Haslam's offer to discuss these strategic issues in depth with David Hunt and myself, so that we can explore with him personally the implications of the information he provides. I think this is an important step forward.

I hope you are now content that I should announce his objectives.

I am copying this letter to the Prime Minister and Sir Robert Armstrong.

[Large handwritten signature]

PETER WALKER





Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Alick Buchanan-Smith
 Minister of State
 Department of Energy
 Thames House South
 Millbank
 London
 SW1P 4QJ

th
 16 February 1987

NBM

Dear Alick,

OBJECTIVES FOR CHAIRMAN OF BRITISH COAL

Thank you for your letter of 11 February.

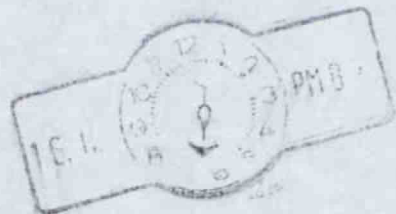
I am glad that we are at one in trying to get a clear understanding of where the Corporation is trying to go in relation to its financial objectives. But in my letter of 16 January to Peter Walker, I was looking for something more than simply an "opportunity to explore" these issues. More specifically, I was looking for an assurance that your or Peter's understandings with Sir Robert gave us a firm expectation that the information along the lines summarised in my letter will be available.

I am copying this letter to the Prime Minister and Sir Robert Armstrong.

John MacGregor

JOHN MacGREGOR

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THE MINISTER OF STATE

DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ

Direct Line 01-211 3290
Switchboard 01-211 3000

The Rt Hon John MacGregor OBE MP
Chief Secretary
Treasury Chambers
Parliament Street
London
SW1P 3AG

11 February 1987

NBM.

Mr John,

OBJECTIVES FOR CHAIRMAN OF BRITISH COAL

Thank you for your letter of 7 January to Peter Walker. I am replying in Peter's absence due to illness.

I very much welcome your acceptance of the proposals for the level and coverage of grant towards restructuring costs, and your agreement to the cost reduction target of at least 20%.

I also share your view of the importance of getting a clear understanding of where the Corporation is trying to go in relation to the financial objectives we have set. During 1986 we obtained most of the information to which you refer in your letter, and our aim will be to get similar strategic information in 1987.

This will be a suitable opportunity for us to explore with Bob Haslam how the Board's own operating parameters relate to the targets for profit, cost reduction, and investment returns. When British Coal have prepared their medium and longer-term strategy and their Business Plans David Hunt will be seeking an opportunity to explore with Bob Haslam how British Coal's own operating parameters relate to the targets for profit, cost reduction and investment returns.

I hope that on this basis you are content with the side-letter attached to Bob Haslam's objectives. If so, I propose to announce the objectives by means of an arranged PQ at the earliest opportunity.

I am copying this letter to the Prime Minister and Sir Robert Armstrong.

Your ever,
Alick

ALICK BUCHANAN-SMITH

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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London
SW1P 4QJ

NRAM

30th January 1987

Dear Peter,

at flap

FINANCIAL SUPPORT FOR THE COAL INDUSTRY

Thank you for your letter of 22 January explaining Sir Robert Haslam's proposals for further redundancies this year; and their consequences for public expenditure.

Of course I appreciate the business advantage to be gained by manpower reductions to obtain necessary cost benefits. The Government has not shirked responsibility for this expense in the past in the commercial interests of the coal industry. I agree that we should do the same now.

I understand that our officials have now agreed that it should be possible to arrange for payment of £35 million of the extra costs this year, leaving £25 million to slip into 1987-88. I think that is a more appropriate phasing of the costs.

I also agree that there would be sense in explaining all this to the Energy Select Committee now in advance of the Spring Supplementary Estimate. I should be grateful if your officials would clear the text with mine.

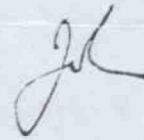
You will understand my concern about the possible further risks you mention to the EFLs for both this year and next. I very much hope that any further increase in the 1986-87 cash limit can be offset by a corresponding decrease in next year's.

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I appreciate that the beneficial impact of lower manpower on profit cannot be adequately assessed without considering British Coal's prospects in the round. But in agreeing to the costs flowing from the higher redundancy numbers I am of course expecting that there will be some profit improvement. I am prepared to wait, as you suggest, for next month before assessing the full picture but we must then move very quickly to avoid the danger of undermining the credibility of EFLs by seeming to adjust the targets to match likely outturn.

I am copying this letter to the Prime Minister and to Sir Robert Armstrong.

Yours ever,



JOHN MacGREGOR



Nat Ind. Coal PT 4

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

Prime Minister ²

DAN
27/1

The Rt Hon John MacGregor OBE MP
Chief Secretary
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

22 January 1987

AG

FINANCIAL SUPPORT TO THE COAL INDUSTRY

mt

I have discussed with Bob Haslam his plans for British Coal and his latest view of short to medium term prospects. Over the past twelve months the industry has made tremendous progress, notably in relation to productivity. Nevertheless he is concerned that greater than anticipated use by the CEGB of the French interconnector together with weakness in other markets, particularly the industrial market, is leading to a shortfall in revenues which without further action will jeopardise his ability to achieve the objectives we are setting him. He therefore proposes further measures to reduce costs through manpower reduction, increasing to 31,000 the number of men expected to leave the industry through voluntary redundancy under the Redundant Mineworkers' Payments Scheme during the current year. This is in addition to aiming at 4,500 as the number leaving under British Coal's own scheme next year, in line with the industry's bid in the 1986 IFR.

The immediate effect of these measures will inevitably be to increase RMPS and social costs. Gross RMPS payments this year are estimated to increase by £40 million to £580 million. Gross social payments by British Coal are similarly estimated to rise by some £40 millions, although as a result of staged funding the effect on cash social grants this year would be modest.

These changes will also affect the need for RMPS expenditure and non-deficit grant to British Coal in 1987/88, in part because some 4,000 of the men who leave under RMPS at the end of this year could not be paid until next. Attached to this letter is an Annex setting out the figures, including all non-deficit cash grant to British Coal after taking account of the proposed 75% rate of restructuring grant towards future redundancy costs accepted in your letter of 16 January. There will additionally be some increase in continuing expenditure under RMPS and stage payments of pensions in later years.

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I am clear that we should support Bob Haslam with these measures, which are necessary to ensure that our proposals for the industry remain realistic. I therefore propose:

- i) A Spring supplementary estimate for RMPS increasing gross provision to £580 million.
- ii) An increase in the 1987/88 supply estimates provision for RMPS of £60 million to £264 million, and for non-deficit grant to British Coal of £77 million to £399 million.
- iii) No increase at present in the recently revised EFL of £825 million for the current year, but detailed re-examination with British Coal in mid-February to examine whether this is achievable, when the position should be clearer. We should also by March be in a better position to consider the overall realism of the £727 million EFL presently set for 1987/88.

It would be desirable for David Hunt to write to the Chairman of the Select Committee on Energy explaining the basis of the proposed Spring Supplementary as soon as possible.

I am sending copies of this letter to the Prime Minister and Sir Robert Armstrong.

A large, stylized handwritten signature in black ink, consisting of several loops and a long tail.

PETER WALKER

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ANNEX

Non-deficit financial support to the Coal Industry : 1987/8 (£m)

Cash basis

	<u>Original bid</u>	<u>Revise</u>
Redundant Mineworkers Payments Scheme (A1)		
- Weekly Payments	201	206
- Lump Sum payments	-	55
- Administration	3	3
<hr/>		
Total	204	264
Pit Closure Grant (B2)	28	37
Restructuring Grant (B3)	90	129
Other Social Grants (B4)		
- Premature pensions	133	159
- concessionary coal	24	27
- Mineworker Pension Scheme deficiency grant	47	47
<hr/>		
Total	322	399

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CC:BG



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London
SW1P 4QJ

NBP7

16th January 1987

Dear Peter,

OBJECTIVES FOR CHAIRMAN OF BRITISH COAL

Thank you for your letter of 7 January.

My officials have spoken to yours about the proposed coverage and rate of grant towards social costs. It is clearly unsatisfactory that we are now being asked to establish a regime that is more generous than previously understood between us. I accept, however, the primacy of the break-even target and am prepared to accept your proposals on the basis that they strengthen Sir Robert's commitment to it.

I am content with the cost reduction target of at least 20 per cent in Sir Robert Haslam's objectives. My remaining concern is with Sir Robert's unwillingness to be more open about British Coal's internal operating parameters and the progress being made against them. Such information need not extend to results at individual pits; but we need a better understanding of how the operating parameters sit with his objectives to improve profitability, to ensure an adequate return on new capital investment, and to reduce operating costs. I therefore feel unable to accept the present draft unless you can give me more assurance of what Sir Robert's "keeping you informed" will mean in practice. I would certainly expect that the substance of the draft agreed between us can be met. At a minimum this requires an annual breakdown of output and investment by band of operating cost, an indication of

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the sensitivity of the aggregate results to changes in the parameters, and a regular and prompt flow of monitoring information against them. Much of this material should be in the annual corporate plan, which I trust we will be seeing soon.

As my office told yours, I was anxious not to stand in the way of your making an announcement on 15 January. But I understand that you preferred to consider on the basis of a letter.

I am copying this letter to the Prime Minister and to Sir Robert Armstrong.

Yours ever,

A handwritten signature in cursive script, appearing to be 'JH'.

JOHN MacGREGOR



CCBG

pm

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

Prime Minister 2

The Rt Hon John MacGregor OBE MP
Chief Secretary
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

You may wish to see the letter attached to this minute which sets out objectives for Sir Robert Haslam.
7 January 1987

This has now only to be agreed finally with the Treasury.

OBJECTIVES FOR CHAIRMAN OF BRITISH COAL

Since your letter of 19 November I and my officials have held further discussions with Sir Robert Haslam about his objectives as Chairman of British Coal. Those discussions have not been easy.

RESTRUCTURING COSTS AND GRANTS

A key issue, as we expected, was the rate of assistance for British Coal's redundancy and restructuring costs in respect of events after March 1987. I pressed Sir Robert hard to accept that this assistance should be less generous than the existing system. However, he insisted that he could not agree that it should leave British Coal with significantly larger net costs than assumed in their IFR bid.

In essence, this means two things:

- (a) that coverage of grant should be extended to all redundancy and restructuring costs, including, in particular, those of British Coal Enterprise; and
- (b) that the rates of grant should be 75% in 1987/88, 72½% in 1988/89 and 70% in 1989/90.

My officials can give yours full details.

The extension of coverage I believe to be justified on merits: it will make for simpler administration, avoid artificial distortions in British Coal's decisions, and allow the percentage rate of grant to be kept to a minimum.

On the rate of grant I have had to take into account Sir Robert's increasing concern about the market for coal over the next 2 or 3 years - especially, though not only, sales to the electricity supply industry. I intend to discuss this with him shortly. Meanwhile however, I am sure that it would be wrong to fix lower rates of restructuring grant than those which he is prepared to



live with, as consistent with his commitment to the breakeven target for 1988/89. You will be aware that the rate of grant has no effect on the PSBR or public expenditure nor indeed on the terms which British Coal will apply to industrial redundancies after March 1987, as these have already been settled and announced.

OBJECTIVES AND SIDE-LETTER

On the objectives, the main outstanding issue was the cost reduction target. I am glad that Sir Robert has now agreed to accept a target of "at least 20 per cent". He has also asked for a number of drafting changes, mainly to the side-letter, which are indicated in the attached revised text. You will see that he is not prepared to accept anything which might imply Government involvement in assessing the results of individual pits but he has agreed, in the specific context of concentrating on low-cost production and on those sales which maximise profit, to keep me informed of British Coal's evolving strategies and of the progress they are achieving against them. He has offered to discuss the practical arrangements for this. This is a valuable step forward and I shall keep the Treasury informed about the new arrangements when they are established.

I hope that we can now agree on the rates and coverage of the restructuring grant and on the texts of the objectives and side-letter. We need to settle the restructuring grant for the 1987/88 Supply Estimates. An appropriate occasion for announcing the objectives would be the Report and Third Reading of the Coal Bill due to take place on 15 January.

I am sending copies of this letter to the Prime Minister and Sir Robert Armstrong.

PETER WALKER

BRITISH COAL OBJECTIVES

1. Coal production, like any other business, must earn a satisfactory return on capital while competing in the market place. The basic objective of British Coal must be to earn a satisfactory rate of return on its net assets and achieve full financial viability without Government support. British Coal should accordingly aim to improve its profitability so as to achieve, after payment of interest and accrual of social grants, breakeven for the year 1988/89 as a whole (though it is hoped that a breakeven position might be attained during the latter part of 1987/88) and thereafter generate an increasing surplus on revenue account and to contribute increasingly to self-financing.
2. British Coal should aim to maximise its long-term profitability by concentrating on low-cost production and on those sales which maximise profit on a continuing basis in competition with other fuels. It should plan its marketing, production, capital investment and research and development accordingly, bring productive capacity into line with its continuing share of the market, and ensure an adequate return on new capital investment in accordance with the principles set out in the White Paper 'The Nationalised Industries' (Cmnd 7131).
3. British Coal's objective should be to ensure that over the period to 1989/90 the operating costs of its mining activities per gigajoule of coal produced are reduced in real terms by at least 20%, compared with the level recorded in 1985/86.
4. Either British Coal or the Government may propose additional objectives from time to time: any consequent adjustment to existing objectives would need to be discussed.

DRAFT SIDE-LETTER

1. [My separate letter of today's date] says that the basic objective of British Coal is to achieve full financial viability without Government support. It also sets the specific objective of achieving breakeven for the year 1988/89 as a whole. The subsequent rate of profit improvement is a matter for later discussion: I note, however, your present expectation of a £70 million profit in 1989/90.
2. Paragraph 2 of my separate letter asks you to maximise the long-term profitability of British Coal by concentrating on low-cost production and on those sales which maximise profit.
British Coal should keep me informed of their evolving strategies and of the progress they are achieving against them.
3. The objective of breakeven in 1988/89 is defined by reference to the accounting profit or loss after payment of interest and accrual of social grants. In this context, it may be helpful if I set out the Government's provisional thinking on the future capital structure of the Corporation and on future support for the coal industry's redundancy and restructuring costs.

CAPITAL STRUCTURE

4. On present information, the Government does not believe that the amount of the Corporation's remunerable capital is significantly out of line with the value of the Corporation's assets. That capital is, however, wholly in the form of loans from the National Loans Fund. The resulting high level of interest depresses profits shown in the Corporation's accounts and entails higher gearing ratio in the balance sheet than is normal among extractive industries in the private sector.
Provided that British Coal had made and was continuing to make satisfactory progress towards achieving its objectives, the Government would have it in mind, at the appropriate time (which would be unlikely to be before 1988/89) to propose to Parliament a reconstruction of the Corporation's capital. This reconstruction should enable a restructured coal industry,

operating profitably in the market place, to meet its own future redundancy and restructuring costs; it would be likely to include the conversion of a significant part of the Corporation's debt to dividend capital in a form appropriate to the coal mining industry.

REDUNDANCY AND RESTRUCTURING COSTS

5. For many years, successive Governments have made substantial contributions towards meeting the costs of restructuring the coal industry and of the redundancies unavoidably entailed by that restructuring. This has been made necessary by the scale of the costs and the condition of the industry's finances. Nevertheless, they are costs which, in most other industries, are borne wholly or mainly by the employer; and in principle it seems right that decisions about them should be taken by the employer, in consultation with his workforce, in the light of his assessment of the needs and circumstances of his business.

6. It is in accordance with this approach that the Government have decided to end the Redundant Mineworkers' Payments Scheme from March 1987. We have also agreed that it would be right that the extent of Exchequer support towards the Corporation's redundancy and restructuring costs under clause 3 of the Coal Industry Bill now before Parliament should be progressively reduced, while taking full account of the industry's objectives, its financial prospects, and the potential effects on the motivation of management and workers. For planning purposes we have agreed that the rates of restructuring grant should be 75% in 1987/88, 72½% in 1988/89 and 70% in 1989/90. Neither of us would expect these rates or the coverage of grant to be altered unless major changes in external business circumstances made it necessary. Further, if a reconstruction on the lines of paragraph 3 above were approved, the Government believes that there would be advantage to both sides if British Coal were to bear, out of its increasing accounting profits and without financial support from Government, all costs arising from redundancies and restructuring after the effective date of reconstruction.

NON-MINING ACTIVITIES

7. The Government welcomes British Coal's intention to continue to pursue the disposal of peripheral activities where suitable opportunities present themselves.



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10 DOWNING STREET
LONDON SW1A 2AA

28 November 1986

From the Private Secretary

COAL STOCKS AT POWER STATIONS

The Prime Minister was grateful for your Secretary of State's minute (undated) reporting the position on coal stocks at Scottish power stations.

I am copying this letter to Geoff Dart (Department of Energy), Alex Allan (HM Treasury) and Trevor Woolley (Cabinet Office).

David Norgrove

Robert Gordon Esq
Scottish Office.

✓



SECRET

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Prime Minister

DRS
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COAL STOCKS AT POWER STATIONS

I have seen Peter Walker's minute of 12 November.

Coal stocks at SSEB stations at 7 November were 1.84mt which exceeds the target level of 1.75mt for this time of year. Stocks will be run down to around 1.3mt by end March 1987. Given the substantial oil and nuclear generation capability within the Scottish system, the Scottish Boards regard the endurance of the Scottish system with no coal deliveries as virtually indefinite.

I am copying this to Peter Walker, Nigel Lawson and Sir Robert Armstrong.

MR

MALCOLM RIFKIND

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ccbg

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London
SW1P 4QJ

19 November 1986

*Dear Peter,**NBM***OBJECTIVES FOR BRITISH COAL'S CHAIRMAN**

Thank you for your letter of 14 November.

I am grateful for the efforts made to accommodate my concerns. I am prepared to accept the revised drafts as a satisfactory compromise. I am therefore content for you to seek Sir Robert's acceptance of the drafts, subject of course to your coming back should any substantive problems arise. I also look forward to receiving your proposal for the cost reduction target, which it would be helpful if your officials could first discuss with mine.

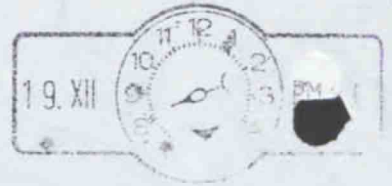
As I noted in my last letter, it is important too that we move quickly to reach a decision on the future rates of social grant.

I am copying this letter to the Prime Minister and Sir Robert Armstrong.

*Yours ever,**JM*

JOHN MacGREGOR

Coal: NAT IND: P+20.





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

WSPM

The Rt Hon John MacGregor OBE MP
Chief Secretary
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

14 November 1986

[Handwritten signature]

will request if required.

OBJECTIVES FOR BRITISH COAL'S CHAIRMAN

Further to my letter of 12 November, I attach a revised draft Statement of Objectives for Sir Robert Haslam, together with a revised draft of the side-letter. The changes made are underlined and reflect recent discussions between our officials. I hope that you are now content for me to seek Sir Robert's acceptance of the revised drafts.

British Coal are currently revising the figure for the cost reduction target to bring it into line with the outcome of the IFR. I will let you have this as soon as it is available.

I am sending copies of this letter to the Prime Minister and Sir Robert Armstrong.

[Handwritten signature]

PETER WALKER

DRAFT

● BRITISH COAL OBJECTIVES

1. Coal production, like any other business, must earn a satisfactory return on capital while competing in the market place. The basic objective of British Coal must be to earn a satisfactory rate of return on its net assets and achieve full financial viability without Government support. British Coal should accordingly aim to improve its profitability so as to achieve, after payment of interest and accrual of social grants, breakeven for the year 1988/89 as a whole (though it is hoped that a breakeven position might be attained during the latter part of 1987/88) and thereafter generate an increasing surplus on revenue account and to contribute increasingly to self-financing.

2. British Coal should aim to maximise its long-term profitability by concentrating on low-cost production and on those sales which maximise profit on a continuing basis in competition with other fuels. It should plan its marketing, production, capital investment and research and development accordingly, bring productive capacity into line with its continuing share of the market, and ensure an adequate return on new capital investment with a view to achieving a real return of at least 5% on a progressively larger proportion of its total assets.

3. British Coal's objective should be to ensure that over the period to 1989/90 the operating costs of its mining activities per gigajoule of coal produced are reduced in real terms by at least []%, compared with the level recorded in 1985/86.

4. Either British Coal or the Government may propose additional objectives from time to time: any consequent adjustment to existing objectives would need to be discussed.

DRAFT SIDE LETTER

1. [My separate letter of today's date] says that the basic objective of British Coal is to achieve full financial viability without Government support. It also sets the specific objective of achieving breakeven for the year 1988/89 as a whole. The subsequent rate of profit improvement is a matter for later discussion: I note, however, your present expectation of a £70 million profit in 1989/90.

2. The target for reducing overall unit costs is intended to stand side by side with British Coal's internal parameters for the upper limits of acceptable operating cost at individual collieries and opencast sites. These internal parameters are an important means of ensuring the profitability of all the Corporation's capacity. The Government will wish to be assured that they remain relevant for this purpose, and to be kept informed on a prompt and regular basis of performance against them.

3. The objective of breakeven in 1988/89 is defined by reference to the accounting profit or loss after payment of interest and accrual of social grants. In this context, it may be helpful if I set out the Government's provisional thinking on the future capital structure of the Corporation and on future support for the coal industry's redundancy and restructuring costs.

Capital Structure

4. On present information, the Government does not believe that the amount of the Corporation's remunerable capital is significantly out of line with the value of the Corporation's assets. That capital is, however, wholly in the form of loans from the National Loans Fund. The resulting high level of interest depresses profits shown in the Corporation's accounts and entails a higher gearing ratio in the balance sheet than is normal among extractive industries in the private sector. Provided that British

PERSONAL AND CONFIDENTIAL

Coal had made and was continuing to make satisfactory progress towards achieving its objectives, the Government would have it in mind, at the appropriate time (which would be unlikely to be before 1988/89) to propose to Parliament a reconstruction of the Corporation's capital. This reconstruction should enable a restructured coal industry, operating profitably in the market place, to meet its own future redundancy and restructuring costs; it would be likely to include the conversion of a significant part of the Corporation's debt to dividend capital in a form appropriate to the coal mining industry.

Redundancy and Restructuring Costs

5. For many years, successive Governments have made substantial contributions towards meeting the costs of restructuring the coal industry and of the redundancies unavoidably entailed by that restructuring. This has been made necessary by the scale of the costs and the condition of the industry's finances. Nevertheless, they are costs which, in most other industries, are borne wholly or mainly by the employer; and in principle it seems right that decisions about them should be taken by the employer, in consultation with his workforce, in the light of his assessment of the needs and circumstances of his business.

6. It is in accordance with this approach that the Government has decided to end the Redundant Mineworkers Payments Scheme from March 1987. It is also the Government's intention that the new system of social grants to be proposed in the forthcoming Coal Industry Bill should allow a reduction in Exchequer support for the industry's future redundancy and restructuring costs. Any such reduction would, of course, take full account of the industry's objectives as set out in my separate letter of today's date, its financial prospects, and the potential effects on the motivation of management and workers. However, the Government envisages that the pattern of Exchequer support would be decided as part of the financial framework within which the industry would plan and operate, and that it would not be altered unless major changes in external business circumstances made this necessary. Further, if a

reconstruction on the lines of paragraph 3 above were approved, the Government believes that there would be advantage to both sides if British Coal were to bear, out of its increased accounting profits and without financial support from Government, all costs arising from redundancies and restructuring after the effective date of reconstruction.

Non-Mining Activities

7. The Government welcomes British Coal's intention to continue to pursue the disposal of peripheral activities where suitable opportunities present themselves.



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

14 November 1986

COAL STOCKS AT CEGB POWER STATIONS

The Prime Minister was grateful for your Secretary of State's minute of 12 November reporting the position on coal stocks at CEGB power stations.

I am sending a copy of this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretary of State for Scotland and Sir Robert Armstrong.

(DAVID NORGROVE)

Geoff Dart, Esq.,
Department of Energy

81w


PRIME MINISTER

COAL STOCKS AT CEGB POWER STATIONS

Stocks at CEGB power stations on 26 October were 26.8 mt and had reached 27 mt by 2 November, thus meeting our target. Given normal weather conditions, stocks should continue to rise for the next few weeks further consolidating the position. The present level of stocks means that we now have one year's endurance with no coal deliveries at all; endurance would be extended to around the summer of 1989 on the assumption that 400 kt of coal a week could be delivered from UDM areas.

British Coal and the CEGB have agreed the necessary coal supply arrangements for the winter with a view to providing a stock of 22 mt at the end of March 1987. For future years it should be possible to cycle around these figures of 27 mt in October and 22 mt at the end of March to provide us with an adequate level of endurance throughout the year.

I am copying this minute to Nigel Lawson, Malcolm Rifkind and Sir Robert Armstrong.



Secretary of State for Energy

12 November 1986

CONFIDENTIAL

CEB



SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

Ronnie Hunter 2

The Rt Hon John MacGregor OBE MP
Chief Secretary
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

DHS
7/11

mt

7 November 1986

John MacGregor

British Coal have now made an offer, which they say is final, to the Union of Democratic Mineworkers (UDM) for increases over the next two years.

The offer to the union, which now represents about a quarter of mineworkers, consists of £3/week to all mineworkers in the first year; a maximum of £3.25/week in the second year (decreasing pro rata according to grade); an extra £1 on the standard weekly incentive rates; a no-strike bonus of up to £50 per half year; and an attendance bonus of up to £30 per quarter.

It is estimated that this offer to the UDM, if applied to all mineworkers, would add 3½% to the wage bill in the first year (of which about half would be attributable to the grade rate increases and half to improved incentives). For a man on average wages and incentives in Nottinghamshire the increases are believed to be worth about 4½% on earnings.

Although the settlement date for mineworkers is 1 November, British Coal have said that until an agreement on conciliation, which is currently being discussed with the union, is in place, they will not settle the pay deal.

The NUM have not submitted a pay claim to British Coal. The separate pay negotiations with them may be deferred for some considerable time while terms of a conciliation scheme are agreed. I shall of course let you know the details of any offer to the NUM.

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

Peter Walker

PETER WALKER

CONFIDENTIAL

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cc: bfg



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Peter Walker MBE MP
 Secretary of State for Energy
 Department of Energy
 Thames House South
 Millbank
 London
 SW1P 4QJ

7 November 1986

Dear Peter,

N.B.P.

COAL INDUSTRY BILL

Thank you for your letter of 30 October.

I am grateful for your agreeing to an upper limit of deficit grant of £200 million. British Coal's access to the NLF will depend on their meeting the statutory requirements of the National Loans Act.

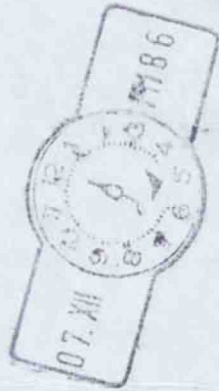
I acknowledge your reasons for proposing an upper limit of £750 million for social grant; and I welcome your assurance that you intend the rate of grant to decline. I am still of the opinion that a somewhat lower figure would be a useful public indication of this intention, and could be presented as such. However, I recognise the need to avoid further delay, and so long as you will be presenting the figure publicly in the terms you suggest, while making your underlying intention clear to the Board, I will accept the figure. But I hope that we can move quickly towards the substantive decisions on the projected rate of grant, which will in turn require more firmly based projections of the Board's financial position.

I am copying this letter to the Prime Minister, Willie Whitelaw, John Biffen, Norman Tebbit, David Young and John Wakeham, and to Sir Robert Armstrong.

Yours,
 JH

JOHN MacGREGOR

NAT. IND: Coal: PE 20



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pa

From: J B UNWIN
5 November 1986

MR NORRGROVE - No 10

cc Brigadier Budd

COAL STOCKS AND POWER STATION ENDURANCE

You will recall that at the meeting with Mr Walker on 19 December last it was agreed that the CEGB should aim for stocks of 27 million tonnes by the end of October 1986. This was expected to give 9 months endurance even if the UDM were to join the NUM in a strike; and 27 months if the UDM continued to work. The 27 million tonnes compares with some 24 million tonnes at the beginning of the last coal strike.

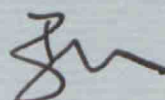
2. The latest statistics on coal stocks at power stations show that the figure for 26 October was 26.8 million tonnes. It looks, therefore as if the target should have been met by the end of October.

3. I hope that, as a result of our informal prodding, the Energy Secretary will soon report the position to the Prime Minister. I suggest, however, that if you do not receive a report during the next week or so, you should enquire of the Energy Secretary's office how matters stand. The Prime Minister will presumably want to have:-

(i) confirmation that the target has been met; and

(ii) an up-to-date assessment of whether, in the light of the likely industrial relations climate during the winter months, this stock is still believed to provide adequate security (the assumption was that the target would lead to an end March 1987 stock of some 22 million tonnes, with a rebuild to 27 million tonnes by the end of October 1987).

Cabinet Office


J B UNWIN

SECRET AND PERSONAL



SUBJECT CC MASTER

7

file
skw

JW

meeting record

10 DOWNING STREET

LONDON SW1A 2AA

cc M. AUSON

From the Private Secretary

4 November 1986

Dear Geoff,

UNION OF DEMOCRATIC MINEWORKERS

The Prime Minister this afternoon discussed the position of the Union of Democratic Mineworkers with your Secretary of State, the Paymaster General, Mr. David Hunt and Sir Robert Haslam, Chairman of British Coal. Mr. John Wybrew, Policy Unit, was also present.

The Prime Minister expressed her strong concern that everything possible should be done to help the UDM.

Sir Robert Haslam said the Board of British Coal had been very supportive of the UDM. However, the leadership was naive and inexperienced, and they did not want to seem to be a management union. They were not easy to help and management had to be circumspect. The Board also had to take account of the fact that there were 99,000 members of the NUM as well as 27,000 members of the UDM. There was a good deal of restlessness in the pits, with brush fire disturbances, and the position of NACODS was also worrying. The NUM had 3,000 key people in the Nottinghamshire area and if the 50 per cent plus one rule were to be breached this would give minority rights to the NUM in Nottinghamshire and other areas. In the latest pay discussions management had proposed the introduction of two bonuses which would substantially help the UDM and which would be unacceptable to the NUM. However, the UDM were refusing to accept the proposals. Sir Robert noted finally that the NUM were in great trouble financially, arising from their financial support for miners who had been dismissed. The members' contribution to the NUM might well need to double, at least.

In discussion it was noted that one of the UDM's major problems was the lack of forceful and articulate leaders. This might be helped by offering help in training good younger people. It was agreed that it would be worthwhile if one of the large educational foundations, for example the Wolfson Education Foundation, could be persuaded to help. Lord Chapple might also be willing to help.

Your Secretary of State noted that Energy Ministers and British Coal management had bent over backwards to help the UDM. The position of the UDM would also be improved by the

SECRET AND PERSONAL

JB

Coal Bill proposed for the coming Session.

The Prime Minister concluded the meeting by urging in the strongest possible terms that everything should be done to help the UDM. The proposal to encourage the provision of training courses for UDM leaders and potential leaders should be followed up.

I am sending a copy of this letter to the Private Secretaries to the Paymaster General, Mr. David Hunt and to Trevor Woolley (Cabinet Office).

Yours,
David

(DAVID NORGROVE)

Geoff Dart, Esq.,
Department of Energy.

PRIME MINISTER

3 November 1986

UNION OF DEMOCRATIC MINeworkERS

Peter Walker's note of 31 October reminds us that the UDM has two prime objectives:

- Achieving the status of a national union: in reality, the UDM is still a local union - and feels it - but, if the UDM is to advance, it needs to be acknowledged as a national union on a par with the NUM; hence, the UDM's acute sensitivity over its status in negotiating with British Coal at the national level.

- Obtaining a competitive edge over the NUM in wage bargaining: this is best served by allowing maximum scope for improved working practices at individual pits, rewarded through productivity-related elements in the wage package.

Can these apparently conflicting objectives be reconciled? They can - and Sir Robert Haslam must strive to ensure that they are. On the UDM rests the security of electricity supplies and the hope that British Coal and an enlightened union will transform the prospects for the UK coal industry - leading ultimately to privatisation.

Surely, the trick is to use the national level negotiation between British Coal and the UDM to establish a coherent framework which will allow full scope for improving working practices at individual pits, and for rewarding the

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- 2 -

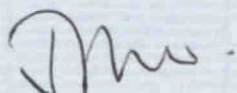
mineworkers in question through productivity-related elements in the wage package. Local negotiations would then concentrate on determining the most productive work practices at individual pits. Since the NUM will use their national negotiation to preserve standard work practices and a common pay package, the benefits of the UDM's enlightened approach will be exposed to the maximum.

The Meeting

The approach outlined above may be essentially what Sir Robert already has in mind. He has advanced cogent arguments in favour of the "50%+1" basis for wage bargaining. Accepting this, you could ask him:

- what he regards as British Coal's primary objective in conducting the wage negotiations with the two unions;
- how he intends to conduct the negotiations;
- what outcome he anticipates for the UDM.

You will, of course, want to be assured that Sir Robert is confident he can convince the UDM of the ultimate benefits for them of a "50%+1" basis for wage bargaining. We cannot afford to dishearten the UDM at this stage.



JOHN WYBREW

SECRET

PRIME MINISTER

Prime Minister

UDM

DHS
31/10.

Your office raised with mine earlier this week the possible advantage to the UDM of negotiating pay locally with British Coal while leaving NUM negotiations on a national basis. We are meeting to discuss the UDM next week but you may find it helpful to have a response to this suggestion now.

Local pay negotiation is the complete opposite of what the UDM want. In all pay negotiations with British Coal so far they have explicitly rejected any suggestion of local pay bargaining. Their wish has been for national negotiations on the widest possible range of issues, not only pay but such things as annual holidays, grade rate protection and compensation for hearing damage. On all these British Coal has offered to set up national working parties with the UDM.

The UDM are essentially a local union. One of their main purposes is nevertheless to be acknowledged as a national union. Local pay bargaining for them and not for the NUM, especially if the 50% + 1 principle were to be maintained, would only emphasise the geographically limited area of their effective operations. This is the last thing they would want - and would give the NUM welcome ammunition for further attempts to diminish the status of the new union.

Sir Robert Haslam agrees with these views.



Secretary of State for Energy

31 October 1986

CONFIDENTIAL



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

The Rt Hon John MacGregor OBE MP
Chief Secretary
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

30 October 1986

Argue *NBN*

COAL INDUSTRY BILL

Thank you for your letter of 28 October.

Deficit Grant

I am a little uneasy about drawing the upper limit too tightly. After all, there will be ample control over the amount of grant that can be paid, both through the need to secure Parliamentary approval for any increase in the initial limit and through Supply Estimates. It would be foolish to force ourselves into further primary legislation, perhaps at an inconvenient time, simply because of a temporary downturn in the fortunes of British Coal.

However, in the interests of reaching agreement, I am willing to accept your proposal of an upper limit on deficit grant of £200m, provided that it is understood between us that if it were not possible to cover the full amount of a deficit and there were a consequential increase in British Coal's negative reserves, that would not of itself prevent the continuation of funded lending to the Board.

Social grant

Your proposal on the upper limit here presents me with greater difficulty. The figure of £750m which I proposed is simply a proportional extension for 5 years of £300m for two and can readily be presented as such. To use a figure of £600m would imply that we had forecasts of social costs and grants for the whole 5-year period, which we have not, and raise questions which we could not easily answer about British Coal's future redundancy plans. It would be likely to make debates on the Bill significantly more difficult to handle.

I do not think that British Coal would draw the inferences you fear from a figure of £750m. In the first place, it is likely that the ending of RMPS from March 1987 will lead to a lower than normal rundown of manpower in 1987-88: indeed, the public expenditure

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figures which we have recently agreed assume as much. Pro-rating support is therefore compatible with a lower rate of grant in later years, offset by higher numbers. Secondly, the Board will give much more weight to the rates of grant which we incorporate in our financial plans for the next 3 years. I certainly intend the rates to decline over that period. With that assurance, I hope you will feel able to agree to an upper limit of £750m.

Pensions

I am grateful for your agreement to my proposals.

I am sending copies of this letter to the Prime Minister, Willie Whitelaw, John Biffen, Norman Tebbit, David Young and John Wakeham, and to Sir Robert Armstrong.

A handwritten signature in cursive script, appearing to read "P Walker".

PETER WALKER

CONFIDENTIAL

NAT. IND. Coal Pt 20



CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Peter Walker MBE MP
 Secretary of State for Energy
 Department of Energy
 Thames House South
 Millbank
 London
 SW1P 4QJ

NBM
 28th October 1986

Dear Peter,

COAL BILL

Thank you for your three letters of 30 September and 9 and 20 October. We need to take decisions on three main areas.

Deficit grant

I accept that it is logical to extend the reserve power for deficit grant to cover 1988-89 as well as 1987-88 now that the break even target has receded by a year. I am also content with your proposed primary limit of £100 million since it is close to BCC's forecast deficit for 1987-88.

But your proposed overall limit of £300 million seems too high. I suggest £200 million, which still leaves a significant margin of comfort for BCC, given their commercial operating flexibility.

Social grant

I can accept the structure you propose. I am particularly anxious that we establish a sound framework for the annual negotiations about the coverage and rate of social grant.

However, I again have difficulty with the figures you propose. We have agreed that an important element of the new financial regime will be a framework establishing a declining rate of grant over the medium term. It is important that the Bill similarly signals our determination to lower progressively grant support for the coal industry. I therefore believe that we should set the 5 year limit at £600 million so as not to imply the same level of grant in the later years as in the first two.

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Pensions

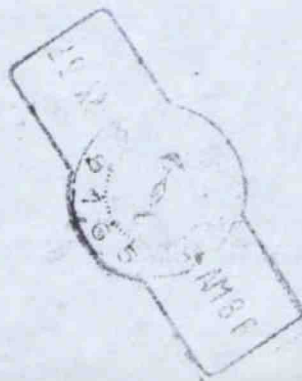
I recognise that this is a sensitive area. I will therefore not press you to make the legislation more specific than you feel you can defend. If lower contributions meant higher payments to cover the net deficiency in the Mineworkers' Pension Scheme, there would be a case for a correspondingly lower social grant. But that would be something to be decided if difficulties arose in practice.

I am copying this letter to the Prime Minister, Willie Whitelaw, John Biffen, Norman Tebbit, David Young, John Wakeham and to Sir Robert Armstrong.

Yours etc,
JH

JOHN MacGREGOR

CONFIDENTIAL





10 DOWNING STREET

Note for the record

Spoke G Dart and
Susan Chappell. They
will commission work on
John Wyden's idea.

JAN
27/60.



10 DOWNING STREET

Prime Minister¹

Agree to invite
Peter Walker and
Sir Robert Haslam to
consider John Hybrew's
idea before your meeting
on November 4?

DW

24/10

Yes no

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PRIME MINISTER

24 October 1986

WAGE BARGAINING FOR MINeworkERS

Bob Haslam makes the case for local wage bargaining on the "50% +1" basis mainly on grounds of greater operational efficiency and the avoidance of industrial relations problems. On these grounds, his case is sound enough.

However, we must not lightly dismiss the expressed preference of the UDM for national membership bargaining in order to protect their position in minority areas. In this case, the issues are bigger than efficiency and harmonious industrial relations. On the UDM rests the security of electricity supplies, and the hope that British coal and an enlightened union will transform the prospects for the UK coal industry - leading ultimately to privatisation.

There may be a good way of reconciling Bob Haslam's strong preference for "50%+1" local wage bargaining with the UDM's desire for a competitive edge over the NUM. The trick is to bargain locally with the UDM whilst acceding to the NUM's desire for national bargaining. To illustrate this, consider two scenarios:

Scenario 1 (Under national membership wage bargaining, assuming the legal difficulties are not insuperable.)

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- 2 -

- British Coal retains the old monolithic form of national wage bargaining which has been a bar to enterprise, initiative and efficiency since the coal industry was nationalised.
- Even so, an enlightened and more flexible UDM is able to secure some relative advantages for its members, but the scope is limited and not sufficient to win appreciable new support from disenchanted NUM members.
- Disturbingly, NUM hardliners, still in the UDM's heartlands are given the pretext to stir up trouble and exploit NACODS sensitivities.

On balance, the cause of the UDM is retarded rather than advanced. Our hedge against the disruption of electricity supplies is, if anything, less secure. British Coal is no nearer the conditions favourable to privatisation.

Scenario 2 (Under "50% +1" local wage bargaining.)

- Negotiating at local level with a progressive and enlightened UDM, British Coal is able to make the big breakthrough to a new and more productive relationship between labour and capital. Work practices are modified to derive maximum output from the capital equipment at a given pit. The workforce benefits substantially through productivity-related pay tailored to the circumstances of each pit.

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- 3 -

- The NUM continues to press for national wage bargaining. Although it means postponing productivity gains through local productivity-related wage bargaining, British Coal acquiesces.
- The financial benefits to mineworkers from the UDM's enlightened approach are starkly differentiated. This induces a progressive shift of support to the UDM.
- Ultimately, the NUM is forced to follow suit and adopt local productivity-related wage bargaining. But the initiative is maintained by launching a privatisation programme with successful UDM pits, and well-rewarded members in the vanguard. The elements of the privatisation programme are individual collieries or related groups of collieries. A key feature is the opportunity for the mineworkers to have a strong financial stake in the privatised companies.

Conclusion/Recommendation

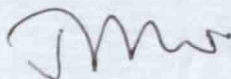
UDM leaders are mistaken in believing that the best interests of the UDM are served by national membership pay bargaining. Bob Haslam and his team need to convince them of the considerable opportunities offered by local wage bargaining on the "50% +1" basis.

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- 4 -

Thereafter, the tactic is to confine to UDM pits the local wage bargaining aimed at delivering rewarding productivity-related packages. For the time being, British Coal must forego the benefits of local wage bargaining at NUM-controlled pits and acquiesce to the NUM's demands to continue with national wage bargaining. Thereby British Coal will expose to the maximum, the benefits of the UDM's enlightened approach.

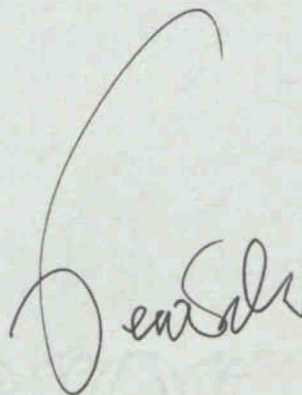


JOHN WYBREW

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PRIME MINISTER

In advance of our meeting on 4 November you will wish to see the enclosed copy of a letter from Sir Robert Haslam setting out the basis of British Coal's thinking on their "50% + 1" approach to collective bargaining for mineworkers. An opinion on legal grounds by leading counsel backing the Board's approach is attached to Sir Robert's letter.



Secretary of State for Energy
21 October 1986

BRITISH COAL

HOBART HOUSE
GROSVENOR PLACE
LONDON SW1X 7AE

01-235 2020

SIR ROBERT HASLAM
CHAIRMAN

17th October 1986

Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
MILLBANK
London
SW1P 4QJ

Dear Peter,

You asked me to let you have a note about the thinking behind the "50% + 1" approach which we have said we propose to take on wage bargaining for mineworkers. We believe there are overwhelming practical reasons for the "50% + 1" policy.

Looking ahead to the forthcoming wage round and beyond, two courses of action have been considered:

1. To negotiate wages on the basis of groups of collieries with the Union representing the majority of mineworkers at the colliery in question (ie the so-called "50% + 1" basis) - Course 1.
2. To deal with each Union for all its mineworker members wherever they might be employed (ie the membership basis) - Course 2.

I have to say at the outset that we know of no major industry in which two Unions negotiate separately for the terms and conditions of members of the same group of employee operating in a single location. In every case of which we are aware there is a joint forum for discussion of such matters and agreements are then applied to all employees at a particular workplace regardless of the union to which they belong. Joint action is ruled out in our case because we have to deal with one TUC affiliated Union and one non-affiliated Union.

We have concluded that only Course 1 is compatible with our overall strategy for achieving viability. Although both the NUM and the UDM are pressing us to adopt it, we regard Course 2 as being completely impractical. The main thrusts of our strategy are:-

- (1) to introduce greater emphasis on locally based incentives: and
- (2) to reduce unit labour costs through more flexible working practices and more intensive working.

The following factors need to be taken into account:-

1. WORKING PRACTICES

We aim to reduce labour costs through improved working practices. This will mean changing the organisation of working time - longer shifts, weekend working etc. Because of the underground environment, these parameters can only be organised effectively on a colliery by colliery basis. A decision to permit each union to negotiate on behalf of all its members will make any worthwhile change impossible to achieve; each union will expect to negotiate separately (since they will not sit down together) on the same issue, and will seek to secure more favourable terms than the other. We need to obtain a "common" settlement on issues of this kind which can then be applied throughout the whole pit.

2. INCENTIVES

Our current strategy is that increases in wages should closely reflect increases in productivity, and the contribution of mineworkers to productivity cannot be measured individually, but can only be seen as part of that of a team or group. Hence scales for incentive schemes must be collective and generally the colliery unit is the best base, although sometimes a smaller grouping (eg a coal face) may be adopted. Thus in modern mining conditions incentives cannot sensibly be paid at different rates within the same colliery or coal face according to Union membership. This is one of the cardinal reasons why we intend to pursue Course 1.

3. DECENTRALISATION

A further part of our strategy is to shift the focus of wage bargaining away from the national level by increasing the importance of locally based incentive type deals. To adopt the principle of paying on the basis of Union membership would fatally weaken "ability to pay" arguments for regional variations in earnings.

4. DESTABILISATION

(a) At Collieries

If the wages of the mineworkers at each colliery were negotiated separately depending on which Union they belonged to at any given time we would expect increased disruption from industrial action. If, for example, the members of one Union received an increase on terms which the other would not accept, experience indicates that the NUM, in particular, would seek to use industrial action to achieve, at least, parity with the UDM. This sort of competition could develop into not merely industrial action but strife within the local mining communities with all the emotion that can generate. Disruption of this kind is likely to occur first in the Notts and South Derbyshire coalfields, where there is a substantial and, in part, embittered NUM minority. It is vital for our overall strategy that these coalfields remain 'peaceful' and economically sound.

(b) Effect on Groups other than Mineworkers

If we were to accede to bargaining arrangements of the type now sought by the Unions (ie the Course 2 basis) we would be faced by claims by the UDM for negotiating rights on a membership

basis for their non-mineworker members including in particular weekly paid industrial staff and clerks who in many cases have better terms and conditions than mineworkers. At present these staff are negotiated for separately from mineworkers on a class basis as opposed to a union membership basis. It is in the Board's interest that the present position be retained because:-

- (i) These classes of workers, who have considerable industrial muscle, are dealt with separately from mineworkers thereby reducing the potential for industrial disruption and pressure that would result if the negotiations were carried out at one time. If the Union's claim were accepted the UDM and the NUM would both seek to negotiate simultaneously on behalf of their members whether a mineworker or otherwise; and
- (ii) The joint bargaining arrangements for clerical workers at present are conducted by APEX, which is militant, and COSA which is generally moderate. This inhibits APEX's ability to override the position of COSA and this leads to the achievement of reasonable settlements without industrial disruption. This moderating influence can only exist within a joint negotiating machinery for this class of workers.

(c) NACODS

We have already been accused by the leadership of NACODS of unreasonably favouring the UDM, a belief which has been starkly reinforced by my predecessor's book. I am quite certain that NACODS members would be instructed by their Union to refuse to supervise teams in which there were different rates of pay based on membership of the UDM or NUM particularly if they felt this was a device to favour the UDM further. Even if this instruction were only obeyed to a limited degree the consequent disruption would be difficult to contain.

5. RECOGNITION OF THE NUM IN NOTTS AND SOUTH DERBYSHIRE

The NUM are also pressing equally hard for us to adopt pay bargaining on a Union membership basis mainly because they are desperately anxious to obtain recognition for collective bargaining purposes in the Notts and South Derbyshire Areas. We intend to resist this, even if it means our being unable to conclude an agreed Conciliation Scheme with the NUM and, perhaps, a long deferment of any negotiations on the next pay round with them. In addition to all the practical reasons set out above, we believe that increasing the role and the power of the NUM in these Areas would tend to force the UDM to adopt a more militant attitude on such issues as closures.

6. THE UDM'S POSITION

Although they have recently agreed a Conciliation Scheme based on the majority union bargaining position, the UDM say they wish us ultimately to adopt Course 2. They are particularly concerned about their membership in the North East. They also believe that, if they can negotiate better terms for their members than can the NUM, more individuals will join their Union. Past experience - in the months up to September when minority UDM members had higher rates of pay than the NUM members at some 9 locations - is that this had no material

stimulus in increasing their membership at the locations concerned. The best contribution the UDM could make to the Industry is to be seen to be a positive and progressive force. On our proposals the UDM would be able to make that sort of contribution by working successfully at those collieries where they have a majority. Also we anticipate that the incentives we are planning to introduce will facilitate this process.

SUMMARY

We have concluded that to embark on a policy of dual rates of pay so that a worker's remuneration would depend on his Union membership, rather than his contribution to the success of his colliery, face team or other work group to which he belongs, would make it impossible for us to achieve our goal of financial viability. The way ahead is for the Unions to be identified with the task of making a success of each colliery where they hold a majority. A progressive trade union such as we perceive the UDM could become, should see its own future as best served by following this objective. The alternative of union membership bargaining runs counter to our policy of incentives and flexibility, would strengthen rather than dissipate union strength at the national level and would tend to increase disruptive industrial action, even in otherwise peaceful coalfields.

This is a concept in which there are considerable legal as well as the foregoing operational problems. Indeed some of the actions we have already taken have exposed us to legal actions and we are involved already in extensive litigation. We have recently, publicly, stated that the "50% + 1" principle is our future policy, and if we were to change now we cannot rule out the possibility that the reasons for the change may become the subject of further scrutiny in future legal proceedings. I attach a brief summary by Leading Counsel of where we stand on the legal issues, which you may find helpful.

Yours sincerely,

Bob

*Two dense for
effective highlighting
I'm afraid.*

RE: s 23 PROCEEDINGS

OPINION

*DES
24/10*

1. The National Coal Board (The Board) is consulting and endeavouring to consult with the UDM and NUM, respectively, as to the establishment of new conciliation machinery, pursuant to its statutory duty under Section 46(1) of The Coal Industry Nationalisation Act, 1946. Two courses have been considered:

Each union bargains for all employees at those bargaining units in which it has more than 50% membership
(Course 1)

Each union bargains for its members wherever they may be
(Course 2)

I have been asked to advise on the impact of Section 23 of The Employment Protection (Consolidation) Act 1978, as amended, (the Act) on each of the two courses.

BACKGROUND

2. Section 23 of the Act gives every employee the right not to have action, short of dismissal, taken against him as an individual by his employer for the purpose of deterring him from being a member of an independant trade union. An Industrial Tribunal has decided that differential wage bargaining which results in an employee who is a member of one union being paid

more for doing the same work as a fellow employee who belongs to a different union is capable of falling within the ambit of the Section. The Employment Appeal Tribunal (EAT) has held that the words "an independent trade union" mean, in effect, "any trade union" and that the Section does not apply where the employer favours one recognised union over another, but only where the employer seeks to discourage trade union membership generally. The matter goes before the Court of Appeal in early November and I have advised that on this point the Board is more likely to lose than to succeed.

3. The Industrial Tribunal also decided that the Board's failure to pay the same wages to an NUM member was capable of being, and on the facts was, action taken against him as an individual. The Board successfully contended in EAT that action which affected an individual's pay as a result of bargaining between the Board and Union did not fall within the Section, because it was not action directed against the employee as an individual. On this second issue I consider that there is a slightly better than evens prospect of success in the Court of Appeal. The outcome of the appeal must be regarded as uncertain.

4. The third issue upon which the Board failed in the Industrial Tribunal and EAT, and upon which the Board have been advised they are likely to fail in the Court of Appeal, was whether on the facts proved the Board had the requisite unlawful purpose.

5. If the EAT's decision on the first or second issues were to stand then there is no practical risk of liability under Section 23 were the Board to pay differential wage rates to their employees based upon union membership. If the Court of Appeal were to reverse the EAT's decision on both these issues then the Board would be exposed to Section 23 proceedings in the future whenever differential wages were paid. The outcome of those proceedings would depend upon the Board's ability to demonstrate that its purpose was not to deter employees from being members of the NUM. The NUM have already threatened proceedings in respect of the Board's decision to back pay members of the two unions on a discriminatory basis and it must be open to doubt whether the Board will be able to show that it did not have as its purpose the fostering of membership of the UDM. A Tribunal is bound to be influenced by the fact that in the proceedings which are the subject of the appeal the Board's evidence as to its purpose was expressly rejected. The dilemma for the Board

is that a policy of favouring the UDM against the NUM could be thought to be sensible and in the best interests of the industry, yet it may be an unlawful policy to pursue.

OPINION

6. Against this background I consider each of the two courses; and I do so on the assumption that the Board loses on both the principal issues in the higher Courts, thus leaving the way open to an employee to complain that he has been unlawfully discriminated against as a result of differential collective bargaining. The Board should also bear in mind that proceedings brought in respect of differential wage settlements in the forthcoming wage round may be taking place against the background of Industrial Tribunals having once, if not twice, rejected the Board's evidence as to purpose. However, every case will have to be judged on its own facts and whether a Tribunal concludes in any case that the Board has discharged the burden of providing a benign purpose will depend upon the evidence which can be given.

7. It is more likely that proceedings will be commenced if Course 2, rather than Course 1 is taken. This is because an employee who is paid less than the man working

alongside him will be more likely to feel a sense of grievance than if he is paid less than a man doing a similar job at another pit. Further, a Tribunal will be more likely to examine the Board's motives critically with Course 2. This is evidenced by the Industrial Tribunal's approach in the current proceedings. They did not regard payment to employees on a union membership basis as fair or even-handed. Moreover, bargaining by membership is highly unusual if not unique. One of the difficulties about negotiating by membership is that an employee merely has to change his union to get the better pay. It is precisely because this is likely to happen that it becomes easier for a Tribunal to infer that that was the Board's intention or purpose.

8. If the Board adopts Course 1, in general terms its position in Section 23 proceedings will be easier to defend because the better rates would be paid to members of both unions employed in the same unit, thus tending to negative any discrimination on a union basis; further the better rate would not be paid to those members employed elsewhere. Course 2 would be difficult to defend unless the Board offered the same deal to each union. If exactly the same offer were made but one union accepted and the other did not, there would be a strong argument for saying that there was no discr-

mination by the Board. However, it may be difficult to achieve exact parity in the offer because the offers may be made conditional on certain events which the Board would know would be bound to be acceptable to one union but not to the other. In such a situation an Industrial Tribunal might be prepared to infer that the Board deliberately sought to impose unacceptable conditions as a device to secure inequality of pay as between unions, and thus conclude that the Board's purpose was unlawful. Further, once the pay became unequal I can foresee possible arguments as to whether the next year's pay offer was exactly the same for both unions.

SUMMARY

9. I summarise my conclusions as follows:
- (a) the outcome of the current appeal is uncertain
 - (b) unless the Board succeeds on one or other of the main points it will remain vulnerable to Section 23 proceedings in the future
 - (c) success in future proceedings will depend upon the evidence which the Board can present, but it has already lost on the facts once, and may lose again in relation to the back pay issue
 - (d) Course 2 will in principal be harder to justify both because it is unusual and prima

facie not even handed. Exact parity of offers to each union will minimise the risks but it may not be possible to have parity

(e) Course 1 will be easier to justify because the wages will be paid to employees regardless of membership

(f) Course 2 will be more likely to provoke claims.

10. It follows, therefore, that from a legal standpoint the Board will be in a better position if it adopts Course 1 rather than Course 2. In reaching its decision the Board may wish to take account of the fact that section 23 proceedings will involve significant irrecoverable legal costs, the involvement of senior Board officers in giving evidence and very possibly disclosure of the Board's bargaining position at a time when it is still in negotiations with the NUM.

Fountain Court,
Temple,
London EC4

13th October 1986

RE: s 23 PROCEEDINGS

OPINION

R.V. COWLES,
British Coal,
London.

Our Ref: COAL.CF.T1

CCB



SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

The Rt Hon Viscount Whitelaw CH MC
Lord President of the Council
Privy Council Office
Whitehall
LONDON SW1

21 October 1986

NSM

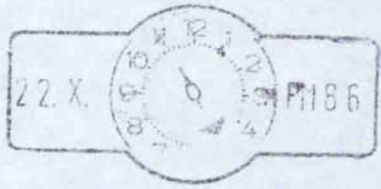
COAL INDUSTRY BILL

Thank you for your letter of 8 October.

As I said at Cabinet on 16 October, Parliamentary Counsel has drafted the provisions of the Bill, including those relating to the Mineworkers' Pension Scheme, the Coal Industry Social Welfare Organisation, and Mineworkers' Welfare Trusts, in a way which avoids hybridity. I am advised that the Commons Public Bill Office considers the Bill is not hybrid and will not refer the Bill to the Examiners; that the Speaker should defend this decision if it is questioned; and that the Lords Public Bill Office take a similar view.

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

PETER WALKER



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P720

CONFIDENTIAL

CCBG



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

NBM

The Rt Hon John MacGregor OBE MP
Chief Secretary
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

9 October 1986

Handwritten signature: J. MacGregor
at top

COAL INDUSTRY BILL

In my letter of 4 July I promised to examine in detail how the Coal Industry Bill might be used to allow amendment of the rules of the Mineworkers' Pension Scheme so as to require contributions to be such as will fund the benefits available; and to see whether this could be linked in any way to the changes proposed to provide for appropriate representation of the UDM.

This I have done. Following detailed discussions between my officials and British Coal, the Government Actuary's Department, the Occupational Pensions Board and Parliamentary Counsel, and contact with the UDM, three points have emerged clearly:

- (i) There is no technically simple or unobtrusive way of legislating to achieve what you have proposed.
- (ii) Such provisions could not be linked in any satisfactory way to the provisions to amend employee representation on the Scheme, nor would the UDM be prepared to accept or go along with a presentation involving such a link.
- (iii) It would be technically possible to provide for the normal cost of benefits (eg on the basis of a 'new entrant' contribution rate) to be equally divided between employer and employee. But additional costs can arise from many factors other than an inadequacy in the normal contribution rate. To require these costs to fall wholly or partly on employees would be very much out of line with normal pension practice.

It has also become clear that the financial case for a contributions increase is not that strong.

The financial position of the Scheme is complicated, but broadly the Scheme can be considered as having two parts, involving a substantial deficit in relation to those who left the industry prior to April 1975 counterbalanced to some extent by a significant surplus in relation to present contributors and those who left the industry after April 1975. My officials can give fuller details to yours if necessary.

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Whilst it is true that the contribution rate is no longer sufficient to fund benefits on a new entrant basis as a result of recent improvements imposed by general legislation affecting all contracted out pensions, the rate of entry into the Scheme is low; and any increase in contribution rates of existing contributors would simply serve to increase the effective surplus to this group.

As you are aware, in the National Coal Board (Finance) Act 1976 powers were taken to enable the Government to contribute to the Board's deficiency payments in relation to pre-1975 leavers, and we are at present making payments of some £63 million a year. I am hopeful that even without an increase in contribution rates I will be able to use the effective surplus in relation to post-1975 leavers to reduce the extent of our deficiency support for pre-1975 leavers, by perhaps £20 million in 1987/88.

If there were to be an increase in contribution rates (to which British Coal would be obliged to contribute an equal part), this would actually increase public expenditure unless we appropriated the additional surplus thereby generated to reduce future Government support for the pre-1975 leavers.

If we did that, we should be accused of having legislated to force up contributions from present contributing members in order to fund pensions to those who left the industry more than 10 years ago.

I remain convinced, therefore, that any attempt to legislate on mineworkers' pension contributions would prove highly controversial, particularly at the present time when pension matters within the industry are already a focus of dispute and litigation. The Government would be presented as:

- (i) Attacking pensions as an act of political vindictiveness; legislating to override agreements freely negotiated within the industry in an area traditionally regarded as part of pay and conditions of service.
- (ii) Forcing present miners' contributions up to fund pensions to those who left the industry more than 10 years ago.
- (iii) Forcing through changes to the Mineworkers' Pension Scheme which would require employees to bear a higher proportion of the total costs than is normal in other public sector schemes.

The provisions I propose in relation to representation will mean that British Coal will have the ability to introduce whatever changes they wish to the Scheme except where faced with the united opposition of their workforce; it will therefore no longer be true that the NUM will be in a position to force the Scheme into deficit. I am not prepared to complicate the presentation and passage of the present Bill by seeking to go further.

CONFIDENTIAL



I am copying this letter to the Prime Minister, Willie Whitelaw, John Biffen, Norman Tebbit, David Young, John Wakeham and Sir Robert Armstrong.

A large, stylized handwritten signature in black ink, consisting of several loops and a long horizontal stroke.

PETER WALKER

CONFIDENTIAL

CONFIDENTIAL

CBS



ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

~~01-936-6201~~

01-936-6201

8 October 1986

The Rt Hon Peter Walker MBE
Secretary of State for Energy
Thames House South
Millbank
LONDON S W 1

NSM

Dear Peter.

1986 COAL INDUSTRY BILL

Thank you for your letter of 2 October setting out your proposals for ensuring that the trustees of miners' welfare trusts are properly representative of the workforce.

I accept that in the circumstances you describe new powers are necessary to vary these trusts, and that they should be conferred upon the Charity Commissioners rather than upon yourself. I regard this as a legitimate extension of the Commissioners' present powers in order to deal with the wholly exceptional difficulties which have arisen in the administration of these particular charitable trusts which form such an important part of the life of mining communities.

Since you will be supplementing the existing machinery of the Charities Act 1960 the decisions of the Charity Commissioners will be subject to appeal to the Chancery Division of the High Court rather than to challenge by way of judicial review. Although I would expect a significant number of appeals, at least in the early days, I do not think we would be justified in attempting to exclude this right, even if it was technically possible to do so. Provided the Commissioners are given adequate powers, and the legislation is clear and precise, the scope for successful challenge should be strictly limited.

I should add that under the existing law I would be a necessary party to any appeal against the Charity Commissioners' decisions, and if my views coincided with theirs it would be proper for me to represent their interests. If

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on the other hand I disagreed with the views they had taken in a particular case I could insist that they be separately represented. This is a long established procedure in charity cases and I see no reason to make special provision for decisions taken under the new powers.

I am sending copies of this letter to the Prime Minister, other members of E(A), Willie Whitelaw, John Wakeham, David Mellor, and to Sir Robert Armstrong.

Yours truly,

Michael

CONFIDENTIAL

NAS WD

COAL

PT 20



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ceBG



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

8 October 1986

NBGP

Dear Peter

COAL INDUSTRY BILL

In your letter of 2 October to Michael Havers you say that you would like to include in this Bill a provision to enable the Charity Commission to vary the terms of miners' welfare trusts on the application of any organisations representing substantial numbers of persons employed in the coal industry. I, for my part, do not question that proposal on policy grounds but, as you know from earlier correspondence, I am concerned about the feasibility of taking on another hybrid Bill next Session, in addition to the ones to which we are already committed. I do not think that we can take a final view on the inclusion of the potentially hybrid provisions in the Coal Industry Bill until it has been possible to consult the House authorities, and I trust that we shall be able to settle this point later in the month.

I am sending a copy of this letter to the Prime Minister, the members of E(A), the Attorney General, the Chief Whip, Commons, the Minister of State, Home Office (Mr Mellor), First Parliamentary Counsel and Sir Robert Armstrong.

Mellor
L.M.

The Rt Hon Peter Walker MBE MP

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Coal: NAT-IND. Pt 20.





10 DOWNING STREET

MR. NORGRÖVE

COAL MEETING

I have fixed this for Tuesday
4 November at 1715 and have
invited the Secretary of State
For Energy, Mr. David Hunt
and Sir Robert Haslam.

CR

7 October 1986

*cf
to
note*

Travis

DHS

CR

CCBG



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Peter Walker MBE MP
 Secretary of State for Energy
 Department of Energy
 Thames House South
 Millbank
 London
 SW1P 4QJ

N'

7 October 1986

NBP

Dear Peter,

COAL INDUSTRY BILL

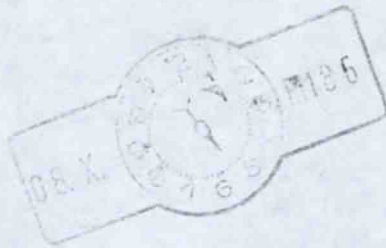
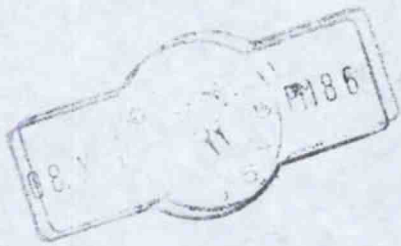
Thank you for sending me a copy of your letter of 2 October to Sir Michael Havers. I have no objection to the addition you suggest.

I am copying this letter to the Prime Minister, other members of E(A), Willie Whitelaw, John Wakeham, David Mellor, Michael Havers and to Sir Robert Armstrong.

Yours ever,
 JH

JOHN MacGREGOR

NATIND Coal PT20





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

The Rt Hon Sir Michael Havers QC MP
 Attorney General
 Attorney General's Chambers
 Royal Courts of Justice
 LONDON
 WC2A 2LL

NBM

2 October 1986

at trap P19
1986 COAL INDUSTRY BILL

In June E(A) colleagues agreed that the forthcoming Coal Industry Bill should include provisions to deal with problems following the emergence of the UDM about employee representation in the Mineworkers' Pension Scheme (MPS), the Coal Industry Social Welfare Organisation (CISWO), and related bodies. I made clear then that changes would also need to be made to a number of miners' welfare trusts, but was hopeful at that time of being able to achieve these using existing powers under Section 41 of the Coal Industry Nationalisation Act 1946, once CISWO had been reformed.

Further research has shown that my powers under Section 41, which are limited to trusts subsisting before 1 July 1952 which derived their property from the Miners' Welfare Fund, are insufficient. Similarly, although the Charity Commissioners have powers to amend charitable trusts in certain circumstances, they are precluded from using these unless requested to do so by the trustees and where the matter is contentious.

I am clear that we must act to resolve the problems which are arising in certain trusts where existing trustees appointed on behalf of the workforce are no longer representative. The trusts include welfare institutes which provide many of the recreational facilities in certain mining communities; where trustees who have remained loyal to the NUM are seeking to use the trusts for the purpose of inter-union rivalry in areas now dominated by the UDM, this can significantly affect the lives of UDM members.

Because of their lack of uniformity, the trusts will need to be amended individually. Both I and the Charity Commissioners, whom I have consulted, believe the right course is to legislate to extend their powers to vary these trusts upon the application of any organisation representing substantial numbers of persons employed in the coal industry. I believe that taking such powers for the Charity Commission will be substantially less controversial than if I were to take similar powers for myself. In drafting the legislation I see advantage in specifying fairly closely the

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considerations which the Charity Commissioners should take into account when determining how to respond to an application, and I will wish to impress upon them the need for prompt action once they have the new powers. David Hunt will be writing to the Chief Commissioner separately on this.

These proposals should not add significantly to the length of the Bill or the degree to which it will prove controversial. As you may know there remains a slight question mark over whether our proposals for CISWO itself will render the Bill hybrid, but I do not believe the present proposals will add significantly to that risk.

Copies of this letter go to the Prime Minister, other members of E(A), Willie Whitelaw, John Wakeham, David Mellor (as Minister with special responsibility for the Charity Commission), and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read "Peter Walker". The signature is stylized and written in a cursive hand.

PETER WALKER

CONFIDENTIAL

NAT IND Coaa PT20



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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Peter Walker MBE MP
 Secretary of State for Energy
 Department of Energy
 Thames House South
 Millbank
 London
 SW1P 4QJ

Prime Minister 2
For the pink marked
X overleaf.

DW
30/9

29 September 1986

Dear Peter,

OBJECTIVES FOR NEW CHAIRMAN OF BRITISH COAL

Thank you for your letter of 14 August with your proposals for Robert Haslam's objectives. I am sorry not to have replied earlier, but I was hoping to be able to have had some discussion with you at our first PES bilateral, This was not in the event possible and we are still awaiting information from British Coal before reaching conclusions for the IFR as you know.

I welcome the emphasis on improving productivity and profitability by cutting capacity and setting challenging cost control targets. I am sure that we agree that there must be no doubt that the key objective remains reducing British Coal's capacity to bring it into line with prospects for profitable sales. It is far from clear that the level of deepmined capacity assumed in British Coal's IFR figures is consistent with this objective. We will clearly need to discuss this point when we resume our discussions.

I have some reservations about integrating deepmined and opencast management, but I understand the reasons for running a single operation in each area and therefore I can go along with this approach provided that it will remain possible to separate the two later should we decide to privatise opencast independently and that in the meantime separate operating cost and profit information continues to be made available. I assume, incidentally, that the cost reduction targets will be specified in terms of minimum required cost savings by adding "at least" before the figure in the penultimate line of paragraph 3.

The main objectives letter already seeks, in the second paragraph, an adequate return on new capital investment. This is obviously vital. I know the industry has made efforts to improve its investment criteria with this in mind. In view of our

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+ | intentions on profitability, however, I think it is now time to go further and look for delivery of a 5 per cent real return on capital employed at each profit centre, i.e. each individual pit and opencast site (after full allocation of British Coal's costs other than interest). When you have considered with Robert Haslam how quickly this objective could be achieved, I should be grateful if you would let me have your proposal for the objectives letter.

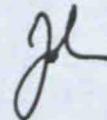
As for the side letter, I wonder whether this is the right time to enter into commitments, however provisional, about the shape of a future capital reconstruction. It is obviously right to draw attention to our intention to transfer progressively the burden of redundancy and reconstructing costs to British Coal. The link between completion of that process and capital reconstruction is also valid. But to go further at this stage could be unnecessarily limiting. For that reason I see no need to go into future dividend policy. To do so in the way proposed would give way to pressure from the NICG which we have successfully resisted in general discussions with them.

The final paragraph of the side letter also contains an undesirable qualification by limiting the pace of transfer of redundancy costs to what will be compatible with the financial target. This may indeed be the hard reality. But I doubt whether we should give away this card to British Coal now. It could give quite the wrong impression that we would be willing to reduce the rate of transfer in order to enable British Coal to meet its financial target in circumstances in which its management was not performing up to expectations in other areas. There is no reason at this stage to restrict our room for manoeuvre on financial targets and sharing redundancy costs, limited though they obviously are.

Finally, I hope that the side letter can also contain a reference to progress on disposals of British Coal's peripheral assets. Robert Haslam has already begun to consider the possibilities so I trust he will have no difficulties with this.

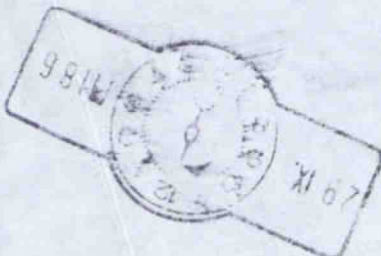
I am copying this letter to the Prime Minister and to Sir Robert Armstrong.

Yours etc,



JOHN MacGREGOR

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"In the next few months there are several more books to be published on the coal dispute whose authors range from a senior Coal Board official to a former industrial correspondent. Doubtless a range of views will be expressed, representing the personal standpoints of the authors concerned.

If in the future there is an accurate factual account of the coal dispute it will show that the victory for democracy over the politically motivated militant Marxists was not due to any one individual, be it Mr MacGregor, Mrs Thatcher or Peter Walker.

The victory for democracy was due to the determination of those miners and their families who retained the democratic tradition of the National Union of Mineworkers in the face of dreadful intimidation from those who for political reasons have disregarded that tradition.

It was due to the policemen who with immense courage and, alas, many injuries carried out their duty to uphold the rule of law in this country. It was due to a common sense of trade unionists and their leaders who recognised the motives of Mr Scargill and refused to support him in his endeavours.

It was also due to a Conservative Government that throughout the bitterest and longest dispute in recent times had a total unity of purpose within the Cabinet and the parliamentary party to see democracy was defended."

Mr Walker intends to make no other comment, except to make it clear that none of the criticisms that appear in the book were ever made to him or any other Ministers, in spite of the scores of meetings that took place with Mr MacGregor both during and after the dispute.



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

cc BT.

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Approved by the PM.

DN

19/9.

14 September 1986

Dear David,

My Secretary of State agreed to let the Prime Minister have a copy of the statement he has passed to the Chief Whip and Mr Tebbit.

This is:

"In the next few months there are several more books to be published on the coal dispute, whose authors range from a senior Coal Board official to a former industrial correspondent. Doubtless a range of views will be expressed, representing the personal standpoints of the authors concerned.

If in the future there is an accurate factual account of the coal dispute it will show that the victory for democracy over the politically motivated militant marxists was not due to any one individual, be it Ian MacGregor, Margaret Thatcher or Peter Walker.

The victory for democracy was due to the determination of those miners and their families who retained the democratic tradition of the National Union of Mineworkers in the face of dreadful intimidation from those who for political reasons had disregarded that tradition.

It was due to the policemen who, with immense courage and, alas, many injuries carried out their duty to uphold the rule of law in this country.

It was due to the common sense of trade unionists and their leaders who recognised the motives of Mr Scargill and refused to support him in his endeavours.

It was also due to a Conservative Government that throughout the bitterest and longest dispute in recent times had a total unity of purpose within the Cabinet and the Parliamentary Party to see that democracy was defended".



As you know, Mr Walker, intends to make no other comment, except to make it clear that none of the criticisms that appear in the book were ever made to him or any other Minister, in spite of the scores of meetings that took place with MacGregor both during and after the dispute.

Yours ever,

Geoff

G S DART
Principal Private Secretary



file SL4
about Griffiths

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

15 September 1986

Dear Geoff,

THE ENEMY WITHIN

Your Secretary of State this afternoon discussed with the Prime Minister the handling of the publication of Sir Ian MacGregor's book 'The Enemy Within'.

It was agreed that Mr. Walker would issue a short statement to say that the defeat of the politically motivated strike was attributable to the willingness of some miners to continue to work, to the determined efforts of the police in upholding the rule of law, to the contribution made by sensible trade unionists throughout the country, and to a totally united Government which did not falter. Mr. Walker said he would also wish to include a sentence to the effect that Sir Ian MacGregor had said to their faces none of the criticisms of politicians, civil servants and others which he had included in his book.

The Prime Minister would be glad to see a draft of the statement when it is ready.

Yours,
David

DAVID NORGROVE

Geoff Dart, Esq.,
Department of Energy

LP

CONFIDENTIAL

BM



bc BG

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

15 September 1986

ENERGY STRATEGY

The Prime Minister was grateful for your Secretary of State's minute of 26 August about policy towards energy and looks forward to seeing the full analysis of the power station programme foreshadowed there.

(David Norgrove)

Geoff Dart, Esq.,
Department of Energy

CONFIDENTIAL

BM

PRIME MINISTER

BILATERAL WITH MR. WALKER

Mr. Walker is coming to see you at his request on Monday. The main topic for discussion will be the handling of Sir Ian MacGregor's forthcoming book. The Sunday Times will start to serialise this on Sunday 21 September and the book itself will appear at around the end of the month. I asked the Department of Energy a week or two ago to try to obtain a copy of the book for us through Mr. Walker whom they believed at that stage had one. It now appears that even he may only have seen extracts, though he has not been willing to discuss the position with his office in any detail.

The belief in the Department of Energy is that the book is highly critical of Mr. Walker, but complimentary to you. They also understand that it is egocentric, describing how Sir Ian MacGregor saved BL, BSC and the National Coal Board. They think it is unlikely to contain much that is new and will probably be a two day wonder. (The article from the Sunday Telegraph, attached, may be indicative.)

Nevertheless, there are risks to the Government in the publication of the book. Above all, it must be right for the Government and Mr. Walker not to be drawn into an argy-bargy with Sir Ian MacGregor. One possibility would be for the Department of Energy to issue a short and dignified statement about the book and then to refuse to discuss it further. But how exactly it is to be handled cannot really be decided until we know what the book says.

It is also worth bearing in mind that Ned Smith, former Industrial Relations Director of the NCB, is producing a book which is likely to be published in October or November (which will be strongly antagonistic towards Sir Ian

MacGregor) and John Lloyd, formerly with the Financial Times and now editor of the New Statesman, is producing a book to be published about the same time.

Mr. Walker may also mention to you concerns about the handling of environmental issues. Relations with the Department of the Environment appear to be not very satisfactory despite (they say) considerable efforts by Department of Energy. Mr. Walker is worried both because there are difficulties relating to the Waddilove Report on claims for coal subsidence (I know no more details) and because he and Mr. Waldegrave have to work together in the Strategy Group on Energy and the Environment.

DN

(DAVID NORGROVE)

12 September 1986

DCABKM

How Ian MacGregor defeated the enemies within

By Graham Turner

LAST WEEK the aged American business practitioner who looks like Mr Magoo and behaves like General Patton said farewell to the gloomy corridors of British Coal. Sir Ian MacGregor leaves behind an industry no longer a branch of the social services, no longer in the grip of the surrender culture which was so deeply entrenched when he arrived.

From the beginning his appointment was surrounded by controversy, and the controversy is not over yet. His memoirs, "The Enemies Within," are coming shortly.

In them, he claims that he and a colleague on the BL Board, not Sir Michael Edwardes, should be given credit for the sacking of Derek—Red Robbo—Robinson, the Communist convenor at the company's Longbridge plant in 1979; makes clear that Sir Robert Haslam, his successor at British Steel in 1983 and now at British Coal, was emphatically not his choice; and, most controversial of all, maintains that it was he who manipulated the coal strike almost from start to finish.

MacGregor is also sharply critical of the Energy Secretary, Peter Walker, of whom he entertains an exceptionally low opinion. This view of events is, to say the least, unlikely to pass unchallenged. Indeed, it is already being questioned.

MacGregor's account of the firing of Red Robbo is the first episode likely to arouse dissent. He claims that he and Albert Frost, another BL Board director, were the prime movers in getting rid of Robinson and that, indeed, they had to put heavy pressure on an indecisive Edwardes to do so.

Colleagues of MacGregor and Edwardes on the BL Board are known to believe that Edwardes was weak and grossly overrated and that he was supported in his reluctance to take action against Robinson by his personnel director, Sir Pat Lowry, now head of Acas.

MacGregor's view of events is, however, strongly challenged by BL senior executives who were close to Edwardes at the time. "The idea that Michael was reluctant to fire Robinson," said one, "is strictly for the birds. He was under constant pressure from Ministers like Keith Joseph, who wanted to know what he was doing about the militants, and looked for the earliest opportunity to prove that he was getting it right. He never showed any sign of wavering."

As for MacGregor, the executive went on, "he was a peripatetic. It was always 'off to Australia or Tipperary in the morning' and the idea that he spent a lot of time pressing for these things is very odd."

MacGregor's memoirs also make it clear how strongly he disapproved of the decision to appoint Sir Robert Haslam as his successor at British Steel. MacGregor's own choice was Bob Scholey, BSC's chief executive, and he was supported by other members of the Board, including Albert Frost.

Both men were appalled when the civil servants came back and told them that the job had been given to Haslam. Frost, indeed, who had previously been at ICI with Haslam, took such a dim view of the decision that he resigned from the BSC Board in protest.

What the book does not say is that MacGregor was even more strongly opposed to Haslam's appointment as his successor at British Coal. He had in mind several candidates of his own, men like Graham Day, now chairman of Rover, and Sir David

Plastow, chairman of Vickers. MacGregor regards Haslam's appointment as Peter Walker's way of inflicting a final insult upon him.

It is, however, MacGregor's account of the 1984-5 coal strike which will arouse the greatest controversy. He claims that it was he, in effect, who picked both the time and the place for the strike. Realising, as he did, that Scargill was looking for a fight, he deliberately risked provoking him by deciding to close a colliery, Cortonwood, which was in Scargill's own heartland, knowing that he was unlikely to refuse to rise to the bait.

He then tried to prepare the ground by moving a number of militants out of the Notts coalfield, which he regarded from the outset as the crucial battlefield. He also checked with Lord Marshall of the CEBG and Sir Robert Reid at British Rail to make sure that they would give him the fullest possible backing.

MacGregor next gives his view of the crisis which blew up in the autumn of 1984 when the pit deputies' union, Nacods, threatened to strike and Mrs Thatcher (and the Cabinet) became so alarmed by what Peter Walker and the civil servants were telling them about MacGregor's handling of the dispute that she took control of it out of his hands.

In his memoirs, MacGregor implies that the Government panicked, but that Mrs Thatcher did not. This, those close to him concede, is something of a white lie, because MacGregor wants to preserve his relationship with the Prime Minister, of whom he has a very high opinion, particularly now that she has given him a knighthood.

What his account does not reveal is that the deal which the

Government intended to put to Nacods was drafted at the Grand Hotel in Brighton, on the evening before the bomb went off, by a group of Ministers which included Mrs Thatcher and Norman Tebbit. The proposals were then sent to MacGregor, who was told that these were the terms on which he must settle. He obeyed, despite the fact that he still regarded the Nacods threat as an empty bluff.

Again, because of his desire to avoid offending the Prime Minister, he is often less than candid about the progress of their uneasy relationship. In particular, he says little about the fury he felt about the dinner in Downing Street to which he was invited when the strike was over.

He had anticipated that few others would be present and that it would essentially be an occasion when the Prime Minister would thank him for his efforts during the strike. Instead, other senior executives of the Board had been invited ("what the hell were all those people doing there?" growled MacGregor later), it was Peter Walker who was seated next to Mrs Thatcher and, far from being heaped with congratulations, the Coal Board chairman was given a dressing-down for his failure to do better in protecting working miners from intimidation.

MacGregor's anger was compounded by the fact that the Prime Minister put Michael Eaton—then the Board's spokesman and with some ambition to become its chairman—in charge of transfers. Although he said nothing at the time, MacGregor lost his temper and steamed out of Downing Street at the earliest possible opportunity, ignoring the usual post-prandial niceties.

This was, perhaps, the nadir

of a relationship which was always dogged by a fundamental mismatch of personalities. Mrs Thatcher often did not understand what MacGregor was talking about—he would make remarks like "if you're going to play poker, you've got to be prepared to lose"—and MacGregor did not take the trouble to explain.

MacGregor is candid about his intense antipathy towards Peter Walker and the way he behaved during the strike. He believed that Walker was obsessed with publicity and intent on feathering his own political nest; and never forgave him either for his secret meetings with the Nacods leaders or for making it clear at the outset, even to MacGregor's own advisers, that if he had had anything to do with it, MacGregor would not have been given the job in the first place.

Indeed, MacGregor would probably like to have been even more critical of the Energy Secretary, but seems to have been persuaded to tone down his views. He is equally critical of what he regards as the BBC's biased coverage of the dispute.

One fascinating sidelight on the strike is that MacGregor's intelligence network included members of Scargill's own executive, while his rapport with Terry Duffy, then president of the AUEW, enabled him to keep in close touch with what was happening within the TUC. Nor was Duffy the only member of the General Council who provided MacGregor with useful insights.

How, then, is one to assess MacGregor? His weaknesses are only too apparent. As even his friends admit, he is "a lousy communicator, who does not tell the people around him what he is going to do—he expects them to work it out for themselves." Nor is he a particularly good picker of people.

He can also be surprisingly curmudgeonly and rude. Whether this comes from extreme shyness or sheer wariness is unclear. What is certain is that he never gives anything away and, for that reason, according to an American management consultant who has known him



MacGregor: he chose the time and place of the coal strike

for 30 years, "has baffled more people than I care to think of."

All that having been said, even those in high Whitehall places who—at the time—felt strongly critical of his handling of the coal dispute, now concede that, without his stubbornness and, indeed, bloody-mindedness, it would not have been won so conclusively. Had Peter Walker been in command, they add, it would definitely have been lost.

As for MacGregor's earlier performance at British Steel, the record to some extent speaks for itself. In 1980, the year he arrived, BSC produced 14m tons of steel with 166,000 people and lost £1,784m. In 1983, the year he left, it turned out almost the same amount with only 71,000 people and lost only £256m.

Last year, in considerable part as a result of his groundwork, BSC made a profit and, while some of its senior managers reckon that his stock has been oversold, the majority concede that it was MacGregor who saved them. "He worked a minor miracle here," said one. "He brought us back from the graveyard."

At the Steel Corporation, however, MacGregor had a number of advantages. One was that, since the industry had only been

nationalised since 1967, its managers had spent half their working lives in private industry and were eager to get back to that state of affairs.

By contrast, the coal industry had been nationalised since 1946 and its senior managers had spent their entire working lives in a protected environment. That was one reason why MacGregor's friends tried to dissuade him from taking the job.

Furthermore, whereas at Steel he found a team of senior executives ready to work with him, at Coal he encountered almost total hostility, as dispassionate and experienced outside observers noted. "One only had to sit with the old guard," said one, "to realise how deeply they resented this American coming in and disturbing their nice, cosy little arrangement with the NUM. He wasn't just a loner when he was facing Scargill and Heathfield, he was a loner when he was facing his own management."

Given that he was operating in such an unfriendly environment, it is truly astonishing that MacGregor managed to see off all the opposition. Those who claim that he has been oversold do not go on to say who else could, or would, have done the job.

I can think of no other instance where a conveyor of news or information would broadcast something which they admitted in advance could have upsetting or distressing effects on the public.

The justification for showing such scenes is that, in the majority of cases, they have a beneficial effect. Viewers watching film...

Twelve features that put James Meade Shirts in a class of their own



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EVERY TIME Mr Neil Kinnock says something I agree with I find that he subsequently issues a clarification or denial backing away from what has been reported.

Not so long ago he gave a very entertaining interview to Mrs Jilly Cooper in which he described Mr Michael Meacher as "kind, scholarly and weak as

RICHARD INGRAMS



looking through his Press cut—fulsome and sycophantic than it

MR NORCROVE

Prime Minister
Peter Walker's letter is a
brush off, but I don't think he
will be pushed into a better
response. The analysis of the power station programme

10 September 1986

ENERGY POLICY

will cover much of the ground (or
should do so). Agree to write as
proposed? DEN 11/9

mb

You will have seen Peter Walker's response to points which the Prime Minister agreed should be raised on his minute of 23 July regarding 'energy strategy in general'.

In effect Peter Walker has declined the invitation to involve colleagues in reviewing energy policy as a coherent whole. There seems little point in pressing the matter without the co-operation of the Department of Energy.

The important thing now is to ensure that the interlocking decisions which the Government faces over the next few months:

- Sizewell B, in the light of the Layfield Inquiry Report;
- the case for extending the operating lives of Magnox nuclear stations, which have reached or are approaching their nominal 30 year lives and yet show no sign of deteriorating integrity and safety,
- the case for new coal-fired capacity to help fill an electricity supply gap foreseen in the 1990s,
- and the question of retrofitting 2 - 3 existing power stations to reduce sulphur emissions,

are taken as a coherent whole which recognises the considerable uncertainties and reflects the Government's objectives and priorities. We will certainly be giving attention to this aspect.

I would suggest that you briefly acknowledge Peter Walker's note of 26 August and say that we await with considerable interest the "full analysis of the power station programme based on the growth and demand now envisaged and of the new plants thought likely to be required".

JOHN WYBREW

SUBJECT
cc master

file

JDB A&E

cc B G



10 DOWNING STREET
LONDON SW1A 2AA

9 September, 1986.

From the Private Secretary

UDM

I have been told that the Prime Minister met Mr. George Hunter, Vice President of the Union of Democratic Mineworkers, during a Conservative Party reception at Ingliston, near Edinburgh, on Wednesday, 3 September.

Mr. Hunter expressed his grave disquiet at the prospects for the branches of the UDM in coalfields - his own in Durham was an example - where UDM membership was in a minority, vis-a-vis the NUM. He feared that if the NUM took industrial action in these areas in respect of their own pay claims it would be easy, indeed inescapable for them to claim to be acting for the minority UDM as well, where the latter had not yet had their national wage agreement with the NCB implemented. Mr. Hunter believed that UDM minority branches would wither away under these circumstances. He believed that the remedy was for the NCB to implement their wage agreements with the UDM in every coalfield and area, whether or not the union branch there was the majority membership union. He urged the Prime Minister to press this course on the new NCB Chairman.

Mr. Hunter also expressed misgivings about a report alleging that the new Chairman was about to reach a wage settlement with the NUM on very favourable terms, considerably backdated. This again would undermine the growth and strength of the UDM.

BF // The Prime Minister undertook to follow up Mr. Hunter's concerns. The point about a wage settlement with the NUM is now largely overtaken. But I should be grateful for a draft reply which Michael Alison, the Prime Minister's Parliamentary Private Secretary, might send to Mr. Hunter about areas where the UDM is in a minority, together with any comments you think it might be helpful to offer on the announcements made by Sir Robert Haslam yesterday.

David Norgrove

Geoff Dart, Esq.,
Department of Energy.

dg



SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

cc BD
BG

Prime Minister 2

DLW

8/9

5 September 1986

Mark Addison Esq
10 Downing Street
LONDON
SW1

Dear Mark,

BRITISH COAL: PRESS CONFERENCE

I am writing to let you know that the new Chairman of British Coal, Sir Robert Haslam, will be holding a press conference on Monday 8 September, at which he intends to make a number of important announcements. As these are likely to provoke immediate union and media reaction, some of which could well be misleading, the Secretary of State has asked me to write to you and other colleagues with the facts and the background.

Sir Robert believes that there are two major issues underlying the considerable discontent in the coalfields: failure to pay the 1985 increase to all UDM members and to NUM members, especially those who worked for all or part of the strike; and dismissals. On both these Sir Robert believes that some action must now be taken in an effort to resolve current industrial relations problems.

British Coal made a pay offer, of £5.50 on basic rates plus an additional shift allowance, to the UDM towards the end of last year. This offer was accepted by the UDM in November and immediately paid with effect from 1 November to all mineworkers at pits where UDM members were the majority. The same pay offer was made to the NUM but was conditional on their acceptance that strikers would have to make contributions to the pension fund if their period on strike was to count towards their pensions. Although the NUM made clear they could accept the pay offer, they were not prepared to accept the pension condition. The offer was eventually withdrawn. The UDM leaders had meanwhile given their agreement to the principle that additional contributions should be made to the pension fund to cover strike periods.

Sir Robert now intends to impose on the NUM the wage increase as offered, to be paid with effect from 1 September 1986. For those NUM members who worked for all or any part of the strike, this increase would be back-dated, pro rata, to 1 November 1985. The



money not used for retrospective payments, where these have been withheld, will be set aside by British Coal pending resolution in the courts of a dispute over the meaning of the Pension Scheme rules in relation to strikes, so reaffirming British Coal's point of principle in relation to pension contributions. For those members of the UDM not yet receiving the wage increase, it will be awarded with full retrospection to 1 November 1985 in all cases, in recognition of the fact that UDM leaders had accepted the point of principle on the pension issue. This will be the grounds for defending this apparent discrimination in favour of the UDM.

On the issue of reinstatement, Sir Robert plans to announce a final internal review by British Coal at national level of certain outstanding cases. He will make it clear that there are certain categories of offence, including all those involving violence or wilful damage, which will not be reconsidered; also excluded will be cases where men have already accepted payment in lieu of reinstatement. Those mainly concerned, and the numbers are relatively small, will be men who chose not to go to Industrial Tribunals or who failed to do so within the prescribed timescale.

Both the Secretary of State and the Chairman are well aware of the risk that attempts may be made to portray these announcements as a sign of some softening on the part of British Coal top management. The Chairman will make clear that this is not the case. In particular he will stress that there will be no backdating of the pay award for NUM members on strike throughout the dispute and that British Coal maintains its position of principle on the Pension Scheme. He will also make clear that future wage offers will be based primarily on incentive schemes. Moreover the press conference will begin with a scene-setting which will stress the problems that still face the industry and the continued need to cut costs if it is to succeed in the market place. The Chairman may also give some indication of the need for further reductions in high-cost capacity: as the

Prime Minister and the Secretary of State for Scotland are aware, specific proposals will begin to emerge later next week.

I am copying this letter to Alex Allan (Treasury), Leigh Lewis (Employment), Robert Gordon (Scottish Office), Colin Williams (Welsh Office), Andrew Lamsley in Norman Tebbit's Office and Joan Naughton in the Lord President's Office.

Yours,

Stephen

S R SKLAROFF
Private Secretary

MEETING BETWEEN THE PRIME MINISTER AND GEORGE HUNTER

The Prime Minister met and spoke to Mr. George Hunter, vice President of the Union of Democratic Mineworkers, during the course of the Party reception at Ingliston, near Edinburgh, on Wednesday 3 September.

Mr. Hunter expressed his grave disquiet at the prospects for the branches of the UDM in coalfields - his own in Durham was an example - where UDM membership was in a minority, vis-a-vis the NUM. He feared that if the NUM took industrial action in these areas in respect of their own pay claims it would be easy, indeed inescapable for them to claim to be acting for the minority, UDM as well, where the latter had not yet had their national wage agreement with the NCB implemented. Mr. Hunter believed that UDM minority branches would wither away under these circumstances. He believed that the remedy was for the NCB to implement their wage agreements with the UDM in every coalfield and area, whether or not the union branch there was the majority membership union. He urged the Prime Minister to press this course on the new NCB Chairman.

Mr. Hunter also expressed misgivings about a report alleging that the new Chairman was about to reach a wage settlement with the NUM on very favourable terms, considerably backdated. This again would undermine the growth and strength of the UDM.

The Prime Minister listened carefully to Mr. Hunter's complaint: she expressed her concern, and undertook to follow them up.

Mr. Hunter's address is:

45 Tracy Avenue,
West Boldon,
Tyne & Wear

MICHAEL ALISON

4 September 1986

*Mr Nurgrove,
Pl have an urgent word
about this.*

N. C. W.

5.9



10 DOWNING STREET

PRIME MINISTER

Attached is a statement
Peter Walker wants to put
out about Ian MacGregor's
book on the coal dispute.

David Norgrove would be
grateful for your approval/
comments.

(The final paragraph of
the attached is not part of
the statement.)

Catherine
19 September

NOTE FOR THE FILE

pt
BIF Monday,

SIR IAN MACGREGOR'S MEMOIRS

I spoke today to Stephen Sklaroff who told me that Peter Walker had made arrangements to obtain an early copy of Sir Ian MacGregor's memoirs. Stephen Sklaroff will see whether he can pass a copy on to us next week, when Mr. Walker returns from leave.

DN

(DAVID NORGROVE)

2 September 1986



10 DOWNING STREET

From the Private Secretary

2 September 1986

Dear Stephen,

POWER STATION COAL STOCKS

The Prime Minister has seen your letter to Mark Addison of 1 September about power station coal stocks. The Prime Minister has noted particularly the Board's confidence about endurance.

I am sending a copy of this letter to Brian Unwin (Cabinet Office).

Yours,

David,

David Norgrove

Stephen Sklaroff, Esq.,
Department of Energy.



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

01 211 6402

DM - Free

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inquire on the Scottish
low. MBR 1/9*

Robert Gordon Esq
Private Secretary to
The Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
London
SW1A 2AU

1 September 1986

Dear Robert,

British Coal have alerted us to some rationalisation of coal production in Scotland which is likely to become public knowledge during the week beginning 8 September. It is understood that the Scottish office has been given some indication of what is envisaged but this letter is to ensure that, in the absence of my Secretary of State, you nevertheless have all the details available to us.

The unions in the industry were told of the very serious situation British Coal faced in Scotland at the last Colliery General Review Meeting held on 24 June 1986. In particular, the newly appointed Area Director stressed the high costs of production and the extremely difficult marketing situation. Some tentative indications were then given of the rationalisation likely to be necessary.

At colliery level, there have been some discussions of possible intentions, colliery by colliery, at Consultative Committee Meetings. Final decisions having now been taken by Management, reconvened meetings will be held during the week beginning 8 September.

On Tuesday, 9 September, the Unions will be informed that Castlehill and Castlebridge Collieries, in the Longannet Complex, are to be made into one management unit and that any presence at Bogside is to be discontinued. British Coal judge that there should be no serious disagreement at this meeting.

SECRET



On the same day, a Reconvened Meeting will discuss the situation at Comrie. A serious roof fall took place on 24 August. With the agreement of the Unions, the work force has been redeployed to other collieries in Fife. The trade unions' own mining engineers have examined the difficulties. The Management's intention, on 9 September, is to announce the closure of Comrie. There will be no compulsory redundancies, here or at the other collieries mentioned below.

On 10 September, reconvened meetings will be held at Monktonhall and Bilston Glen Collieries. A plan will be placed before the Unions which will involve concentrating working at Bilston Glen only. The Area Director will undertake to recommend to British Coal that the shafts and other facilities at Monktonhall should be retained with the intention of driving an interconnection to Bilston Glen making the Monktonhall reserves available to Bilston Glen. Even so, the labour force will require to be reduced from 2230 to around 1400.

On 15 September, reconvened meetings will be held at Killoch and Barony Collieries. The Area Director will announce a plan to merge Killoch and Barony into one management unit, to discontinue mining operations at Killoch, and to produce coal with the residual labour force at Barony, with the coal being treated for the market at the Killoch preparation plant. A reduction in manpower from 1131 to 600 is involved.

Clearly these announcements will make a significant public impact. I am copying this letter to Mark Addison at No 10 in view of the Prime Minister's forthcoming visit to Scotland.

Yours Sincerely,

A handwritten signature in dark ink, appearing to read "Stephen Sklaroff". The signature is fluid and cursive, with a long horizontal stroke at the end.

S R SKLAROFF
Private Secretary

SECRET



COPY NO 1 OF 4

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

01 211 6402

Mark Addison Esq
10 Downing Street
LONDON
SW1

Prime Minister ²
Preparing the way for
a 1/2 mt shortfall I suspect,
though the Board are quite
confident about endurance.

1 September 1986

Dear Mark,

JRN
1/9.

MT

POWER STATION COAL STOCKS

I am replying to your letter of 27 August. In the absence of my Secretary of State from the country, Mr David Hunt, as the Duty Minister, has agreed the terms of this reply.

As far as coal stocks at CEBG's power stations are concerned, we have been monitoring the position closely. The CEBG at senior level have recently given an assurance that they are still aiming to be close to 27 million tonnes by the end of October with no significant shortfall. Although coal consumption has been higher than expected, the CEBG's expectation is that it will be possible for stocks to continue to rise during the first weeks of November.

In any case, the Board are now even more confident than before about endurance. Even coal stocks of 26.5 mt would, they advise, give one year's endurance with no coal deliveries at all; endurance would be extended to the summer of 1989 on the assumption that 400 Kt of coal a week could be delivered from UDM areas.

I am copying this to Brian Unwin (Cabinet Office).

Yours,

Stephen

mt

S R SKLAROFF
Private Secretary

NAT. IND: Cal: Pt 20



SECRETARY OF STATE FOR ENERGY
THOMAS H. DEWITT
MILBANK LONDON SQUARE

CONFIDENTIAL

CONFIDENTIAL



10 DOWNING STREET

LONDON SW1A 2AA

27 August 1986

From the Private Secretary

POWER STATION COAL STOCKS

The Prime Minister understands that the current rumblings of industrial action in the coal industry are not at present giving your officials cause for concern about the prospects for success in achieving the 27m. tonne target for power station coal stocks by the end of October. She has also noted the forecast of consumption of coal in the summer has been lower than the out-turn, and she fears that the same may turn out to be true of the autumn and winter. Furthermore, it may not be worthwhile stepping up the oil burn in order to be seen to achieve the coal target.

The Prime Minister would view with great concern any prospect of the target of 27m. tonne not being reached by the end of October, and she has asked whether the Department's latest account suggests there is any risk of that happening?

I am copying this to Brian Unwin (Cabinet Office).

Mark Addison

Geoff Dart, Esq,
Department of Energy.

MR. WYBREW (on return)

file *LB*

Mr. Walker has now responded to the points the Prime Minister raised on his minute of 23 July. I attach a copy of his minute, and I should be grateful for your comments on the points he makes.

I have also sent a copy of the minute to the Treasury.

MARK ADDISON

26 August 1986



CC/PG
 ✓
 CC JW
 ✓
 PMT

PRIME MINISTER

Your Private Secretary's letter of 4 August asked for my views on energy strategy.

Our approach to the energy industries is fully consistent with the Government's overall objectives and we have in place a framework which, subject to the constraints and uncertainties that exist, encourages the development of a liberalised UK energy market.

We have maintained that approach in our dealings with the oil industry, in spite of pressure on us from OPEC and others during the recent uncertainty about oil prices.

Privatisation of British Gas, together with the establishment of an appropriate regulatory regime will be a major step forward.

The Energy Act, 1983, has encouraged the private generation of electricity, although we never expected that to lead to radical changes in the electricity supply industry. Major changes in organisation there and the introduction of private capital on an extensive scale are tasks for the next Parliament.

The near term issues concerning the electricity supply industry were referred to in my minute of 23 July; the power station capital investment programme and the relationship with the coal industry as that industry continues with its rationalisation.

I will send you a full analysis of the power station programme based on the growth in demand now envisaged and of the new plants thought likely to be required. My analysis will provide the basis for decisions about future power station investment, whether for nuclear power or fossil fuelled stations.

But no decision at all can be taken until I have received Sir Frank Layfield's report on Sizewell B and discussed it with colleagues. Only then can we see what mix of nuclear and fossil fuelled stations is feasible over the next few years. Layfield has told me recently that he still aims to deliver his report in



September, or very soon afterwards, so we should be able to address these issues later this year.

I will have full regard to the maintenance of our industrial capability. But it would not be consistent with our policy objectives more generally to contemplate power station orders without a demonstrable economic need as expressed by the Generating Boards as customers.

As for offshore construction, I have discussed this at some length in my minute of 23 July. I am discussing with the Chancellor the implications of lower oil prices for the fiscal regime applying to oil and gas activity.

Your Private Secretary's letter referred to retrenchment in the coal industry. As I said in my 23 July minute, that is proceeding more rapidly than any of us could have anticipated. The new management team is performing excellently and responding well to the severe challenge represented by the collapse in oil prices. Productivity is at record levels; output per man shift is now running at 3.1 tonnes. Some 50,000 have either left the industry or are under notice to do so.

Even if a more rapid run down were feasible, from an operational viewpoint, it would require the abandonment of the pledge of no compulsory redundancies and the abolition of the Independent Review Body. That would be politically damaging and would give Scargill a plausible rallying cry.

My judgement, therefore, is that the first priority must be to complete the current effort to rationalise the industry and to put it on a profitable basis. Only when this has been achieved will it be possible to examine changes in the organisation of the industry, including the possible introduction of private capital. In the short term, I believe it would be a mistake to believe that any other option would improve the security of supply to the electricity supply industry.



Energy policy for the period between now and the election will be dictated by two factors - both outside our control:-

1. The Sizewell Inquiry Report;
2. The price of oil.

A handwritten signature in dark ink, appearing to read 'A.R. Suleman', written in a cursive style.

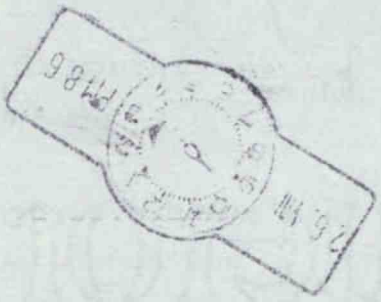
PP

Secretary of State for Energy

26 August 1986

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

NAT. IND. : coal pt 20.



126/8

Mr Norgrove

CEGB

(Note at end)



CONFIDENTIAL

Prime Minister.

For in Jones's etc etc stage.

ME 26/8

c Mr Roberts

MR UNWIN o/r

Power Station Coal Stocks

1. The weekend press gave some coverage to rumblings of industrial action in the coal industry. An overtime ban has been in force in South Wales for two weeks, ballots are being conducted in Durham and Yorkshire on overtime bans and in one Yorkshire colliery a 24 hour strike on 18 August may be followed by an all-out strike, beginning next week, in protest of the failure to reinstate two miners sacked during the strike.

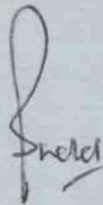
2. In addition the publication, last week of a report critical of police behaviour during certain incidents in Yorkshire in 1984 might provide renewed impetus to reinstatement calls and action in support. One Sunday newspaper (Telegraph) suggested that Mr Scargill is poised to lead industrial unrest, on a pit by pit basis, to coincide with the arrival of British Coal's new Chairman on 1 September.

3. In view of all this I spoke to Dr Heathcote (D Energy) about the CEGB power station coal stock build-up to 27 m tonnes by the end of October. He told me that the rumblings within the coal industry did not, at present, give cause for concern about the prospects of success in achieving the 27 m tonne target - but D Energy are keeping a careful watch on developments. He also told me that power station coal consumption had been a little higher this summer than expected - the exact reasons were not yet clear but it would probably be a combination of poor weather in many parts of the UK and a higher than anticipated industrial demand.

CONFIDENTIAL

4. I understand that SofS for Energy is unlikely to be unduly concerned if CEGB power station stocks at the end of October are slightly lower than 27 m tonnes. His view appears to be that the reason why the NUM have no chance of mounting a stike that could affect electricity supplies is because oil is currently cheaper than coal and the CEGB would prefer, for financial reasons, to use less coal and more oil than they currently do.

X | 5. D Energy have promised to keep me informed about any changes in their position and I will report to you as necessary. We shall soon need to consider the target level for power station coal stocks after October.



Brigadier J A J BUDD

20 August 1986

You may care to glance for information at this helpful note by Brigadier Budd.

IF there is any prospect of a serious deterioration in the situation, the Prime Minister may at some stage need to talk to Mr Walker. In a month or so's time we shall also need to review the point at X above.

JW [Brian Quinn]

26/8/86



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

01 211 6402

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Re Munk

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14/8

14 August 1986

The Rt Hon John MacGregor OBE MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

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OBJECTIVES FOR NEW CHAIRMAN OF BRITISH COAL

As you know, Bob Haslam takes over as Chairman of British Coal at the beginning of next month. I have been considering what objectives he should be given; my proposals are set out in the enclosed draft letters. They have been discussed informally with him, but it has, of course, been made clear that they are subject to discussion with my colleagues.

As you will see, it is envisaged that there would be a short set of published objectives, broadly on the lines of those given to Ian MacGregor but with more precision. In addition there would be a side letter, not for publication, dealing with two related matters on which the incoming Chairman needs to have some indication of our broad intentions - a capital reconstruction and the transfer of full financial responsibility to British Coal for the costs of future restructuring and redundancies.

*if the letter
can
be
published?*

The financial objective is to achieve break-even for 1988/89 as a whole, although the hope is expressed of breaking even in the latter part of 1987/88. It is already widely recognised both inside and outside the industry, that, following the loss of revenue which British Coal have suffered as a result of the collapse in oil prices, any more ambitious objective would simply not be realistic. There will for the first time be a quantified performance objective expressed in terms of real reduction in costs per gigajoule of coal produced. This will apply to mining activities taken as a whole, leaving it to the management to decide what the mix of deep-mined and opencast operations should be. The actual figure can be decided when we have completed our consideration of British Coal's plans and prospects in this year's IFR.

In the draft side-letter you will see that it is indicated that the capital reconstruction is unlikely to be before 1988/89. I am certain, as is Bob Haslam, that to attempt this earlier would be premature and would make it more difficult to achieve the rapid



progress we seek in restructuring the industry. Redundancy and restructuring costs are likely to be heavy in 1987/88 and we need to get those behind us before attempting a new capital structure. Moreover a reduction in interest charges could be used by the unions as an argument against closures in the Colliery Review Procedure.

The references to the possibility of a capital reconstruction are balanced by the statement that, when this has been achieved, British Coal will assume full responsibility for the costs of future redundancies and restructuring. There is also a reference to a reduction in Exchequer support for those costs in advance of a capital reconstruction. The amount of any such reduction will however need to be very carefully judged. We must not give the new Chairman and his management a totally impossible task in attempting to break even within a reasonably near timescale. Indeed he will need a broad indication of our intentions about reduction of Exchequer support before he can accept the proposed financial target, and this should emerge from the current IFR.

I should like to reach agreement on these texts with Bob Haslam before he takes over as Chairman on 1 September. The letters would not however be sent until the IFR has been completed and the numbers settled. The objectives, but not the side-letter, would then be published, probably in the context of the debates on the forthcoming Coal Industry Bill.

I am sending copies of this letter and enclosures to the Prime Minister and Sir Robert Armstrong.

PETER WALKER



DRAFT OF 6.8.86

BRITISH COAL OBJECTIVES

1. Coal production, like any other business, must earn a satisfactory return on capital while competing in the market place. The basic objective of British Coal must be to earn a satisfactory rate of return on its net assets and achieve full financial viability without Government support. British Coal should accordingly aim to improve its profitability so as to achieve, after payment of interest and accrual of social grants, breakeven for the year 1988/89 as a whole (though it is hoped that a breakeven position might be attained during the latter part of 1987/88) and thereafter generate an increasing surplus on revenue account and to contribute increasingly to self financing.

2. British Coal should aim to maximise its long-term profitability by concentrating on low-cost production and on those sales which maximise profit on a continuing basis in competition with other fuels. It should plan its marketing, production, capital investment and research and development accordingly, bring productive capacity into line with its continuing share of the market, and ensure an adequate return on new capital investment.

3. British Coal's objective should be to ensure that over the period to 1989/90 the operating costs of its

... mining



mining activities per gigajoule of coal produced are reduced in real terms by []%, compared with the level recorded in 1985/86.

4. Either British Coal or the Government may propose additional objectives from time to time: any consequent adjustment to existing objectives would need to be discussed.



DRAFT OF 6.8.86

DRAFT SIDE LETTER.

[My separate letter of today's date] says that the basic objective of British Coal is to achieve full financial viability without Government support. It also sets the specific objective of achieving breakeven for the year 1988/89 as a whole. This specific objective is defined by reference to the accounting profit or loss after payment of interest and accrual of social grants.

2. In this context, it may be helpful if I set out the Government's provisional thinking on the future capital structure of the Board and on future support for the coal industry's redundancy and restructuring costs.

Capital Structure

3. On present information, the Government does not believe that the amount of the Board's remunerable capital is significantly out of line with the value of the Board's assets. That capital is, however, wholly in the form of loans from the National Loans Fund. The resulting high level of interest depresses profits shown in the Board's accounts and entails a higher gearing ratio in the balance sheet than is normal among extractive industries in the private sector.

... Provided



Provided that British Coal had made and was continuing to make satisfactory progress towards achieving its objectives, the Government would have it in mind, at the appropriate time (which would be unlikely to be before 1988/89) to propose to Parliament a reconstruction of the Board's capital. This reconstruction should enable a restructured coal industry, operating profitably in the market place, to meet its own future redundancy and restructuring costs; it would be likely to include the conversion of a significant part of the Board's debt to capital bearing a rate of dividend which would vary with the Board's profitability.

Redundancy and Restructuring Costs

4. For many years, successive Governments have made substantial contributions towards meeting the costs of restructuring the coal industry and of the redundancies unavoidably entailed by that restructuring. This has been made necessary by the scale of the costs and the condition of the industry's finances. Nevertheless, they are costs which, in most other industries, are borne wholly or mainly by the employer; and in principle it seems right that decisions about them should be taken by the employer, in consultation with his workforce, in the light of his assessment of the needs and circumstances of his business.

... 5. It is



5. It is in accordance with this approach that the Government has decided to end the Redundant Mineworkers Payments Scheme from March 1987. It is also the Government's intention that the new system of social grants to be proposed in the forthcoming Coal Industry Bill should allow a reduction in Exchequer support for the industry's future redundancy and restructuring costs. Any such reduction would, of course, take full account of the industry's objectives as set out in my separate letter of today's date, its financial prospects, and the potential effects on the motivation of management and workers. Further, if a reconstruction on the lines of paragraph 3 above were approved, the Government believes that there would be advantage to both sides if the Board were to bear, out of its increased accounting profits and without financial support from Government, all costs arising from redundancies and restructuring after the effective date of reconstruction.



10 DOWNING STREET

LONDON SW1A 2AA

4 August, 1986.

From the Private Secretary

The Prime Minister was grateful for your Secretary of State's minute of 23 July about energy strategy. She has noted the various developments to which the minute refers. She believes there is now a good case for a general review of energy policy, not with the aim of formulating definitive strategy, but to ensure that the framework around a liberalised UK energy market is consistent with the Government's objective. Such a review might usefully cover aspects such as an explicit definition of the objectives of UK energy policy and their relative importance; a recognition of the very considerable uncertainties to which plans and decisions in the energy field are exposed, and consideration of the number of strategic questions. These might include:-

- Given the increased uncertainty over the contribution of nuclear power to electricity supplies in the 1990s, the number of coal and oil-fired stations approaching retirement in a bunch, and the growing evidence of an increase in the underlying demand for electricity, what should the CEGB be doing to keep the lights on in the 1990s?
- What are the implications for the British coal industry and the process of retrenchment to a core of economic capacity?
- What assumptions is the CEGB to make about the security of supplies of British coal? (If the British coal industry is restructured and put onto a diverse private sector basis there should be less need for substantial coal imports.)
- How much weight should be put on the potential damage to British industrial capability caused by the cycle of feast-to-famine-to-feast, for example in the construction of power stations and now the development of offshore oil and gas?

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BF ||

The Prime Minister would be grateful for your Secretary of State's views on these points.

Timothy Flesher

Geoff Dart, Esq.,
Department of Energy.

CONFIDENTIAL

 PART 19 ends:-

DN to PM 31/7

PART 20 begins:-

TF to ENGREG 4/8



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