

CONFIDENTIAL



*for Mr. Hockley*  
*Mr. Hockley*

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Secretary of State for Industry

*25* July 1980

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

*This is tricky, and may  
need to be raised in E on  
Monday. In any case, I think  
MacGregor's letter should not go  
until after the current debate.*

*Dear Tim*

BRITISH STEEL CORPORATION: SUPPLY OF COKING COAL

1 Mr Ian MacGregor of BSC spoke to me this morning in my Secretary of State's absence from London. He thought it prudent to give the Secretary of State warning that he was about to enter into a confrontation with the National Coal Board over BSC's supplies of coking coal.

2 The background is that BSC had agreed with NCB to limit their imports of coking coal in 1980 to about 4 million tonnes, buying their residual requirements of a little more than 4 million tonnes from NCB. For 1981, BSC will again need 8 - 9 million tonnes. The National Coal Board have offered BSC a package deal for about 5 million tonnes of this requirement, the balance being imported by BSC for quality and other reasons. The price finally quoted by the NCB for the 5 million tonnes would involve a "subsidy" from BSC to the NCB of between £25 and £40 million, compared with the world market price. Also, the NCB were offering no guarantee that the quoted price would be maintained throughout 1981 and BSC considered it likely that NCB would raise the price further during the course of the year.

3 Mr MacGregor said that he could obtain all the coal he needed in 1981 from overseas suppliers on fixed price contracts which would last for at least the year. In view of the Corporation's financial position he could not afford to give the NCB a "subsidy". BSC therefore intended to reply to the NCB on Tuesday, 29 July to say that they would purchase their entire requirements of coking coal for 1981 from overseas. They would also need to announce this decision publicly.

4 Mr MacGregor went out of his way to ensure that I had details of his movements over the period up to Tuesday. This, and his preliminary remarks about warning the Secretary of State, gave me the impression that he was deliberately clearing his line with

/my ...



my Secretary of State and thereby providing him with an opportunity to intervene before BSC took action if he so wished. He did not, however, invite any comment by my Secretary of State.

5 My Secretary of State considers that it would be quite inappropriate for Ministers to intervene to attempt to influence BSC's negotiations with the NCB. These are a matter for commercial negotiation between the parties concerned. He also attaches importance to any steps which Mr MacGregor can take to reduce BSC's overrun on its external financing limit. He is anxious about the extent to which the "haemorrhage" of money to BSC is inhibiting the Government's overall plans for reducing public expenditure and for reducing interest rates. He realises that BSC's actions to get as close as possible to its EFL are likely to have an adverse impact on the EFLs of the NCB and other nationalised industries.

6 When he spoke to me Mr MacGregor was unaware of the debate on the motion of no confidence on Tuesday, 29 July. BSC needs to reply to the NCB before the end of the month and officials here have ascertained that BSC's letter need not be issued until after the Prime Minister has spoken in the debate. My Secretary of State thinks that, before the Government ask BSC formally to delay their letter, account should be taken of any damage which might be done to the Government if knowledge of such a request became public knowledge.

7 I must stress that it is important that NCB do not hear of BSC's intentions before BSC reply to them.

8 I am copying this letter to John Wiggins (Treasury), Richard Dykes (Employment), Godfrey Robson (Scottish Office), John Craig (Welsh Office), Julian West (Energy) and to David Wright.

*Yours ever,  
Ian Ellison*

I K C ELLISON  
Private Secretary



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25 JUL 1968