E Pol

Prime Minister

CONFIDENTIAL

Qa 05074

To: MR LANKESTER

From: J R IBBS

Strategy for Coal - E(80)67

1. Mr Howell's paper asks his colleagues 'to persevere' with the agreed strategy for the coal industry and to stick with the strategy's original financial objectives as a basis for planning Public Expenditure. This seems to us a triumph of hope over experience.

2. The coal industry today bears unhappy similarities to the steel industry a year ago:

| | |
|---|---|
| Consumption. | Down in all principal markets. |
| Capacity. | Large surplus of high cost capacity, concentrated in sensitive areas such as South Wales, Scotland and the North East. Additional capacity coming on stream as the result of recent heavy investment programmes. |
| Imports. | Up and rising. Running at double last year's level. |
| Finances. | Market conditions and surplus capacity may have put the industry's financial objectives virtually beyond reach. All the risks seem downside, unless losses are passed through to the captive electricity consumer. |
| Closures. | An enhanced closure programme is required, but would be fought vigorously by the unions. |
| Pay. | A large claim is in the offing. Negotiations start in September. |

3. In the light of our experience over steel, a number of questions have to be asked. First, should Ministers continue to base their public expenditure projections on the agreed, though by now decidedly optimistic, financial objectives that are part of the coal industry strategy? Might it not be prudent to acknowledge the downside risks? The CPRS suggests that Mr Howell should be pressed to quantify the above factors and the likely range of financial outturns for the industry. He should also be asked:

What are the industry's market prospects over the term of the plan in the light of current economic trends?

What is Mr Howell assuming for pay settlements and price increases?

What levels of closure programme would be needed -

(a) to keep supply and demand in balance;

(b) to close all the high cost pits by the mid-1980s say;

(c) to enable the Board to achieve their medium term financial objective of break-even in 1983/84?

4. On pay, if Ministers want to exercise any influence in the coming round, they will need to decide their line by September at the latest.

5. Mr Howell is right in trying to keep the pay and closure issues separate. To tackle the miners over both pay and closures at the same time could make strike action unavoidable. The time for negotiating an enhanced closure programme will be between this year's pay settlement (around the end of the year) and the start of the next pay round in September 1981. This is a narrow window for which preparations would need to start as soon as possible.

6. Conclusion. Ministers need more quantification of the coal industry's prospects and likely financial performance. They should therefore keep an open mind until they have received further information. This information is required speedily. Indeed if, as Mr Howell suggests, the 1981/82 EFL must be set by September, there would be advantage in his bringing a paper forward before the Recess.

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

J.R.I.

15 July 1980