Nat Ind

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CONFIDENTIAL

PRIME MINISTER

Strategy for the Coal Industry
(E(79) 50 and E(79) 56)

When the Committee discussed the Secretary of State for Energy's paper on the Coal Industry (E(79) 45) on 27th September (E(79) 9th Meeting, Item 1) they felt that it did not provide adequate information on which to come to a conclusion. You asked the Secretary of State for Energy and the Chief Secretary, Treasury to "produce an agreed joint paper setting out the necessary facts and options and, if possible, reaching agreed conclusions". In the event the two Ministers have been unable to agree. Accordingly the joint paper now before the Committee (E(79) 50) is in effect two separate papers with a covering note pointing to the main areas of disagreement. This format is unavoidably clumsy and the CPRS has circulated a paper of their own (E(79) 56) pointing to the assumptions underlying the strategy recommended by the Secretary of State for Energy; highlighting the points of disagreement between the Secretary of State for Energy and the Chief Secretary, Treasury; and setting out (in paragraph 4) certain key questions which underlie the points of disagreement.

2. This is a tangled and difficult subject but, I suggest, manageable if you begin by running through, and seeking comments on, paragraph 4 of the CPRS paper and then move on to the specific choices set out in the joint paper by the Secretary of State for Energy and the Chief Secretary, Treasury. The conclusion to be drawn from discussion of the CPRS paper is probably that the uncertainties on productivity, the outcome of future wage bargaining and the potential scope of raising coal prices, are too great to allow for the construction of a neat scenario for the future. This is hardly surprising, or indeed, unusual. Uncertainty is a fact in life with which commercial organisations have to live and the art of management is to find a way through uncertainty to the basic objectives. However unusual the NCB may find the

prospect they are paid to manage the industry and must face their responsibilities. The task for Ministers, as representing the owners of the business, is to set the objectives, to decide how much finance to provide and to replace the management if it fails.

HANDLING

3. You might begin by inviting the Secretary of State for Energy, the Chief Secretary, Treasury and Sir Kenneth Berrill to introduce their papers. You might then invite the Secretary of State for Energy to comment on the points raised in paragraph 4 of the CPRS paper. In doing this you might draw particular attention to the apparent incompatibility between the NCB's assumption of a 2 per cent per annum increase in real prices and their recently concluded agreement to sell $\frac{2}{3}$ of their total production to the CEGB at a price indexed to inflation (i.e. allowing for no real increase in prices). The Secretary of State for Energy can no doubt offer an explanation - which may be that the agreement is a propaganda exercise of no real substance. Certainly Ministers would not wish to accept an argument from the NCB that this agreement (which appears to ignore future movement in the price of oil) is a reason for asking the taxpayer rather than the consumer to meet the costs of the coal industry!

4. Thereafter you might run through the specific issues identified on Page 2 of the joint Ministerial paper and seek a decision on each. They are:-

(i) Financial Strategy: The difference between the two approaches is neatly summarised in the table in paragraph 3(i) of the CPRS paper. Leaving aside enhanced redundancy payments, the two Ministers are disputing sums of money ranging from £30 million in 1980-81 to £59 million in 1983-84. The argument will be presented in terms of the realism of the closure implications of the alternative strategies - but it can also be presented as an argument about a 1 or 2 per cent addition to coal prices. If the latter presentation is the reality the Committee may well prefer the Chief Secretary's proposals. They are the more likely to do so if they have taken on board the import of the public expenditure issues to be discussed by Cabinet on Thursday.

(ii) Investment: The argument here is about the degree of commitment to finance the Board's future investment programme. Given that there is no particular reason to challenge the Board's view that there are profitable investment opportunities in coal - and the longer term need for coal supply - the Committee may feel able to support the Secretary of State for Energy on this point.

(iii) Capital Structure: The case against introducing PDC into the NCB's capital structure at this time appears strong and the Committee may prefer to back the Chief Secretary.

(iv) Coal Industry Legislation: The Secretary of State for Energy needs a Bill in this session and seeks policy approval for it. There is, we understand, little prospects of getting the Bill to Parliament early enough to pass it through both Houses and all stages by the end of the financial year. This could cause real difficulty for the Secretary of State for Energy (there is doubt whether the Appropriation Act provides adequate cover for lending over and above the statutory borrowing limits) and he will need to sort out his problems with the Chancellor of the Duchy of Lancaster outside the meeting. There is however no reason why approval in principle for his Bill should be withheld.

5. Decisions on the above points would meet the stated requirements of Mr. Howell and Mr. Biffen. They will however leave outstanding two other points - the NCB's proposals for enhanced redundancy payments and the general question of the enforcement of the Government's decisions on cash limits on the National Coal Board.

6. On redundancy payments, Mr. Howell says in his paper (Annex A, paragraph 7) that he is examining the situation with colleagues and will bring forward proposals as necessary. The Committee need do no more than note this (though it needs to be recognised - and preferably stated - that the cost of any such new arrangement will be a charge on the Contingency Fund unless the

Board can find off-setting savings within its own finances). The question of enforcement is more difficult. Responsibility for living within cash limits rests with the Board. Mr. Howell's monitoring proposals may help but the proof of the pudding will be in the eating.

CONCLUSIONS

7. Subject to discussion you will want to record specific conclusions on the 4 issues set out in E(79) 50:-

(i) Financial provision

(ii) Investment programme

(iii) Capital structure

(iv) Approval in principle of a coal Bill

8. You will also want to record the point about redundancy payments referred to above and an exhortation to the Secretary of State for Energy to impress on the NCB the Government's determination to hold them responsible for the affairs of the Industry within the parameters now being set.

John Hunt

16th October 1979