



Nat Inds

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Ref. A02633

PRIME MINISTER

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Strategy for Coal

(E(80) 67)

BACKGROUND

(1) A key element in the Government's medium-term financial strategy is to turn round the nationalised industries as a whole from requiring some £2½ billion of external finance (grants and borrowing) in 1979-80 to providing a net inflow of some £½ billion in 1983-84. The four major loss-making nationalised industries (coal, rail, steel and shipbuilding) are particularly important for the success of the strategy. The National Coal Board was expected to provide about £⅓ billion of the improvement over the period.

2. The Secretary of State for Energy recommends:-

(a) that the Government should stick to its figures as embodied in

Cmnd 7841 and leave it to the NCB to live within them (despite the impact of the recession on the industry);

(b) that "no additional requirements" should be imposed on the NCB.

By this he appears to mean three things: that there should be no

(i) further cuts in the investment programme (a possibility canvassed by the Chief Secretary in E(80) 64); that the NCB should be excused

(ii) being given a specified target relating to costs per unit of output

(a general requirement agreed by E, on a proposal by the Chancellor of the Exchequer, at its meeting on 26th June (E(80) 22nd Meeting, Item 3); and that the NCB should not be forced "to sell ancillaries

(iii) worth perhaps £20 million in total" (this is an oblique reference to the discussions in E(DL) about the sale of the NCB's share in Sankey's - the builders' mercants - which the NCB are resisting;

(c) that the Board's EFL for 1981-82 should be set in September (earlier than the general run of nationalised industry EFL's) bilaterally between the Department of Energy and the Treasury.

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3. Mr. Howell is asking for a lot without very much explanation. He is of course particularly concerned to maintain a degree of flexibility in advance of this winter's wage negotiations with the NUM. But there may well be a major conflict between the approach to a settlement with the NUM implicit in his proposals and the contribution the NCB is expected to make to the financial strategy. At any rate your colleagues may well feel that they need more information than they are now being offered before coming to a view. In particular they may feel the need for quantification of the NCB's financial prospects in 1981 on the basis of alternative assumptions about the outcome of the wage negotiations. It may be that, strategically, there is little choice but to let the NCB settle with the mineworkers at whatever level of pay increase is necessary to buy peace. But what are the consequences of, say, a 20 per cent settlement (let alone the NUM claim for 35 per cent) on the industry's prospects? And what are the implications for prices, closures and investment of combining a high level of wage settlement with a pre-fixed EFL? Without further information there is no way of judging the realism of Mr. Howell's approach either for the wage negotiations or the future course of the PSBR.

HANDLING

4. After the Secretary of State for Energy has introduced his paper you might invite the Chief Secretary, Treasury to comment. The Secretary of State for Scotland and Mr. Michael Roberts (representing the Secretary of State for Wales who is tied up with the Welsh Grand Committee) and the Secretary of State for Employment may also wish to comment - particularly on the prospects for a satisfactory wage settlement with the NUM and on the related questions of pit closures, investment cutbacks and the sale of NCB assets.

5. The first judgment will be whether the Committee is prepared to come to any decisions in this matter without further information. If not, the discussion can be regarded as a second reading and Mr. Howell invited to bring forward a further paper, quickly, giving supplementary financial information for the coming year as a basis for decisions.



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6. This is the most likely outcome, in which case all the decisions should be reserved for the next discussion. This might be targeted either immediately before the Recess or early in September.

7. If however colleagues are prepared to take some or all of the decisions now you may find it convenient to work through those listed in paragraph 2 above which are more specific than the rather vague formulations in the concluding paragraph of Mr. Howell's paper.

CONCLUSIONS

8. Very much subject to discussion, but essentially EITHER to meet again on the basis of further information to be provided by Mr. Howell - with all decisions reserved meanwhile - OR to list specific decisions on any or all of the following points:-

- (i) To agree that the NCB should be told to live within the already agreed limits set out in paragraph 2 of Mr. Howell's paper.
- (ii) To agree that the precise EFL for the NCB in 1981-82 should be set by Mr. Howell and the Chancellor without further reference to the Committee.
- (iii) To agree that the NCB's investment programme should be maintained unaltered.
- (iv) To agree that the NCB should not be pressed to dispose of ancillary assets.
- (v) To agree that the NCB should be excused from achieving performance targets related to costs per unit of output.

(Robert Armstrong)

15th July, 1980