



SECRETARY OF STATE FOR ENERGY
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Prin Amish
A The proposed subsidy
for coking coal will
be found to
within the existing
cash limit. I suppose
therefore that we have
to go along with it -
though it looks like
blackmail.

13 December 1979

The Rt Hon John Biffen MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
London SW1

Dear John

R.

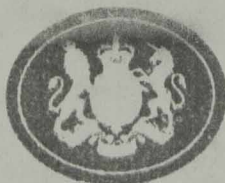
COKING COAL

You will recall that E(EA) Committee agreed in principle on 25 July (E(EA) ~~79~~ 9th meeting) that a tapering subsidy might be provided to enable the Board to sell some coking coal to BSC at world prices, whilst taking action to reduce coking coal output to lower level of demand.

Until BSC's recent announcement of further reductions in steel-making capacity, their plans assumed a need for 10.5m tonnes of coking coal in 1980-1. Their present import commitments were 3.3m tonnes, leaving 7.2m tonnes for the NCB; but they were considering importing another 2.2m tonnes, which would have left only 5m tonnes for the NCB.

The two industries had not, before BSC's recent announcement, been able to reach any long-term agreement on quantities and price. The Corporation's new plans for reduction in capacity pose an even more serious threat for the NCB's sale of coking coal. The precise effect is not yet clear but, even without further resort to imports, BSC's requirement for NCB coal might fall to 5 to 6m tonnes a year (compared with the 8.5m tonnes sold in 1978/79, itself a substantial reduction on previous years).

The threat to indigenous coking coal production is the major issue now concerning the coal industry; and, at their request, I have agreed to meet Sir Derek Ezra and the leaders of the mining unions on Tuesday 18 December.



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Even though, in the light of our decisions on the financial strategy for the coal industry, any payment of coking coal production subsidy would have to be offset by a reduction in deficit grant, it will nevertheless help to defuse a potentially explosive situation if I am able to say at the meeting that the Government is prepared to provide such a subsidy to the Board this year.

N The amount of coking coal production subsidy payable is governed by ECSC rules and the estimated amount which the Board could claim this year is £34m. Without some such gesture (which will not in fact mean any net addition to public expenditure) I fear that BSC may face further blocking of imports.

The extent to which the NCB have to resort to closures to bring remaining coking coal production into line with BSC's demand will depend on the scope, which is likely to be limited, for diverting more coking coal to power stations, and on what financial inducements they are able to offer BSC to reduce imports (or at least avoid further imports) into South Wales. The main incentive to the Board to make progress with closures will be the financial strategy of limited, and reducing, total assistance from Government.

II I shall be grateful for your agreement that I may inform the NCB and the mining unions that, within the substantial total assistance the Government has agreed to provide to the industry this year, up to £34m may be allocated to coking coal production subsidy, and that a sum of the same order will be made available next year, again within the total amount of assistance agreed.

I am copying this to the Prime Minister, the Secretary of State for Industry and to other members of E(EA) Committee.

D A R HOWELL

*Yours
Daw*