Original returned to Mr Hoskyns

23 April 1980

PRIME MINISTER

ELECTRICITY INDUSTRY AND COAL STOCKS

1. E Committee will be discussing the EFL for the electricity industry on 24 April.

2. One element that we must not lose sight of is the risk of a miners' strike. In 1979/80, a large part of the electricity industry's overrun was the £161m they spent on providing extra coal and oil stocks against this contingency. (You may remember we discussed this briefly in the context of "Nationalised Industry Policy" the day after the Bournemouth speech.)

3. David Howell's paper (paragraph 5) anticipates that one way in which the industry will propose savings is likely to be a reduction in stocks. Coal stocks now are well below normal, though coal and oil together are about normal. David Howell argues that it would be unwise to aim much below the normal 5-6 weeks' endurance margin in the peak winter months.

4. We think Ministers should ask themselves whether there is a case for aiming substantially higher. High coal stocks are likely to act as a deterrent to strike action. Unusually low stocks will be an invitation. Jim and David could probably give colleagues a reading of the NUM mood and internal politics.

5. The insurance premium is expensive. But there is no doubt that other public sector employees have been influenced in this pay round - as in others - by what the miners have achieved. In announcing the ISTC strike decision on 7 December, Bill Sirs referred to his members' wish for the same 20% treatment as miners had just voted to accept.

6. Because of its pivotal importance in the pay round, Ministers may think it worthwhile making special provision for the necessary insurance premium. It might be worth considering whether this could be achieved covertly - by asking the electricity industry to build up stocks and then subsequently financing their cash overrun. (This is what happened this year, except that they acted on their own initiative.) But the importance we have attached to cash limit disciplines makes this approach very difficult. Alternatively, we could make explicit provision for higher stocks in one of three ways:

(a) increasing the cash limit;

(b) allowing a still greater price rise than proposed (ie putting the insurance costs onto the consumer of electricity);

(c) making a special grant (ie to share the cost of the premium among all taxpayers - rather like the "steel levy" idea).

7. Each course is unwelcome. But the problem is not of our making. With a determined effort, it might be possible to pin the responsibility for the insurance costs where it belongs: on the source of the risk.

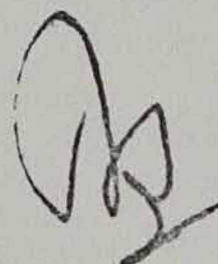
8. There is an extra dimension to this question of the right level of coal stocks: higher purchases by the electricity industry would probably ease the cash position of the NCB, which faces the possibility of surplus coal production. So it could be that the cost of financing extra coal stocks is partially offset by savings on the NCB's cash requirements. While this may be convenient, it is in principle objectionable if the miners are the main beneficiaries from the act of taking out an insurance policy. This would be the case if the extra production was simply maintained through high overtime. But there may be an alternative. The other route to higher coal production is to accelerate pit closures, thereby transferring redundant miners to pits with higher productivity.

9. Coal stocks are normally divided between those held by the CEGB and those held by the NCB itself. Picketing of the NCB's own stocks will retain immunity in the event of a coal strike during the coming winter. But picketing by the NUM of CEGB stocks would not. Blacking the movement of CEGB coal stocks (by the NUR, TGWU or others) would not retain immunity either - since the action would clearly not be aimed at the employer in dispute, the NCB. We do not know in practice how much extra flexibility the new laws might provide to the electricity industry, especially as there may be problems of enforcement. The Department of Energy could be asked to advise on this.

10. In the longer term, one of the main checks on the power of the NUM must be the ability to import coal. David Howell's paper (paragraph 3) says that the industry is "deleting expenditure on a coal import facility". At the very least, you could question the wisdom of this. What is the size of the cost saving? Should we be increasing expenditure on coal import facilities? Can they be used for other purposes (eg coal exporting) as well?

11. We just could be on the brink of making a "false economy" decision. The task of containing nationalised industry pay (and thus prices) and public sector pay generally, in the face of monopoly union power, is central for the next 3 years. A few percentage points adrift there could more than wipe out any notional savings on the electricity industry's EFL. The Department of Energy and Treasury could be asked to do some sums so that colleagues can assess the likely cost/benefit.

I am sending a personal copy of this note to the Chancellor and to Robin Ibbs.



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