

COAL INDUSTRY FINANCES

1. We think David Howell's proposals should be judged against the following criteria:
 - (1) Will they minimise public expenditure?
 - (2) Will they put maximum pressure on the NCB to achieve a moderate pay settlement?
 - (3) Do they put maximum pressure on the NUM to settle moderately by confronting them with a trade-off between excess pay and other outcomes undesirable to them?

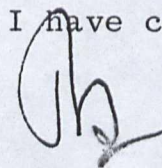
2. The proposals may appear to pass the first test but, without much greater determination than the NCB are likely to produce, we suspect a financing problem rather like BSC is looming. The paper does not reveal the extent of the problem.

3. On the second and third tests, David Howell refers (at paragraph 9) to the need to "preserve flexibility on miners' pay". But we think the plight of the NCB should be brought home to the NUM. An excessive pay award could be met in one of three ways: cutting investment; cutting manpower (through an accelerated closure programme); and raising prices. The disadvantages of the first two should be clear to the NUM. But will they be told that these are likely consequences of militant demands?

4. Is it equally clear that raising coal prices will have unpleasant consequences? This depends crucially on the ability and willingness of NCB's customers to switch to coal imports if the price is too high.

5. There is no doubt that BSC will switch to imports. But CEGB do not have much importing capacity and only recently shelved a plan to build a new deep-water facility at Killingholme at a cost of £11m which would allow annual import of 8-10m tons. We think this project should be resurrected as a clear sign that CEGB are willing and increasingly able to import.

I have copied this minute to Geoffrey Howe.



JOHN HOSKYNs