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Secretary of State for Industry

30 July 1980

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

*check - also in
for the sec team?*

Yes

12

31/7

Dear Tim

BRITISH STEEL CORPORATION: SUPPLY OF COKING COAL IN 1981

1 I enclose the text of a letter which Mr Ian MacGregor of BSC has sent to Sir Derek Ezra of the National Coal Board, indicating his intention that, if the NCB do not reduce the price of their coking coal, the BSC will purchase all its 1981 requirements for coking coal overseas.

2 Mr MacGregor has attempted to meet E Committee's request that the dispute between himself and the National Coal Board should remain confidential by himself writing to Sir Derek Ezra and not delegating the matter to his officials as had first been his intention. He has also drawn Sir Derek's attention to the need for confidentiality in the text of the letter.

3 I am copying this letter to John Wiggins (Treasury), Richard Dykes (Employment), Godfrey Robson (Scottish Office), John Craig (Welsh Office) Julian West (Energy) and to David Wright.

Yours ever

Ian Ellison

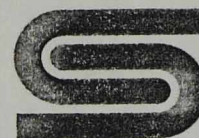
I K C ELLISON
Private Secretary

British Steel Corporation

Head Office

P.O. Box No. 403, 33 Grosvenor Place, London SW1X 7JG

Telephone 01-235 1212 Telex 916061



30 July 1980

Sir Derek Ezra MBE
National Coal Board
Hobart House
Grosvenor Place
London
SW1

Dear Sir Derek,

Discussions have been in progress between our two organisations for some months and you made what is described as your final offer on June 13.

We have very carefully evaluated the effect of those proposals on our coking coal costs in 1981 relative to the alternative of imported supplies. In particular, we have taken into account the further fall in forecast steel sales and the consequent reduction in our total coal requirement; the continuing strength of the pound and the availability of forward cover for foreign currency at favourable rates; and the trends in world coal prices and shipping costs.

It is clear that acceptance of your prices, even for the smaller tonnages now envisaged, would cost the Corporation some £27M, or £6.50 per tonne more than the costs incurred by our competitors. Moreover the escalation element in your offer would probably add at least £2.50 per tonne, or more than £10M; on the other hand, the import prices used by us are 1981 prices which can be contracted now on a fixed basis.

Our current financial plight clearly makes it impossible for us to accept any additional cost burden. You will recall that, during the negotiation on our agreement on prices for 1980 supplies, we informed you (in a letter of 15 January 1980) that our objective for 1981 was to pay "only 'world' prices for the total tonnage of coal supplied to us". This is still our intention.

I understand that your people have said that the proposal is not negotiable. I would just like your personal confirmation as we would normally set in motion steps to secure our supplies from other sources. I very much hope that we can keep this matter confidential between us for the time being.

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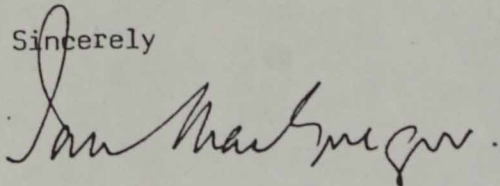
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30 July 1980

Sir Derek Ezra MBE

Given the sensitivity of the matter, I am sending a copy of this letter to Sir Keith Joseph so that he is aware of the position.

Sincerely

A handwritten signature in cursive script, reading "Ian MacGregor". The signature is written in dark ink and is positioned below the word "Sincerely".

Ian MacGregor

cc Sir Keith Joseph ✓



30 JUL 1980