



10-7-79

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SECRETARY OF STATE FOR ENERGY

STRATEGY FOR COAL (B) (1)

I note that your paper, E(EA)(79)22 was circulated to the Committee only a day before our meeting, notwithstanding the complexity and political sensitivity of the subject. I had intended to circulate a paper to the Committee, but there is clearly now insufficient time for that. I am therefore setting out briefly in this minute some of the points that I will be making at tomorrow's E(EA) discussion.

2. First, your paper does not bring out the seriousness of the NCB's financial position. The NCB made a loss of £222 million in 1978-79, after interest and before grant, despite the virtually captive markets of the Generating Boards and the British Steel Corporation and the protection of some £3.75 a tonne given by the fuel oil tax (now increased by 20 per cent in the Budget). Although there has been a 50 per cent increase in oil prices in the last 6 months, higher coalburn in the power stations, £200 million additional revenue from the July price increase (raising average prices by 18 per cent in 1979), steeply rising investment in recent years, much of which has gone into existing pits, and now the prospect of selling more coal than can be produced, the Board still expect to make a loss this year of about £270 million, after interest and before grant. Costs exceed revenues by nearly 10 per cent and are way above the price of imported coal. Moreover, the recent rise in coal prices has absorbed the leeway created by increases in oil prices and losses are expected to average £190 million over the next 4 years, declining only slightly during the period.

3. Turning to the proposals in your paper, it seems from our quick figuring that these would result in an increase in the NCB's public expenditure requirement compared to that in the Financing and Investment Review of:

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£ million 1979 Survey Prices			
1980 - 81	1981 - 82	1982 - 83	1983 - 84
16	11	5	2

rather than the decrease proposed in my paper on the Financing and Investment Review of:

£ million 1979 Survey Prices			
1980 - 81	1981 - 82	1982 - 83	1983 - 84
55	95	140	195

which assumed a faster phasing out of uneconomic capacity. One reason for the increased public expenditure requirement proposed in your paper, besides the lower rate of closures you suggest and the enhanced redundancy payments, is the additional public expenditure requirement rising to £55 million by 1983-84 because of the assumption of a lower productivity increase of 2 per cent per annum instead of the 3 per cent which the NCB put forward in its Medium Term Development Plan agreed with the unions. I accept that the lower productivity increase is the more realistic, but colleagues should be aware that the taxpayer is once again being called upon to finance, through public expenditure, the deficiencies of the NCB and its work force.

4. I should like the Committee to consider tomorrow the case for reducing the NCB's public expenditure requirement by a faster rate of closures than you have in mind, for example phasing out the present 24m tonnes uneconomic capacity over the years to 1983-84 at a rate of 6m tonnes a year (compared with the 3m tonnes you propose). I believe also that we will need to consider some reduction in the NCB's capital expenditure programme in existing pits. I suggest this both because of the need to keep down public expenditure and because we need to consider whether there will not in fact be a problem in the medium term of coal surpluses. It will be easier to come to a judgement on this point when you circulate your Department's forecasts of medium term energy demand. In any event there is a good case, on both grounds of the efficient use

of national resources and minimising the NCB's public expenditure demand, for relying on coal imports for our marginal coal requirements in the medium term. I therefore will find it difficult to agree with your proposal that the Board's current investment programme to 1982-83 should be fully endorsed in the way you suggest.

5. Finally, you make suggestions in your paper about the future financing regime for the Board. These issues are secondary, both in importance and in time, and I will suggest tomorrow that you and I should discuss them bilaterally rather than take up the time of the Committee. The essential point for discussion tomorrow is what needs to be done to put the industry on the road to viability in a way which minimises its claims on public expenditure.

6. I am sending a copy of this minute to the Prime Minister, the members of E(EA) Committee and to Sir John Hunt.

Arline

pp JOHN BIFFEN
[Approved by the Chief Secretary
and signed in his absence]

10 JUN 1979

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