

A 02793

Energy

PRIME MINISTER

## BRITISH STEEL CORPORATION: SUPPLY OF COKING COAL

BACKGROUND

The letter of 25 July from the Private Secretary to the Secretary of State for Industry to Mr Lankester reported that the British Steel Corporation proposed to import all their coking coal from 1981 onwards, at world market prices rather than to pay a premium to the National Coal Board of between £25 million and £40 million for 5 million tonnes of coking coal from them.

2. At their discussion on 28 July (E(80) 28th Meeting, Item 3) E invited the Secretary of State for Industry to arrange for the BSC not to reveal publicly this possibility until Ministers had discussed the matter further. The letter of 30 July from the Secretary of State for Industry's office to Mr Lankester covers a letter from Mr MacGregor to Sir Derek Ezra giving warning of his intentions but stressing the need for confidentiality over negotiations.

3. The Secretary of State for Energy was invited to circulate an assessment of the implications for the NCB of either losing their contract to sell coking coal to BSC or selling it to them at internationally competitive prices.

4. The Secretary of State for Energy has decided to report orally rather than to circulate a paper. This is because the two chairmen are now negotiating and, until the outcome is known, he has nothing useful to say.

HANDLING

5. You will wish to invite the Secretaries of State for Energy and for Industry each to bring the Committee up to date with their understanding of the position, and of the next steps to be taken.

6. Their general line is likely to be that the two chairmen should now negotiate commercially and within the constraints of their separate External Financing Limits. This is fine as far as it goes. But -

- i. if NCB keep the contract but have to accept world market prices their EFL is bound to be under strain;

- No - they could improve efficiency. md

ii. if they lose the contract that will also damage their EFL, and will open up much wider questions on the implications for closures and for relations with the NUM.

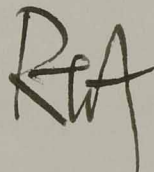
7. The Committee is already planning to discuss in mid-September a further paper on the investment and financing of the NCB up to 1983-84. This would provide a suitable opportunity to discuss the outcome of the present negotiations and their implications for each industry. There is however a risk that the negotiations could break down before then and that it could become known that the BSC intend to break off the contract. You will wish to ask the Secretaries of State for Energy and for Industry to comment on the probability of this, and how they see the timing.

CONCLUSIONS

8. Subject to the discussion you will wish to record conclusions -

1. Agreeing that the chairmen of the NCB and the BSC should be left to negotiate further and within the constraints of their respective External Financing Limits.

2. Inviting the Secretaries of State for Energy and for Industry to keep in touch with progress on the negotiations and to report as soon as possible on the implications for their respective industries, but deferring further substantive discussion if possible until mid-September.



ROBERT ARMSTRONG

1 August 1980