

Closures.

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Prime Minister

I think it would be  
well worth asking Mr  
[bbs to raise these  
points at the meeting.

Qa 05365

To: MR LANKESTER

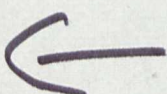
From: J R IBBS

12 May 1981

NCB FINANCES

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12/5

1. I have not circulated this note as a CPRS collective brief to E Committee because of the sensitivity of the issues covered. But I assume (unless I hear to the contrary) that there would be no objection to my raising the points orally at the meeting.
2. The Secretary of State for Energy's memorandum (E(81)57) raises wider issues than the specific decisions recommended relating to the 1981/82 EFL. The withdrawal of the accelerated closure programme has greatly weakened the Government's position. It has left the NUM with the initiative on all fronts and the NCB presiding over an admittedly inefficient industry. The damage is not confined to coal. It is undermining the credibility of the Government's whole stance on economic and industrial policy. The position is unlikely to get easier in the short-term. With the miners having now moved to the beginning of the wages round, they will have a larger influence over pay bargaining in the public, and probably also the private, sector. It is therefore essential in the medium-term that policies should be developed which clearly restore the initiative to the Government.
3. However the Government must accept that the balance of power has been seen to have moved against it in recent months and it should take care, before adopting any stance which is likely to lead to a confrontation that the underlying balance of power is in its favour. The worst possible situation would be to take on the NUM and be seen to lose again.
4. The NCB's financial position is admitted to be serious; indeed, it may be that it is now effectively out of control. During 1980/81 the NCB was increasing stocks at the rate of 1m. tonnes a month (an increase of working capital of £30-£40m. a month). In 1981/82 a further



Over early  
High Prices

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Imports

Wages Investment

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6m. tonnes of stocks are planned, on the basis of sales of 120m. tonnes:  
any shortfall of sales below this figure will worsen the financial position correspondingly. There must be serious doubt whether the EFL of £1.2 bn. proposed by the Secretary of State for Energy will be achieved in practice in view of the risks from accumulating yet further stocks and of being unable to hold a wage increase of 7 per cent. If the effect of such factors is to give yet more confidence to the NUM even greater financing may well be expected in 1982/83. Therefore the Government is presented with a very severe medium-term financing problem.

5. Of the remedial options on cash, an accelerated closure programme has been deferred, at least for the time being. The curtailing of imports, which in the long-term are essential as a means of bringing competitive pressure on the industry, has also been conceded, and anyhow unblocking <sup>imports</sup> would not be immediately relevant in a period when supply outstrips demand. Therefore the two principal components of the cash requirement that the Government should aim to influence are wages and investment.

6. For the 1981/82 wage round Ministers must decide soon whether they are prepared to risk confrontation. The arguments are finely balanced. It may be that a softer line on pay would minimise the cash required, both because it would avoid the cost of confrontation and provide maximum flexibility to reduce investment without industrial action, as proposed in paragraph 8 below. However the knock-on effects would be serious. The Government's negotiating hand is not at all strong and to improve its position it needs now to begin preparations. Since the NCB's EFL did not in the event influence the closure issue it does not seem likely to influence the pay round. The Home Secretary is, of course, considering the possibilities for withstanding a strike but the real steps open to the Government seem to be:

- (i) to maximise stocks at the power stations;
- (ii) to mobilise public opinion against excessive demands by the miners and erode the NUM's confidence against the background of surplus production (this would be to avoid a strike rather than to withstand one);
- (iii) the Government must satisfy itself that, if a confrontation is to be risked, it is ready both to finance the short-term costs and to sustain the political consequences.

In the view of the CPRS, unless such preparations are made now, the Government will again find itself rushed into an impossible negotiating position in the Autumn.

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7. Apart from wages, the NCB's substantial investment programme offers the main opportunity to constrain its call on the PSBR. As the Secretary of State for Energy's paper says it is necessary to reconsider the size and shape of the coal industry. It would plainly be foolish to continue with a large investment programme until the problem of closing inefficient capacity has been resolved and supply (of low-cost coal) brought into line with demand. In deciding priorities preference should be given to those major schemes which should ensure low-cost production in the 1990s.

8. The CPRS believes that the reduction in the proposed investment programme should be deeper than the Secretary of State for Energy has recommended. An increased EFL for the coal industry will damage other parts of the national economy. Government should, therefore, be unwilling to raise the existing EFL without an urgent interim review of the NCB's investment programme to determine how quickly, where and with what consequences reductions could be achieved. We are not convinced that a cut below the level suggested by the Secretary of State would provoke a confrontation as he implies, but this is clearly a point to which Ministers should specifically address themselves. We believe the Secretary of State for Energy should be asked to bring forward new proposals for a reduced investment programme before the EFL is approved and before the next Tripartite meeting.

Conclusion

9. The CPRS recommends that -
- (i) as set out in paragraph 6, the Government must take steps now to put itself in the best negotiating position possible for the Autumn wage-claim, and reach decisions as to its attitude to a confrontation with the NUM;
  - (ii) before the next Tripartite meeting, a rapid interim review of the current NCB investment programme be undertaken, and the new EFL should not be settled until this is available.
10. I am sending a copy of this Minute to Sir Robert Armstrong.