

Energy

PRIME MINISTER

VALE OF BELVOIR COALFIELD

In his minute of 11 September, Michael Heseltine argues that the NCB's planning applications for the Vale of Belvoir Project should be turned down, and that an announcement should be made before the end of the recess. I do not agree either that the planning arguments justify turning Belvoir down, or that a decision either for or against Belvoir should be taken yet, let alone announced.

Economic Policy Considerations

The prospects for manufacturing industry in the 1990s and 2000 will be influenced significantly by our achieving competitive and unsubsidised electricity prices. This major policy objective is dependent on our both introducing nuclear capacity as quickly as possible - which we are already doing - and developing low-cost high-productivity coal fields such as Selby and Belvoir. As nuclear power is now likely to provide only 20 to 25 GW to the grid in 2000 rather than the earlier estimate of 40 GW, the contribution low-cost high-productivity coal can make towards achieving competitive energy prices will be all the more important.

Belvoir is the largest unworked coalfield in Western Europe. The NCB's assessment is that Belvoir could give us:-

- coal at the pithead at £25 per tonne in present day money compared to UK port prices of £38-44 per tonne for imported US and Australian coal (and this at a time when European coal stocks are high);
- productivity of 9.3 tonnes per manshift, 4 times the NCB's current average;

If the applications to mine Belvoir had come from a private company, we would have needed the most pressing environmental reasons for turning them down. The fact that the applications come from a loss-making nationalised industry should not alter the planning decision, though clearly any subsequent investment decision must be considered in the light of the coal industry's overall prospects.

### The Planning Issues

The Inspector recommended in favour of the NCBs application. I see no case for overturning this conclusion. Detailed examination of the Inspector's report (upon which the planning decision must be based) does not bear out Michael Heseltine's conclusion that the Inspector accepted only hesitantly a short term need for Belvoir coal, or that there are powerful environmental reasons for turning Belvoir down. I would be happy to circulate a note for later discussion setting out in detail my reasons for differing with him on this point. I am prepared to accept his recommendations on remote disposal.

### Wider Considerations

The additional considerations mentioned on page 6 of his minute do not add up to a case against Belvoir. The accelerated pit closure programme, which was withdrawn in February, would have brought forward closures which would have happened anyway later in this decade. Its withdrawal will have little if any effect on capacity in the mid 1990s. It is simply not true that imports will be cheaper than Belvoir coal. Even now the average cost of NCB coal is lower than the price of imports except at Thameside, even allowing for the operating subsidies we give the Board (and the cost of Belvoir coal will be less than average NCB costs). Nor is the present level of stocks of much relevance to the situation in the 1990's; the figure of 39m tonnes, incidentally, includes 16m tonnes of stocks at power stations, which are still below their 1978 levels, and which we are trying to increase.

The long-term environmental consequences of the development of new coal-fields have been examined by the Commission on Energy and the Environment. Its report concludes that modernisation of the industry affords the best prospect of striking an acceptable balance between energy and environmental issues; and also point out the environmental risks if we found that a crash programme to expand coal production was necessary in the 1990s.

### The Investment Decision

The National Coal Board need investment approval before they can begin work on Belvoir. We should not take any decision on investment approval for quite some time. (This is not inconsistent with giving planning permission now; the Inspector said that the evidence did not permit precise conclusions as to when in the 1990s the coal would be needed). The Board's investment appraisal of the project is now some 18 months out of date-and it would be right to conduct a thorough updating in relation to our overall strategy for the industry.

### The Belvoir Card

The Belvoir decision is of great importance both to the NCB and the NUM. Both have chosen to regard it as a touchstone of the Government's continued commitment to Plan for Coal. Within the union it is particularly important to the moderate productivity-conscious Leicestershire miners, many of whose pits will close in the late 1980s, and who look to Belvoir to provide continuity of employment. An outright rejection of Belvoir will affect the attitude of union moderates and militants alike, on such issues as pay and pit closures ( and also perhaps towards nuclear power, which the NUM has not so far opposed).

To turn down the planning applications for Belvoir will close important options for the future, and make the task of getting the coal industry back on course more difficult. In practice a fresh application could not be successful for many years. Meanwhile progress with the closure of uneconomic pits will be much more difficult. And the NCB will have increasing difficulty in developing alternative low cost coal fields, since these will pose environmental problems similar to Belvoir (as Michael Heseltine's minute recognises).

But, by the same token, Belvoir is probably our strongest card at present in our relationship with the NUM and the NCB. If we give planning consent we should say at the same time that the question of investment approval is still under review; we should go on to make it clear that the crucial factor in our decision on whether the capital expenditure will be authorised will be the industry's demonstrated commitment to getting itself back on course for financial viability. We should use this opportunity to bring it home to the industry that continued substantial investment in coal will depend upon the industry's ability to put its house in order. Belvoir is a vital card to have in our hands in restructuring the industry under Sir Derek Ezra's successor. "

### Conclusions

If the planning decisions were to be negative we must be quite clear that this could damage our relations with the NUM generally and strengthen the hand of the militants. This is a risk we must not take before the wage negotiations (which come at the beginning of the new wage round).

I also see no advantage in taking a positive decision before the wage settlement, which is not the right context in which to play this important card. I appreciate, too, that colleagues may not

have had time to consider the arguments in this minute and in Michael's in detail. I therefore believe that at your meeting tomorrow we should do no more than agree that no decision should be taken until, say, December. We would thereby give ourselves more time for a full consideration of the important substantive issues which this question raises.

I am copying this minute to the Chief Secretary to the Treasury, the Home Secretary, the Secretary of State for the Environment and the Attorney-General; and also to Sir Robert Armstrong and Mr Ibbs.

Secretary of State for Energy  
16 September 1981

A handwritten signature in dark ink, consisting of a large, stylized 'X' followed by a vertical line and a horizontal line, resembling the initials 'XR'.