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DSG

10 DOWNING STREET

From the Private Secretary

29 January 1981

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As you know, your Secretary of State called on the Prime Minister yesterday evening with Sir Derek Ezra and Sir John King. The meeting largely took the form of Sir Derek expressing his views on the coal industry. Most of this will doubtless be familiar to you, but I thought you might still be interested in having a record.

Sir Derek said that productivity in the industry was improving; absenteeism was the lowest in 25 years; new investment was paying off, which justified the decision to invest on a large scale a few years ago; and the NCB had established an excellent relationship with its suppliers. 98% of the NCB procurement was from domestic sources, yet on competitive terms. The NCB helped its suppliers with their R & D, and they had helped to generate mining equipment exports. The NCB's costs were lower than in France and in Belgium, and where geological conditions were comparable or where there was open cast mining, they were competitive with the USA. Their real problem was with the old pits, which - for geological reasons - could not be economic. The NCB had agreed a programme of closures with the Department of Energy. Last year ten pits and two coke ovens had been closed without any trouble from the unions; although this was partly because only a few thousand had been made redundant. But the NCB's financial situation had now deteriorated so that it was necessary to double or treble the rate of closure. The only alternative to faster closure was cutting back production across the board, which would be disastrous. They intended to inform the unions in early February. This would inevitably mean higher costs in the short run because of redundancy payments - and it might be necessary to improve the redundancy terms to some extent. They now had to think of closing up ~~the~~ to 6 million tonnes of capacity a year, and this would be concentrated in Wales, Scotland and the North East. There would almost certainly be trouble from the unions, but the Board saw no alternative. In total, some 20 million tonnes of uneconomic capacity needed to be got out of the system; and this could involve 40,000-50,000 jobs. Once this was achieved, Britain would have a highly efficient coal industry. Unlike other industries, they had very few demarcation problems, they were able to get rid of unsatisfactory employees without too much argument from the unions, they had substantially overcome

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accident and pneumoconiosis problems, and they were putting in the best investment and technology available. One example of the latter was the application of advanced control technology to reduce the amount of down time of highly expensive equipment. Also, British mining engineers were as good as any in the world; many of them were working abroad and this helped generate mining equipment exports from the UK. The investment programme in new equipment and new pits - Sir Derek mentioned Selby - was going well. But because of their tight financial situation, they were now having to consider whether investment should be reined back.

On the question of prices, Sir Derek said that the NCB's agreement with the CEGB had been freely and fairly negotiated - though it could be argued that the NCB were fortunate in their timing of the negotiation. In other areas, their prices were under pressure: for example, they had dropped their prices to BSC in order to stay competitive with imports. (Sir Derek pointed out that the NCB had substantially increased their exports and would be doing even better if it were not for the seamen's strike). Compared with the landed price of fuel oil, NCB coal was still some 30% cheaper. He was convinced that import prices would rise. There were continuing problems in the US ports and in South Africa; New South Wales was susceptible to strikes; and more coal-fired capacity was coming on stream worldwide.

The Prime Minister said that she agreed that the NCB seemed to have no alternative but to speed up the closure of the uneconomic pits. She was glad that productivity was improving, but she remained very concerned about the continuing increase in coal prices and the very substantial NCB financing requirement, including the subsidy against loss making. Previous governments had made a commitment to build coal-fired power stations when they could have moved faster on nuclear as the French had done. It seemed likely that electricity prices would now be cheaper if the bias had been more in favour of nuclear. She hoped that the NCB would begin to repay the commitment which successive governments had made by maximum efficiency and by more moderate price increases in future.

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