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bc Mr. Pascale FILE  
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10 DOWNING STREET

*From the Private Secretary*

20 February 1984

Coal Firing Scheme

The Prime Minister has seen your Secretary of State's minute of 13 February, following minutes by the Secretary of State for Trade and Industry of 17 January and 1 February, and by the Chief Secretary of 8 February. She accepts that administration of the scheme should now pass to the Department of Energy. She feels, however, that before any further extension of the scheme beyond 31 December 1984, it should be rigorously examined to see if it remains a cost-effective response to the problem of surplus production.

I am copying this letter to Callum McCarthy (Department of Trade and Industry), John Gieve (Chief Secretary's Office) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Michael Reidy, Esq.,  
Department of Energy.

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PRIME MINISTER

c. Mr. Pascall

Coal Firing Scheme

I am sorry to return to this yet again but a decision is needed as the Estimates which go to print shortly have to reflect the allocation of responsibility.

You raised the issue of whether the development of coal stocks should colour our attitude to the scheme. The Department of Energy tell me that power station stocks are now at 28 million tonnes, 1.5 million higher than last year, and the highest ever. Stocks of coal on pits are 23.4 million, the same as last year though this too was a record for February. Even if the over-time ban lasts until the end of April power station stocks should be back over 30 million tonnes by November provided there is no further serious interruption.

It has already been decided to extend the scheme to end-December 1984. Two issues remain:

- (i) who should administer the scheme for the rest of the year?
- (ii) how do we ensure that the case for a further extension of the scheme is rigorously examined?

Current movements of stocks are not relevant to (i). If, contrary to expectation, stocks look too low when the scheme is reviewed at the end of the year, this can be taken into account in the appraisal.

Agree, therefore, that administration of the scheme be transferred to Department of Energy on condition that the cost-effectiveness of the scheme is fully reviewed at the end of the year?

AF  
Yes - but I think there is no  
question of producing stocks which  
are heavily subsidised for the purpose  
of selling them off cheaply. not

17 February 1984



Were you content  
with this?

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PRIME MINISTER

cc:- Mr. Pascall

RESPONSIBILITY FOR COAL FIRING SCHEME

The sequence of events is as follows:-

(i) the Secretary of State for Trade and Industry wrote to you on 16 January seeking your agreement for responsibility for the coal firing scheme to be transferred to the Secretary of State for Energy.

(ii) I minuted back on your behalf saying that, since the scheme had been ~~expanded~~ until end December 1984, it was odd to transfer responsibility in what could prove to be its last year. It would be more logical to take a decision on whether to retain the scheme and then to decide from which department it should be administered. The Chief Secretary has minuted along the same lines.

(iii) Mr. Tebbit wrote back to say that the transfer of PES provision to the Department of Energy had been agreed following an inter-departmental study (which we had not seen). Part of the agreement with the Department of Energy was that the latter would provide the manpower to run the scheme.

(iv) Mr. Walker has now minuted you arguing that, though the role of the scheme has changed, it makes sense so long as coal is in surplus, <sup>as</sup> it is likely to be for a few years to come.

I do not think that you need to get involved in the precise location of five posts. I suggest you agree that administration be transferred to the Department of Energy but on condition that the scheme is reviewed at the end of the year to ensure that it continues to be a cost-effective method of disposing of surplus coal.

Agree?

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We do not need to dispose of coal  
at present. Our stocks are falling  
to last year

13 February, 1984

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Prime Minister

RESPONSIBILITY FOR COAL FIRING SCHEME

The Chief Secretary copied to me his minute to you of 8 February and I would like to comment on it because it is in fact directed much more to policy than to the question of Departmental responsibility.

The Chief Secretary suggests that the coal firing scheme is becoming "yet another form of support for the NCB". In fact, it is primarily a form of support to the PSBR as was made clear in my letter of 15 December and accepted (even if without enthusiasm) in the Chief Secretary's letter to Norman Tebbit of 19 December.

Peter Rees' neat philosophical point about leaving it to industry to decide what is commercially attractive without Government inducement, and about the wrongness in principle of doing otherwise, would have much more force if the NCB were a private sector undertaking operating in a wholly commercial environment and not receiving massive Exchequer support. But it isn't. We are not prepared to let it go bankrupt, to force it to close a great number of mines overnight or to expose it forthwith to full import competition. We have decided, as a matter of considered policy, to meet the losses of the industry during a period of rundown of capacity and manpower.

It is in these special circumstances that it is possible to relieve the PSBR by encouraging industrialists to get on with coal conversion, and so reduce coal stocks which the Exchequer has to finance. There are bonuses through improving industrial competitiveness, reducing national dependence on oil for the longer term and being able to quote some positive action which will help the coal industry, as sought by Ian MacGregor. But it is common ground that, as the Chief Secretary says, the case for the scheme will be reduced when NCB's supply and demand comes back into balance. Whether the prospect for that balance will remove the case for continuing the scheme after 1984 remains to be seen, but, again, it

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is common ground that the scheme should be reviewed later this year.

The question of Ministerial responsibility is of course for you and I am sure you will not wish to go into a point about 5 staff between the DTI and the Department of Energy. However, I am sure you would not expect me to staff a function performed and managed by another Minister.

I am copying this minute to Norman Tebbit, Peter Rees and Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to read 'Peter Rees', with a large, sweeping initial 'P'.

SECRETARY OF STATE FOR ENERGY

13 February 1984

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