OLO.

Covering SECRET

~~Prime Minister (2)~~

CDP

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~~To note. These issues will need to be discussed at a meeting with Mr Walker~~

AT 2/5

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Withdrawn by Treasury but can file AT 4/5

2 May 1984

Andrew Turnbull Esq
No 10 Downing Street
LONDON SW1

Dear Andrew,

COAL STRIKE COSTS

I enclose a note on the costs of the current coal strike which I understand the Chancellor promised the Prime Minister at his meeting earlier this week.

Yours sincerely,

Margaret O'Mara

Miss M O'Mara
Private Secretary

Covering SECRET

COAL STRIKE COSTS

1. This note provides some broad figures on the costs of the current coal strike.

A. Cost of oil burn to the CGBR

2. The CEGB is now burning extra oil rather than using coal to generate electricity.

3. In April as a whole the extra cost of oil to the CEGB was £50 million. This was the period during which the CEGB was moving to full oil burn. We are now at full oil burn and the extra cost of oil is now £50 million a week.

4. Against this gross cost can be set the CEGB's savings of £30 million a week from using less coal. On this basis the net extra cost to the CEGB of full oil burn is £20 million a week.

B. Public expenditure and PSBR

5. In public expenditure terms the CEGB's saving on coal is cancelled out by the related loss of NCB revenue. So the relevant costs are the £50 million a week cost of extra oil that the CEGB will have to bear if this is not recovered from consumers through a temporary increase in prices; and the immediate impact of the strike on the NCB, which is to save miners pay of £40 million a week. These together give a net cost of £10 million a week. As from the beginning of May, there will be a further loss to the NCB of up to £10 million a week in sales to the private sector.

6. Elsewhere in the public sector additional costs are arising of the following order:

Policing	£2-3 million a week
Social security payments to miners	£1½ million a week
British Rail loss of revenue	£3 million a week

It is likely that British Steel are also losing revenue but they are unwilling to put a figure on this.

7. In PSBR terms, this extra public expenditure will not add to the forecast PSBR if it can be contained within the public expenditure contingency reserve. On the other side, there is some loss of tax revenue resulting mainly from the lower income of miners and this will have an adverse impact on the PSBR.

C. Prices

8. It would require an electricity price increase of the order of 10 per cent to recover the costs to the CEGB of the extra oil burn (after taking account of the savings on coal) over the same length of period as that over which the extra oil was burnt. Clearly recovering the cost over a longer period would reduce the size of this temporary surcharge.

9. A temporary surcharge of 10 per cent would add about 0.3 percentage points to the RPI on the same temporary basis. On industrial costs, it would involve a temporary increase of ½ per cent for industry on average, although a somewhat higher figure for the heavy users of electricity.

IMPACT OF MINERS' INDUSTRIAL ACTION

The miners' industrial action has so far had two stages: an overtime ban starting on October 31 and a strike starting on March 12. The overtime ban probably had reduced the level of industrial production by about 1 per cent by February. It is too early for the effects of the strike itself to be visible in published figures: estimates for industrial production in March will not be published until 17 May.

2. Output in March and subsequent months will be affected in two ways:

(i) The direct effect of the action on output in the coal and coke industry. If the entire industry were to close down, it would reduce the level of industrial production by about 4 per cent, worth about $1\frac{1}{3}$ per cent on GDP. To the extent that many mines are still working in the public sector and there is some private sector output, the current impact is probably rather less than this (perhaps $2\frac{1}{2}$ per cent on industrial production in April - NOT FOR USE).

(ii) The indirect effect on other industries. The most likely immediate impact is on the steel industry. However, steel output in March was in total quite good. There is no information as yet on April.

3. Estimates for GDP in the first quarter of 1984 will not be published until 21 May. On the basis of current assessments of the effects of the overtime ban on coal production in January and February and the figure above for the impact of the ban and strike in March, we would expect the level of GDP to be $\frac{1}{4}$ - $\frac{1}{2}$ per cent (NOT FOR USE) lower than otherwise.