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Prime Minister

PRIME MINISTER

I have set up an ad hoc meeting
on Thurs 17th Dec (Home Sec. Energy Sec.
Transport, Chancellor, Defence, Employment
Energy 5/8/87)

WITHSTANDING A COAL STRIKE

With my minute of 22nd July I circulated to colleagues the first report by the Official Group on Coal (MISC 57) on withstanding a coal strike in 1981. Since then we have decided, at your meeting on 4th August, to approve in principle the then Secretary of State for Energy's programme for building up endurance for 1982; but to take no action until after this year's pay settlement. Meanwhile MISC 57 were asked to review the details and costs of the programme and to consider the role of coal imports; and it was also agreed that they should study the scope for using troops to move pithead coal stocks during a 1982 strike, as well as ancillaries. Their further reports, on all these 1982 issues, are now attached; the main points, and the issues for decision, are summarised in the Chairman's covering paper.

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; as
last time)
to discuss
if you so
wish.
Agreed to
go ahead
with
meeting?

2. Several important new factors have come to light. First, we do not need to spend money on ensuring oil supplies in the event of a coal strike; by starting when the strike is imminent we could still get enough to maximise oil burn throughout its duration. This is very important, since it eliminates the one really big element of additional public expenditure which the whole programme would otherwise have involved. Second, coal imports during a strike could perhaps add about one week to endurance. Third, the troops probably do have the physical capacity to move during a strike not only any necessary ancillaries but also all the usable coal likely to be available at pitheads; but in the case of coal their ability actually to use this capacity might be severely restricted by law and order problems arising from pickets.

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Yes - after
Sunderland
I hope
not

3. In the light of these and other factors, we look like being able to achieve power station endurance of something between 16 and 24 weeks by November 1982, even without restricting electricity supplies.

4. Given the long lead times involved, we now need to take firm decisions on what sort of revised programme to go for. There are three variables.

a. What level of power station coal stocks should we aim to achieve by November 1982? The absolute maximum (something less than 31 million tonnes)? the maximum achievable without new construction works (27 million tonnes)? the level produced by simply continuing this year's accelerated deliveries (23-24 million tonnes)? or the present level (20½ million tonnes)? Officials recommend 27 million tonnes.

b. What level of ancillaries should we aim to have at power stations by November 1982? Enough for 27 million tonnes of coal? or enough for 23-24 million tonnes? Officials recommend the latter. (Ancillaries are easier than coal to supply by last-minute improvisation, and harder to stockpile in advance because of safety regulations.)



c. Should the troops be allowed to start reconnoitring now the sites where they would have to operate, in order to identify practical problems and consider advance works to ease them? Officials recommend that they should not.

5. In all three cases we have to balance the advantages of preparedness against the dangers of visibility along the way. The more we succeed in doing, the greater the deterrent effect next autumn; but the more we try to do, the greater the risk of provoking the unions into frustrating us before we get there. Cost is also a factor, since it will be greater the more we do. But it is no longer a dominant one, since tens rather than hundreds of £millions are now at issue; major expense would not be incurred unless a strike occurs, when it would fall on the consumer rather than the Government.

6. There could also be some interaction between cost and visibility, if any of the Boards concerned seek to insist that extra expense incurred by them must be covered by special Government grant of which Parliament would have to be informed. The greater the cost involved the less ready the Boards will be to handle it discreetly, eg by absorption, loan finance or deferred payment. Much will therefore depend on how far the Secretary of State for Energy expects to be able to carry them with us.

7. Officials have cast their recommendations in the form of a preferred option, with higher and lower profile variants. That is useful as an aid to focussing discussion. But the deciding factor will need to be political judgement, by Ministers, rather than official analysis. This will be a matter for the meeting which your office has kindly arranged for 17th December. In preparation for that the Secretaries of State for Energy and Employment, whose Departmental interests are particularly involved, may like to indicate how they personally view the matter.

8. Whatever we decide, implementation should begin as soon as this year's pay settlement with the miners is reached. That may be in the next week or two; or it may now slip until January. But the later it is the quicker we need to be able to move thereafter, if options are not to be closed off merely by the passage of time. Either way, therefore, our 17th December meeting looks like being well timed. Once implementation is under way MISC 57 will need to monitor progress and keep us informed.

9. One final point is worth noting. The aim of our preparations is to deter. Deterrence will not work unless it is credible. But credibility cannot guarantee success. If deterrence failed and a strike occurred, our preparedness would greatly enhance endurance. Even so, enduring would not be a painless process. Electricity prices would rise; public morale would suffer; lack of coal for the 2 per cent of manufacturing industry which burns it as a primary fuel would produce a wave of bankruptcies unless the Government embarked on an open-ended financial rescue operation; and sympathetic strikes by other unions could seriously damage the economy at other points. None of this weakens the case for making the sort of preparations we have in mind. But there are no grounds for euphoria.

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10. I am sending copies of this minute and the attached documents to the Chancellor of the Exchequer and the Lord President; to the Secretaries of State for Defence, Scotland, Industry, Transport, Energy and Employment; and to Sir Robert Armstrong, Mr Ibbs and Mr Wade-Gery.

W/G

6 December 1981

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WITHSTANDING A MINERS' STRIKE: 1982

Note by the Chairman of the Official Group on Coal

INTRODUCTION

1. At their meeting on 4 August under the Prime Minister's chairmanship, Ministers endorsed in principle the programme for increasing power station endurance to about 20 weeks by November 1982 set out in the then Secretary of State for Energy's minute to the Prime Minister of 31 July - hereafter called, for convenience, the July programme - but decided that no steps to implement it should be taken until after the miners' 1981 pay settlement. Briefly, the July programme contained three elements. First, to increase power station coal stocks to the maximum physically possible by next November; in July this was assessed as 31 million tonnes (including Scotland), equivalent to about 15 weeks endurance (present stocks provide about 10 weeks endurance), but it is now known to be significantly less. Second, to make good the gap between that and the desired level of about 20 weeks endurance by maximising power station oil stocks and placing advance orders for further supplies of oil, as well as relying to a very limited extent on extra gas burn. Third, to increase stocks of ancillary materials to match fuel stocks; this would require the construction of increased storage facilities at the power stations and in the case of some ancillaries an increase in on-site manufacturing capacity. The Official Group on Coal (MISC 57) were instructed to undertake further work on the details of the July programme, including its cost, and also to consider further the scope for increased coal imports. The Group had already undertaken, in the light of their first report circulated under cover of the Home Secretary's minute of 22 July to the Prime Minister, to consider further whether it would be possible to use Servicemen to move coal from pithead stocks to power stations in the event of a coal strike in 1982. Subsequently, following the minute of 2 September from the Secretary of State for Energy to the Prime Minister, it was agreed that they should also consider the scope for using Servicemen to replenish power station stocks of ancillary materials, in case it proved impossible (as seems likely) to construct sufficient extra storage facilities at the power stations by next November and the Electricity Boards found it impossible to replenish stocks by other means.

2. Two reports by the Official Group are now attached. One considers the scope for using Servicemen to replenish stocks of both ancillary materials and coal; and the other considers in detail how the July programme might be implemented. As

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before, the Group involved representatives of the Prime Minister's Office, the Treasury, the Home Office, the Departments of Energy, Employment, Industry and Transport, the Scottish Office, the Ministry of Defence and the Central Policy Review Staff, under Cabinet Office chairmanship. The two reports raise closely related issues. The purpose of this covering note is to summarise these and to identify the options which seem to be open to Ministers.

OBJECTIVES

3. Decisions on the main elements of the attached reports depend on the objectives sought. We have assumed that Ministers' principal objective is not to enable the Government to face a lengthy miners' strike with equanimity - the total costs involved would be bound to be high whatever the terms of the eventual settlement - but rather to seek to redress the balance between the Government and the National Coal Board (NCB) on the one hand and the National Union of Mineworkers (NUM) on the other, in such a way as to deter the miners from striking. This might happen if the miners became aware that a much longer period of national endurance had been achieved or that there was a workable plan which could not be frustrated to achieve such endurance from the onset of a strike; some of them would then be likely to take more account of the costs to them of starting a strike and of its likely duration before their objectives could be attained; and this should be reflected in any pay ballot. But if it became too apparent that as a matter of Government policy endurance was in process of being enhanced, they might well be provoked into pre-emptive industrial action to prevent this. Successful enhancement of endurance may therefore depend on aiming for a level of power station stocks which is less than the theoretical maximum.

THE PRINCIPAL CONSIDERATIONS

4. Decisions on the next steps turn on two principal considerations: the "visibility" which many of the measures discussed in the attached reports would inevitably involve; and the costs. These are discussed below.

5. But there are a number of preliminary issues. First, how far will Servicemen prove able to replenish power station stocks of coal and ancillaries? This will clearly affect decisions on other options for increasing power station endurance. Next, what are the implications of a lengthy coal strike for industrial and domestic users, as opposed to power stations? Finally, what

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approach might best be adopted in respect of coal imports and oil supplies?

THE USE OF SERVICEMEN

6. Our report below on the use of Servicemen concludes that they probably have the physical capacity to move by road all the useable coal from pithead stocks to the power stations during a miners' strike starting in November 1982, provided that work on doing so began as soon as a strike started. The assessment is that by next November useable pithead coal stocks are likely to amount to no more than about 10 million tonnes, even if the July programme is not implemented. But if the July programme were implemented as fully as possible useable pithead stocks next November are likely to fall/^{to}about 5 million tonnes and their impact on endurance might then be judged too small to make the use of troops worthwhile.

7. Conversely, if it is the case that the Services have the capacity to move all the pithead coal stocks to the power stations during the course of a miners' strike, the question arises whether it is worth pursuing the July programme given the costs involved and the problems of visibility which it raises, both of which are discussed below. The answer to this question is two-fold. First, without undertaking the various consultations discussed in the attached report we cannot be sure that the Services would indeed have the capacity to load and unload the coal at the pitheads and power stations and be able to maintain the tight delivery schedule (1 lorry every 6 minutes, 24 hours a day for 12-14 weeks) which would be required if the CEEB preferred strategy of concentraing on the 20 base load power stations were adopted. Senior CEEB management think that the best that might be possible is a delivery rate some 30 per cent lower. MOD, on the other hand, are optimistic that, in so far as the power stations themselves are concerned, the delivery rate is practicable. They have not, however, had the opportunity to check either the NCB pithead dumps or the implications of such delivery rates for the roads between the pitheads and the power stations. Construction work might also be required at the power stations to improve access by road or to create better unloading facilities. But the problems of visibility raised by these consultations and engineering works are very serious and certainly worse than those involved in the implementation of the July programme. In particular it would quickly become apparent to the trades unions that the use of Servicemen was already actively being considered, since some of the consultations and site inspections would have to be undertaken by military officers. The second answer is that the scale of picketing and obstruction at both power stations and pitheads, if Servicemen are used to move coal, could give rise

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to very serious public order problems. These might well mean that the use of Servicemen over a long period would become unacceptable to public opinion. For the operation to be successful, moreover, Servicemen would have to be involved right from the start of a strike, at a time when power station coal stocks appeared high and there was no immediate sense of crisis, which might make it difficult publicly to justify the immediate proclamation of a State of Emergency, which would be necessary before lorries could be requisitioned. Public order problems would in any case be liable to reduce drastically the amount of coal which the Services could succeed in moving from the pitheads to the power stations, since the police might find it impracticable to maintain a way through the picket lines round the clock on all sites. If, say, only 4-5 million tonnes of coal were to be moved by the Services, endurance would be increased by only about 2-2½ weeks. There is also the strong possibility that power station workers would refuse to handle coal brought in by Servicemen under these conditions.

8. The best approach might therefore be to keep the option in reserve, without undertaking any consultations (except with BR) or any advance preparations. The need to minimise visibility at this stage seems more important than the possibility that unsurmountable logistical difficulties might emerge over the use of Servicemen once a miners' strike had started. Servicemen could on this basis be used to replenish any gaps that might emerge in power stations' stocks of ancillary materials during a strike; and to transfer such stocks of useable coal as might remain at the pitheads after the full or partial implementation of the July programme, if at that stage their use seemed logistically possible, worthwhile in terms of endurance offered by the remaining coal stocks and acceptable to public opinion. This should be well within the capacity of the Services, even allowing for the uncertainties due to the lack of consultations and advance planning and to the unknown impact of picketing. Indeed, if pithead coal stocks are low because of the implementation of the July programme, Servicemen might have some spare capacity. This could, in principle, be diverted to assisting coal-dependent industries or domestic consumers most severely affected by a lengthy miners' strike, although we have not investigated the practicality of doing so.

9. We do however recommend consultations about the use of Servicemen in one area, where we are confident there would be no leak. These would be with the top management of British Railways, about the possibility of Servicemen moving pithead coal to the power stations by rail rather than road. Our preliminary assessment is that this would not be practicable. But if it were, complex preparations would be

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necessary and these could not be left to the last minute.

INDUSTRIAL AND DOMESTIC COAL USERS

10. Our earlier report identified power stations as the critical factor in national endurance in a miners' strike. But if power station endurance were built up to eg. 20 weeks or more, two other danger areas would need to be considered, viz the endurance of coal-burning industry and the impact on domestic coal users. Coal has declined in importance over the years but it remains a significant source of energy for both industrial and domestic purposes. Industrial use of coal is running at about 300,000 tonnes per week and the Government is seeking, through a grant scheme run by the Department of Industry, to persuade industrial consumers to switch to coal from other fuels. Normal domestic winter consumption is about 150,000 tonnes per week. These figures are small compared to the normal winter power station consumption of about 2 million tonnes per week. Nevertheless a prolonged miners' strike could have very serious consequences for industrial and domestic users, including possible bankruptcy or long term loss of market share for companies reliant on coal. About 100,000 people are employed on processes directly reliant on coal and the contribution of these activities to manufacturing output is estimated to approach 2 per cent of the total value.

11. The large coal-burning companies fall mainly in the iron and steel, aluminium smelting, cement and paper and board industries. Their significance within each industry varies. In the iron and steel sector the British Steel Corporation is largely dependent on coal (40 per cent of it special coke, which is imported) because of its heavy involvement in crude steel making by the hot metal process; but the private companies are much less dependent on coal, because they are more concerned with the finished product end of the industry and also because their crude steel manufacture is generally by the electric arc process. One of the three aluminium smelting companies in this country uses coal (about 20,000 tonnes per week) to generate electricity, but it could in principle take its power supplies from the national grid. The position in the cement and paper and board industries is less clear, but the companies using coal would have difficulty in switching to alternative fuels.

12. On the basis of stock levels in the middle of 1981 it seems likely that nearly all the major coal using industries would have about 10 weeks endurance. The only exception is the iron and steel industry where endurance is estimated to be about

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6 weeks. It is impossible to say in what position many small or medium sized companies in these and other industries would find themselves.

13. In the event of a miners' strike companies would naturally take steps to eke out stocks, although this would probably not have much impact on endurance; and some might try to arrange coal imports, although these could well be "blackened" by the seamen or the dockers. But since most of the firms in the above categories are already hard pressed financially, their more likely reaction would be to do little or nothing at first in the hope that the strike would be resolved. Later, when their position became critical, they would press the Government to provide help and/or to end the strike. It would be possible in principle for the Government to offer financial assistance; any losses incurred by the British Steel Corporation would, in any case, ultimately fall to the Government. But it would be very difficult to confine such assistance only to this group of firms, when many others may be suffering in some way; and the costs (which we cannot estimate) would certainly be very high.

14. The main effect on industry is therefore likely to be financial difficulties and a loss of market share which could prove permanent, leading even to bankruptcy for a proportion of the firms reliant on coal. The knock-on effect is likely to be less serious for other industries, since consumers of the products of the main coal-burning companies would be able to find alternative sources of supply without too much difficulty either at home (from manufacturers not reliant on coal) or abroad.

15. As for domestic consumers, their stocks and those held by coal merchants are likely to be relatively low (about 4-6 weeks). But only 10 per cent of households are now largely dependent on coal for heating and hot water and most of these could probably switch temporarily to electricity or other fuels. The NUM would be likely to co-operate, as they have in past strikes, in arranging sufficient supplies for priority users such as the old, the sick, hospitals, schools etc.

COAL IMPORTS

16. The Government are committed by the assurance they gave the NUM in the tripartite discussion in February and March not to allow Central Electricity Generating Board (CEGB) coal imports to exceed $\frac{3}{4}$ million tonnes during the 1981-82 financial year. No commitments have been given in respect of later years, although both the NUM and the NCB may regard commitments in respect of 1982-83 and beyond

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as being implicit in the existing agreement, and the NUM can be expected to campaign vigorously for coal imports to be kept to this level or further reduced. If Ministers were nonetheless to decide that imports should be increased, the Electricity Boards would have to open negotiations with suppliers early in the New Year so that supplies could begin in May, since the availability of coal supplies at short notice is likely to be the main constraint. CEGB stocks held abroad and committed contracts would guarantee 3 million tonnes, and a further 4-5 million tonnes at a cost of £2-300 million would probably be available between May and November, which together could in theory add 3-4 weeks to endurance.

17. The power stations, especially those on Thameside, have the capacity to handle all the coal imports which are likely to be available. But storage and transport would present problems. Coal deliveries at the rate envisaged in the July programme would by themselves increase power station coal stocks to the maximum level physically possible by next November; and the railways could not handle both coal imports and maximum deliveries from the pits. Any increase in imports would therefore be at the expense of some coal deliveries from the pits to the power stations. Any significant increase in coal imports would also be viewed by the miners as a particular provocative step. We therefore do not recommend it. But in the event of a miners' strike next November it should be possible, if other resources could provide endurance of 20 weeks, to arrange to import up to about 3 million tonnes at a price. This would increase endurance by about 1 week. Any threat that these imports would be "blacked" by seamen could probably be overcome either by using foreign ships or by calling in the Navy to requisition ships. If deliveries were concentrated at coastal power stations "blacking" by dockers would not arise. But there would remain a real risk that power station workers might not be prepared to unload or burn coal delivered in this way.

OIL AND GAS

18. The July programme proposed maximising existing oil stocks (requiring the purchase of about $\frac{1}{2}$ million tonnes) and negotiating contracts for the supply in the autumn of a further $4\frac{1}{2}$ million tonnes, so that in the event of a miners' strike next November there would be sufficient oil supplies for power station oil burn to be maximised immediately a miners' strike began, thus extending by about 5 weeks the endurance offered by power station coal stocks. The construction of some extra oil storage facilities would be required.

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19. However, work undertaken since July has demonstrated that sufficient oil supplies for maximum oil burn in power stations would almost certainly be available at short notice, although at a higher price. We therefore recommend that no steps should be taken to increase oil stocks, to arrange supplies or to provide extra storage facilities before a miners' strike is clearly imminent. This ought not to reduce endurance. But it will avoid difficult problems of visibility; and also the possibility of significant public expenditure (several hundred million pounds would be involved in the advance purchase and ordering of oil) being wasted if no strike occurred.

20. We similarly recommend no advance preparations or expenditure in respect of gas supplies. Maximum gas burn could probably be arranged once a strike began, at the cost of some disruption to industry. But only up to 1 week's endurance would be at stake if it could not.

VISIBILITY

21. As already noted the possibility of consultations and preparatory work in respect of the use of Servicemen raises the question of how far the Government's preparations can be allowed to be visible. This is also true of the fullest possible implementation of the July programme (even without its advance oil elements). Construction work would be necessary to increase storage facilities for coal and ancillaries and this would require consultations with the NCB and the Electricity Boards at middle management level. Planning authorities would have to be consulted in detail and the trades unions informed under the agreed consultation procedures. To increase power station coal stocks to their maximum possible level some miners, railwaymen and power station workers would have to work a wholly exceptional amount of overtime throughout 1982, ie 6-6 $\frac{1}{2}$ day working across both industries as against the localised overtime which is needed for the current, enhanced rate of coal deliveries. All this would be at a time when the three nationalised industries were under intense pressure to minimise costs. Finally, depending on the precise financial arrangements, Parliamentary approval might have to be obtained for grant finance, possibly as early as mid-February 1982. Few, if any, of these measures would pass unnoticed, and the NUM and the other trade unions concerned would not be slow to recognise their implications.

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22. No public pretext devised for these measures is likely to carry much conviction. It could be argued that the transfer of surplus coal stocks from the pitheads to the power stations (where they are finally to be used) is in the national interest and, indeed, in the interest of the NCB. It is even possible to envisage the NCB's co-operation in explaining the movement of coal as linked to extra investment in the coal industry. But this pretext would be very thin especially as it would soon become apparent that the Electricity Boards were incurring considerable extra costs, at a time of financial stringency, in order to find room for coal for which storage capacity already existed at the pits. In any case, increases in storage capacity for ancillaries will be clear evidence that extra endurance was being sought.

23. It would scarcely be possible for the Government to make no public announcements whatsoever, particularly if Parliamentary approval for grant finance were to prove necessary. The options therefore range from the adoption of a very high profile, with a full public announcement of the steps being taken to increase power station endurance, emphasising the Government's duty to ensure that vital fuel supplies are not threatened by industrial action; to a much lower profile involving the implementation of only as much of the July programme as is possible without increasing visibility above its present level.

24. There are very considerable risks in a high profile, which we do not think would be outweighed by its deterrent effect. The NUM would proclaim it as evidence of the Government's determination to undermine their ability to defend miners' interests, eg on closures, compulsory redundancy, privatisation, pay, imports. There is a real danger that they would be provoked into early action to thwart the Government's purpose. Miners could quickly disrupt the flow of coal from the pithead by pre-emptive industrial action short of a strike. In doing so they would be able to claim that, given existing stocks at power stations, they were not immediately threatening electricity generation and the public. At the very least, the unions could well refuse to co-operate in the intensified working that is necessary if stocks are to be built up. This would mean that a small number of miners would have to forego extra overtime, but given the likely general strength of feeling this would not be an important factor.

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25. A high profile would also increase the danger of early confrontation with the miners on some industrial issue, with the added risk that developing political dimensions and objectives might be involved. There is no evidence at present that the NUM rank and file regard themselves as "storm troopers" for organised labour or that the NUM as a body is seeking confrontation with the Government; and though this judgment will need to be reassessed in the light of Scargill's conduct when he comes to assume the Presidency, he would only be likely to be able to ferment militancy on what might be seen by miners as a good cause concerning their direct interests. The NUM's stance can at present reasonably be described as defensive of the economic interests of their members rather than as being on the offensive against the Government. On the other hand some of the NUM leadership might not be adverse to a confrontation with the Government during 1982, if industrial issues arose on which they could readily mobilise the support of miners and then exploit it. This support is likely to be more readily secured if miners see themselves threatened by the Government. The parties of the far-Left are urging the need for "combining industrial action with political purpose".

26. It is unlikely that the other unions involved in implementing the July programme would be prepared to co-operate in a strategy which was demonstrably aimed at weakening trade union strength. They could be found ready to respond to requests from the NUM for assistance particularly if the strategy were embarked upon immediately after a "reasonable" settlement with the miners this autumn, with their own pay negotiations yet to come. The rail unions in any case have their own concerns, eg further curtailment of services, redundancy and lack of investment. More generally, some groups of unions appear to be beginning to attempt co-ordinated opposition to pay restraint, closures, privatisation and further industrial relations legislation.

27. As noted in paragraph 3 above, however, the strategy of enhanced endurance depends for its deterrent effect on a degree of visibility at the appropriate time. The judgement for Ministers is, therefore, how visible to allow the steps to increase power station endurance to become; and when.

28. The prospects of rallying public support for a high profile by the Government also needs to be considered. The extent of public support would depend very largely on whether the steps being taken by the Government were thought reasonable. Ministers could argue that their principal purpose was to seek to redress the balance between the Government and the NCB on the one hand and the NUM on the other so as to

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deter the miners from taking industrial action lightly.

29. The question of visibility, in relation to how much of the July programme can be safely implemented, boils down to how much coal and ancillaries are to be delivered to the power stations by next November. As already noted, delaying any action in respect of oil and gas until a miners' strike is clearly imminent ought not to reduce endurance.

30. The July programme suggested that the maximum level of power station coal stocks physically possible by November 1982 was 31 million tonnes. But this assumed that the increased rate of coal deliveries and the construction works at the power stations necessary to achieve this would begin in September. In the light of the decision to delay implementation of the programme until after the miners' pay settlement (which as things have turned out means that work cannot begin before January 1982 at the earliest), the Department of Energy estimates that the maximum physically possible is now significantly less than 31 million tonnes. How much less is not certain.

31. In respect of coal deliveries, there are three thresholds to be considered, above the present stock level of $20\frac{1}{2}$ million tonnes:-

- a. the maximum possible physical capacity of the power stations by next November - something less than 31 million tonnes (ie less than 15 weeks endurance);
- b. the maximum physical capacity of the power stations by next November without the need for construction works for coal storage - 27 million tonnes (13-14 weeks endurance); and
- c. the volume of coal which will be at the power stations by next November if deliveries are continued at the present enhanced rate - 23-24 million tonnes (about 12 weeks endurance).

These compare with the normal November level of $18\frac{1}{2}$ million tonnes.

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32. To achieve the level at a. above would require construction work at some power stations, which, because of the need to inform planning authorities and the trades unions, would not pass unnoticed. There would be a grave risk of precipitating a confrontation with the miners by aiming for this level of stocks.

33. The present programme of enhanced coal deliveries has already led to comment by the power station trades unions, and unions in the coal and rail industries are no doubt aware that power station stocks are high. Nonetheless there is a reasonable prospect that this rate of delivery could be continued until next November without industrial trouble. That would achieve the level at c. above.

34. If Ministers opted for the intermediate level at b. above - 27 million tonnes - the risk of industrial trouble would undoubtedly be less. No construction work would be involved at the power stations. The NCB and the CEGB might be persuaded to agree that the coal should then be supplied on deferred payment terms, which would ease the problems of presentation. It might, therefore, just be possible to present this publicly as a sensible measure to help the NUM by the movement of stocks from the pithead to generating stations where they are finally to be held. But this would not be a particularly convincing line of argument. And the overtime required - 6 day working on the mines and $6\frac{1}{2}$ day working on the railway - would be significant. So the risk of industrial trouble would still be considerable.

35. As regards ancillary materials, it should in most cases be possible by next November to increase stocks to levels equivalent to 23-24 million tonnes of coal, without undue visibility damage. But to seek to go beyond that would involve very visible construction works, mainly because of safety regulations, which might not now be possible in the time available and would run grave dangers of retaliatory action by the NUM to frustrate the build up of both coal and ancillary stocks. The trade unions would not be deceived by the argument that an increase in ancillaries to match the expected level of power station coal stocks was no more than a commonsense measure, especially since in the case of some materials the construction of special manufacturing facilities at the power stations at high cost would be involved. Up to levels equivalent to 23-24 million tonnes of coal the Electricity Boards could probably manage without a Government grant to fund an increase in some ancillary materials, but above that they would be likely to insist on one, which would be impossible to conceal publicly and difficult to explain convincingly. A decision not to increase ancillaries beyond the equivalent of 23-24 million tonnes of coal ought not to limit endurance even if coal stocks were themselves higher, eg. at 27 million tonnes; it seems probable that Servicemen would succeed in making good any

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shortfall in ancillaries, were the Electricity Boards to prove unable to do so.

COSTS

36. The approximate costs of the various possibilities discussed above may be summarised as follows -

	<u>For 23-24m tonnes of coal</u>	<u>For 27m tonnes of coal</u>	<u>For more than 27m tonnes of coal</u>
a. coal: extra stocking capacity	-	-	up to £10m
b. coal: extra transport and handling costs in 1982	£10m	£40m	£65m
c. ancillaries: extra storage facilities and stocks	£ 5m	£10m	£15m

The baseline for the calculation of these costs is the level of coal stocks forecast for next November if no steps were taken during 1982 to increase the normal rate of delivery. The details are discussed in the attached report on the implementation of the July programme. In addition, advance preparations for the use of Servicemen, if authorised, might cost £5-10 million.

37. No net extra costs would be involved on account of the extra coal itself. Even bookkeeping entries could be avoided if the NCB could be persuaded to supply the coal on deferred payment terms. Failing that there would have to be an increase in the external financing limits (EFLs) of the Electricity Boards and a corresponding decrease in the NCB's. These would have to be announced to Parliament, but no doubt their true purpose could be obscured.

38. The figures in paragraph 36 above are therefore the net costs of advance preparations. If a strike occurred, and therefore proved them justified, they could in principle be recovered by passing them on to the consumer. The consumer would in any case have to pay for any extra costs incurred during or immediately before a strike, eg oil purchases, coal imports and any involvement of Servicemen. Depending on the cost of oil purchases, passing on to the consumer the total cost of ensuring 20 weeks endurance might involve extra increases in electricity bills of about 1-1½ per cent on average.

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39. If only some of the smaller figures at a-c in paragraph 36 above were involved, eg those in the first column, it might be possible to persuade the Boards concerned to accept them on the basis of appropriate EFL increases. Above a certain level, however, they would be bound to insist on Government grants instead. Public expenditure would be involved and would have to be met from the Contingency Reserve. Before a grant could be paid Parliament would first have to be informed (probably through a Written Answer) and, given the size of the sums involved and the controversial nature of the project, the Select Committee on Energy might take an interest. Estimate provision would be required (in the 1982-83 Main Estimates, published on Budget Day) and dependence on the Appropriation Act would be involved in the absence of specific statutory authority. There would therefore be a serious visibility problem.

THE OPTIONS

40. In the light of this analysis and of their attached reports, the Group has concluded that, on the assumption that Ministers' objective remains to achieve at least 20 weeks endurance by next November, the best strategy would be to proceed as follows -

- to increase power station coal stocks to the maximum possible without new storage capacity, viz 27 million tonnes;
- to take no steps in respect of oil or gas until a miners' strike is imminent;
- not to increase coal imports until a strike has started;
- to increase most ancillaries to the equivalent of 23/24 million tonnes and rely on Servicemen to make good any shortfalls that the Electricity Boards fail to replenish during a strike;
- to do no further preparatory work in respect of the use of Servicemen (except for consultations with BR management); but to ask the Services, as a fallback during a strike, to deliver ancillary materials (which were not otherwise available) and the remaining useable pithead stocks to the power stations and possibly also to assist coal-burning industry, in that order of priority.

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41. This would cost £45 million, and would avoid the worst risks in terms of visibility in that no construction work and therefore no planning permission etc would be required. The level of overtime working involved, although high, is not maximum. Endurance would be as follows -

power station coal stocks	13-14 weeks
coal imports during a strike	about 1 week
maximum oil burn	5 weeks
gas	<u>about 1 week</u>
Total without Servicemen	say, 20 weeks
movement by Servicemen of <u>all</u> remaining useable pithead stocks and matching ancillaries	<u>about 3 weeks</u>
GRAND TOTAL	<u>say, 23 weeks</u>

This assumes that Servicemen could if required deliver the necessary ancillary materials for power station coal stocks above 23-24 million tonnes and for all the oil. But it only relies on them to move a comparatively small quantity (about 3 weeks' worth) of coal, which should ease the problem posed by pickets, public opinion and the lack of advance preparations.

42. In assessing endurance under this strategy and the variations discussed below, no account has been taken of the extent to which it might be increased through electricity supply reductions.

43. If Ministers feel that it would be possible to adopt a higher profile than was assumed in drawing up the above strategy, they will want to consider either or both of the following variations -

- increase coal stocks to the absolute maximum (see paragraph 31a above) and ancillaries to an equivalent level (but still take no steps, before a strike is clearly imminent, in respect of oil or gas). The public expenditure cost would be of the order of £90 million. Visibility risks would be so high as to endanger feasibility. But if they were overcome endurance

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might be above 20 weeks without the use of Servicemen; and the latter would be needed only to deliver coal from any useable pithead stocks which remained, plus ancillaries to match that coal, and possibly also to match oil supplies.

- authorise consultations on preparatory work for the use of Servicemen. This might involve some small extra public expenditure cost (£5-10 million). The main advantage would be to reduce uncertainty about the Services' logistical ability to achieve the necessary rate of deliveries and therefore about likely total endurance; against which there is the serious disadvantage that it would be clear that the Government was actively preparing at this early stage to use Servicemen.

44. Alternatively, if Ministers feel that the strategy described in paragraph 40 above poses unacceptable risks, the following lower profile variations could be considered -

- increase power station coal stocks only to 23-24 million tonnes, ie continue but do not accelerate the present high level of deliveries. This would significantly reduce the visibility danger. It would reduce the costs to about £15 million. But it would also reduce by 2 weeks to about 18 weeks the total endurance time available without coal movements by Servicemen; and it would proportionately increase reliance on Servicemen, with all the risks of that proving impracticable or unacceptable.
- do not increase power station coal stocks (or ancillaries) above their present level. This would eliminate the visibility danger. It would cost little or nothing. But it would cut further, to about 16 weeks, the total endurance time available without Servicemen moving coal; and would thus even more seriously increase reliance on what they could improvise despite pickets and other difficulties.

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THE DECISIONS FOR MINISTERS

45. Given that the principal objective is to seek to deter miners from striking by achieving a longer period of endurance without provoking industrial action which could frustrate that achievement, Ministers will want to judge -

a. the extent to which deterrence would be significantly increased or decreased by the longer or shorter periods of endurance which might be attained;

b. the acceptability of the risks and costs involved (including the potential effect on coal-burning industries).

46. Ministers are invited -

a. to endorse the strategy set out in paragraph 40 above and to agree that it should be implemented as soon as the miners' 1981 pay negotiations have been completed;

or b. to endorse, on a similar basis, one of the higher or lower profile strategies discussed in paragraphs 43 and 44 above;

and c. to authorise secret consultations with top British Rail management about the possible use of Servicemen to deliver coal by rail.

R L Wade-Gery

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BUILDING POWER STATION ENDURANCE BY NOVEMBER 1982

Note by the Official Group on Coal

INTRODUCTION

1. Ministers decided in principle on 4 August that it would be desirable to build up power station endurance to 20 weeks by November 1982 on the lines of a scheme set out by the then Secretary of State for Energy in his minute to the Prime Minister of 31 July. This report discusses the detailed implementation of as much of that scheme as is now practicable, which for reasons discussed in paragraph 6 below is slightly less than the original proposals.
2. The elements of the Secretary of State for Energy's scheme were -
 - i. adding 5 weeks to power station endurance by expanding coal storage capacity and increasing coal stocks to a maximum;
 - ii. adding a further 5 weeks to power station endurance by increasing the availability of oil;
 - iii. possibly using more gas in power stations thereby adding no more than 1 week of endurance; and
 - iv. increasing storage (and, in some cases manufacturing) facilities for ancillary materials at the power stations and increasing stocks of them to match the planned level of fuel stocks and supplies.
3. We consider first the steps that might be taken in respect of each of the four elements listed above. The costs involved and the extent to which the work involved in implementing these proposals might attract public attention are discussed at the end of the report.
4. In preparing this report we have, for security reasons, consulted only the very limited number of senior Electricity Boards' management who have already been involved in this work; and consultations within Whitehall have been similarly restricted. Neither the National Coal Board (NCB) nor the British Railways Board (BR) has been consulted. Our estimates of the costs involved, in particular, are

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therefore necessarily very imprecise, although the orders of magnitude should be about right.

5. This report concentrates on the position in Great Britain and estimates of endurance times and of costs are all on that basis. The position in respect of Northern Ireland is discussed in Annex A.

COAL

6. By the end of the year power station coal stocks will be $20\frac{1}{2}$ million tonnes (equivalent to about 10 weeks endurance). By continuing throughout 1982 the currently slightly enhanced rate of deliveries stocks would reach 23-24 million tonnes by next November (equivalent to about 12 weeks endurance). In July the maximum possible level of power station coal stocks achievable by next November without the construction of completely new stock yards (which would take several years) or increasing transport capacity was estimated to be 31 million tonnes, on the assumption that the higher rate of coal deliveries required to achieve this and the relatively minor construction work required would begin in September. Ministers decided that no steps towards achieving this level of stocks should be taken until immediately after the miners' 1981 pay settlement had been concluded. As things have turned out this means that work cannot begin before January 1982 at the earliest. The Department of Energy estimate that the maximum physically possible level of power station coal stocks is now significantly less than 31 million tonnes, but how much less is not yet known. The maximum level of coal stocks that could be accommodated at the power stations without construction works is about 27 million tonnes, equivalent to 13-14 weeks endurance.

7. To increase power station coal stocks to the maximum level physically possible by next November would involve the delivery during 1982 of very roughly 4-5 million tonnes of coal more than would be the case if the present, slightly enhanced rate of delivery were to be continued. This could be drawn from a variety of sources, as follows:-

a. Transferring NCB stocks to the power stations

Useable pithead stocks are likely to be about 10 million tonnes by next November. To transfer about half of this to power stations a higher level of deliveries than at present would have to be sustained throughout 1982, starting in January. Extra costs of perhaps £65 million would arise from

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additional double handling and transport, some of which would fall during the current financial year. But in the event of a strike these could be passed on to the consumer. The coal itself would involve no net cost to public expenditure. This is therefore the cheapest option.

b. Increasing Imports

Ministers undertook in the Tripartite discussions earlier this year to limit Electricity Board coal imports in 1981-82 to $\frac{3}{4}$ million tonnes. Thus any increase in imports could not start until May 1982. But although no commitment was given to the NUM in respect of coal imports after 1981-82, both they and the NCB would assume that a commitment is implicit and the NUM would be bound to oppose any increase beyond the level agreed for this year. The main physical constraint is likely to be the availability of the coal, although the CEGB holds stocks on the Continent and has contracts for imports in 1982-83 which would guarantee some 3 million tonnes in total; and a further 4-5 million tonnes could probably be brought in between May and November at a cost of £200-300 million. Together these would in theory add about 3-4 weeks to endurance. The capacity to import is not likely to be a problem. Coastal power stations can handle imports of up to 10-12 million tonnes/annum of which 7 million tonnes capacity is at the Thameside power stations. The alternative approach would be to increase imports during a miners' strike. We think that it might be possible at a price to import up to about 3 million tonnes, provided that other resources could provide endurance of 20 weeks. This would increase endurance by about 1 week.

c. Diverting Exports of Coal

Finally, the diversion of fresh-wrought coal from export could be considered if absolutely necessary. This would of course reduce NCB's revenue from outside the public sector, thus increasing public expenditure.

OIL

8. In order to achieve endurance of about 20 weeks it would be necessary to maximise power station oil burn from the start of a miners' strike as a means of ekeing out coal stocks. The options for acquiring the oil are -

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a. building up stocks immediately

By enhancing storage capacity stocks could be built up by $\frac{1}{2}$ million tonnes. The cost would be about £60 million for the oil purchases and about £5 million for the extra storage capacity. This would increase endurance by about 2 weeks.

b. purchases of oil in advance

To be certain of supply the Boards (mainly the CEGB) could arrange contracts with the oil companies in the Spring for deliveries of heavy fuel oil in the Autumn. The supply of $4\frac{1}{2}$ million tonnes of oil (the amount required for maximum oil burn for 18 weeks) would cost £450-500 million. If, in the event, the oil was not required, the oil companies would no doubt seek a substantial cancellation charge. But without consultation with the oil companies we have no way of estimating what this might be.

c. arranging supply when an emergency is imminent

When an emergency is imminent the oil companies could be pressed (or, if necessary, directed under the Energy Act) to supply extra fuel oil rapidly. This would be costly because refinery patterns would have to be altered, and the oil would therefore be more expensive than normal. The total cost of the 5 million tonnes required (ie taking a. and b. above together) might then be of the order of £800-850 million. We think that oil supplies are likely to be available, even at short notice provided there is not at the time some crisis in the international oil market or other constraint on supplies. In the event of supply difficulties it would be possible for the Government to requisition under the Emergency Powers Act the oil stocks held in the United Kingdom by the oil companies under our European Community obligations. These stocks are equivalent to about 10 weeks endurance.

GAS

9. In England and Wales the substitution of gas for coal, in the limited number of dual fired power stations, would provide extra endurance of $\frac{1}{2}$ -1 week. To be fully certain that this would be practicable the capacity of the gas mains to the power stations involved would have to be examined, and some minor construction work

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(eg strengthening gas mains) might be required. This work would have to be carried out in advance of a miners' strike and could not easily be concealed or explained away. The risk seems hardly worthwhile when set against the short extra period of endurance involved. The gas would have to be diverted from industrial users and a direction under the Energy Act 1976 would probably be required. They would no doubt seek compensation from the Government, and the costs involved might be of the order of £100 million, which could be passed on to the electricity consumer.

ANCILLARIES

10. Stocks of most ancillaries at the power stations sufficient to match the level of coal stocks resulting from the maintenance of the present rate of deliveries (ie 23-24 million tonnes) would probably be possible by next November at a cost of about £5 million. To seek to do more would require the construction of extra storage, and in some cases manufacturing facilities (at a total cost of perhaps £15 million), which as the Secretary of State for Energy warned in his minute of 2 September to the Prime Minister, might not be possible by next November. This work would also be immediately noticeable and probably impossible to explain away convincingly. But, as we conclude in our separate report on the use of Servicemen, it would probably prove possible during a strike to replenish stocks of ancillaries.

COSTS

11. The approximate costs of implementing the measures discussed above may be summarised as follows -

	For 23-24 m tonnes of coal	For 27 m tonnes of coal	For more than 27 m tonnes of coal
a. extra stocking capacity	-	-	up to £10m
b. extra transport and handling costs in 1982	£10m	£40m	£65m
c. additional ancillaries storage facilities and stocks	£ 5m	£10m	£15m

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The baseline for the calculation of these costs is the level of coal stocks forecast for next November if no steps were taken during 1982 to increase the normal rate of delivery. In addition advance preparation for the use of Servicemen, if authorised, might cost £5-10 million.

FINANCIAL PROCEDURES

12. There are potentially difficult problems of visibility depending on the financial procedures adopted. These would not arise if the NCB could be persuaded to supply the coal to the Electricity Boards on deferred payment terms. Even book-keeping entries could then be avoided.

But if deferred payment terms are not agreed, the external financing limits (EFLs) of the Electricity Boards would have to be increased and that of the NCB reduced. These changes would have to be announced to Parliament, but no doubt their true purpose could be obscured.

13. We have assumed that the costs incurred during or immediately before a strike e.g. oil purchases, coal imports, any involvement of Servicemen etc, would be passed on to the electricity consumer. Thus the costs in paragraph 11 above are the net costs of advance preparations/ ^{since extra coal would involve no extra cost.} If these proved to be justified, because a miners' strike occurred, in principle they too could be recovered by passing them on to the consumer. However, if only some of the smaller figures were involved e.g. those in the first column of the table in paragraph 11, the Boards concerned might be persuaded to accept them on the basis of appropriate EFL increases. As already noted, changes in EFLs have to be announced to Parliament, but it ought to be possible to obscure their true purpose. The expenditure involved would also have to be reflected in changes to the EFLs for 1982-83, which have already been announced, but this could be delayed until the autumn of 1982.

14. However, above a certain level of expenditure the Boards would be bound to insist on special Government grants, which would require Estimate provision. Authority for the Estimates ought ideally to be based on legislation, but in the absence of legislative powers the Appropriation Act could be regarded as authority for the expenditure so long as it was intended to be a one-off project. This would have to be made clear in the Estimate, and could be criticised because of the large sums involved and their controversial purpose. If a similar exercise were to be repeated in future years, legislative authority for the expenditure would need to be sought. There is no possibility that the real purpose of this expenditure could be concealed.

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15. The Electricity Boards might incur expenditure in 1981-82, and, if so, might insist upon reimbursement during this financial year. To permit this, the expenditure would have to be voted in a 1982 Spring Supplementary Estimate. Decisions on the Spring Supplementary Estimate would need to be taken by about 20 January 1982 at the latest; it would be published on about 16 February; and payments could be made under it early in March. Any provision for the much larger expenditure which might / ^{arise} in 1982-83 would be taken in the 1982-83 Main Estimates. These are published on Budget Day and the date for final decision on amounts involved is about 25 January. If Ministers did not wish to include provision in the 1981-82 Spring Supplementaries, financial provision for all the expenditure would have to be included in the 1982-83 Main Estimates, though to delay in this way might invite criticism from the Public Accounts Committee.
16. Finally, any extra public expenditure would have to be met from the Contingency Reserve.

VISIBILITY

17. Visibility would be a problem in a number of areas other than the financial procedures. Construction work to extend coal stocking facilities and to increase storage (and in some cases manufacturing) capacity for ancillaries would be required at the power stations. Under existing agreements, the Electricity Boards would be obliged to consult their trade unions. Local planning authorities would also have to be informed (although planning permission would not actually be required). Wholly exceptional levels of overtime working would also be required by the miners, power station workers and railwaymen if the maximum possible volume of coal was to be transferred to the power stations - up to 6-6½ day working as against the localised overtime required to achieve the current enhanced rates of coal delivery. All this would be at a time when the industries concerned were under considerable pressure to reduce costs and the Electricity Boards in particular have been conducting a vigorous cost-cutting campaign. The trade unions would be likely to notice very quickly (say within a few weeks) that special construction work was in hand and it would not take them long to discover that this was widespread and to guess its true purpose. The fact that provision was being made for a considerable increase in ancillaries and that extra oil storage facilities were being constructed (at a time when the United Kingdom is committed by international agreements to reduce oil use) would quickly confirm to them what the true purpose of the exercise was. We do not think that any convincing pretext could be devised to explain why

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these measures were being taken.

18. We have considered what might be done without attracting publicity. It would be possible to increase coal stocks to the maximum physically possible without the need for construction works at the power stations (ie about 27 million tonnes) without the need for consultations with planning authorities etc, although overtime involving 6-day working in the mines and 6½ day working on the railways would be required. But we doubt that it would be possible to increase ancillary stocks to match these levels of coal supplies and present it as merely a commonsense measure to ensure that stocks of fuel and ancillaries were in balance. This would involve a considerable increase over the levels of ancillaries normally held until recently (about 6 weeks) and construction works would be required. All of this would raise the trade unions' suspicions. The more realistic aim, given the likely capacity of the Services to replenish stocks of ancillaries, would be an increase to match coal stocks of 23-24 million tonnes (the level achieved by continuing the present rate of delivery), although even this might not be possible in the case of some materials. We doubt whether any steps could be taken either to provide increased storage for oil or to arrange in advance for supplies without publicity. Finally, publicity could only be avoided if the extra coal was supplied to the Electricity Boards by the NCB on deferred payment terms; if the industries were to agree that any expenditure they might incur should be met by loans rather than by grants; and if ^{the} true reasons for consequential increases in EFLs were not to be made public.

Cabinet Office

4 December 1981

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ANNEX

NORTHERN IRELAND

1. In Northern Ireland 80 per cent of electricity is produced from oil and only 20 per cent from coal. Oil stocks are currently equivalent to about 8-9 weeks endurance; and coal stocks have been built up to about 6-7 weeks. All oil and coal supplies are imported from Great Britain.
2. If coal supplies were to be cut off, there is sufficient surplus oil-fired capacity to make good the deficiency. Extra oil would have to be imported, but the requirement would be small compared with that of Great Britain and there is therefore unlikely to be any problem with supplies. There would also be no problem with storage, since there is already sufficient additional storage capacity available and in an emergency a tanker could be used as temporary storage. The cost of extra oil is likely to be about £15 million.
3. Ancillary materials are also imported from Great Britain, although some small quantities could be obtained from the Republic. Stocks of ancillaries vary from 6 to 12 weeks requirements, depending on the product and how rapidly it can be topped up. It should be possible to build stocks of ancillaries up to 20 weeks at a cost of about £150,000; we do not foresee any particular difficulties with the availability of supplies. Some capital works would be required to increase storage facilities, but without detailed investigations we cannot estimate what the costs of this might be.
4. The Northern Ireland electricity service is in deficit and since the Government is committed to bringing Northern Ireland electricity tariffs into line with those of Great Britain and keeping them there, it is unlikely that the costs of any of these measures could be passed on in full to the electricity consumers. Part, at least, of the additional cost would therefore have to be met from public expenditure.

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