



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

18 February 1982

The Rt. Hon. Nigel Lawson MP
Secretary of State for Energy

Nigel

EXTRA OILBURN DURING THE ASLEF DISPUTE

Thank you for your letter of 16 February about the financing of oilburn during the ASLEF dispute.

Now that the ASLEF action has been called off, I think that the full additional oilburn programme should be quickly terminated. The costs involved are considerable; they were put at some £30m-£35m per week in the recent MISC 57 report. Since they are not being recovered from the consumer, they add to public expenditure. It is relevant here that much of the cost from any oilburn from now on would fall to be paid in 1982-83. You will appreciate my concern to minimise costs falling in that financial year. I therefore suggest that the extra oilburn programme should cease from Monday, unless it is then clear that the coal trains are not beginning to work normally again. This would, of course, be without prejudice to any programme of extra oilburn for building up stocks before next Winter; but we have still to take decisions on that option. It would also be without prejudice to consideration of the possible case for some continuing additional oilburn if the BR ASLEF situation continues to look fragile. We could review that at the end of next week.

You propose that the cost of oilburn associated with the ASLEF dispute should be met by way of grant. I see good presentational and political reasons for trying to avoid a grant.

Decisions have still to be made on extra oilburn for the longer term exercise of building up coal stocks before next Winter. As you know, I am unconvinced that the considerable expenditure involved would represent the best use of the limited public expenditure resources available. But if this expenditure was agreed, our agreement now to grant finance the programme of oilburn during the ASLEF dispute would make it harder to deny the CEGB a grant for further oilburn programme to build up stocks for next Winter. That grant would have to be announced

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when a decision had been made to pay it. But it would be virtually impossible to explain why it was being made without arousing the suspicions of the mining unions. Whatever was said about replenishing coal stocks after the ASLEF dispute, the miners would surely realise that the real purpose of this highly expensive oilburn programme was to build up coal stocks over the Summer so as to put the Government in a better position to resist their pay claim next November. This would be in conflict with the low profile approach to these matters which we have adopted hitherto.

You recognise that announcement would be needed on a decision to pay the grant. Such an announcement ought to be made quickly when the decision had been made to pay it. Otherwise Parliament could argue that the Government's credit had been pledged to the CEGB without their being notified and the following Supplementary Estimate would in effect present them with a *fait accompli*. Criticism would be intensified because the purpose of the grant would be somewhat contentious.

Such an announcement could well be unhelpful even though the ASLEF dispute appears to be settled. It would demonstrate that the Government had been more involved in the dispute than had been made clear at the time and would emphasise to ASLEF the importance for the future of the coal card.

For these reasons, particularly the first, I think that we should avoid a grant. There is certainly no question of the industry immediately passing the oilburn costs onto the consumer. But they can borrow to finance the expenditure and then either pass the cost to the consumer over a long period of time through slightly increased prices; or, and perhaps preferably, finance the costs by a reduced level of profitability without any increase in electricity prices. It is relevant here that the industry as a whole is profitable and is expected to have negative EFLs both this year and next. It ought therefore to be possible for it to absorb the costs of the oilburn without the need for grant finance. The fact that the oilburn programme should shortly terminate ought to help matters here.

Finally, I note that you cannot yet assess the changes needed to the industry's EFL. I recognise the difficulties here, but I hope that your officials can quickly provide mine with an estimate of the EFL costs of the ASLEF dispute, both for the CEGB and the NCB.

I am sending a copy of this letter to the Prime Minister, (David Howell), Peter Carrington, George Younger, Patrick Jenkin, John Biffen, Norman Tebbit, Sir Robert Armstrong and Mr Ibbs.

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