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Prime Minister

(1)

Yes Mr

Do you want to intervene
as at X?

MR. SCHOLAR

Or to leave this to E(DL)?
cc: Mr. Hoskyns
Mr. Walters MLS 12/3

Plot will depend on the
new chairman not

PRIVATISATION OF THE NATIONAL COAL BOARD'S OPEN CAST OPERATIONS

Mr. Lawson's paper for E(DL) raises important issues: on the one hand, privatisation policy and, on the other hand, our handling of the NCB/NUM problem.

Mr. Lawson opposes privatisation of the open cast mining operations, partly because of the effect on the NCB finances, and partly because of his fears of the effect on the NUM. The Prime Minister will recall that when this issue first arose last summer, Mr. Howell argued that we should wait until after the pay negotiations.

We think there are arguments against privatisation, although not those which are highlighted in the paper:

- (i) The most important structural change at present needed in the coal industry is the continuation of the pit closure programme, which ought not to be prejudiced, as it might be if Ministers ask the NCB to dispose of open cast mining; and
- (ii) The NCB/NUM relationship is bound to be considerably affected by Mr. Heseltine's decision on the Vale of Belvoir. There would indeed be considerable risk of aggravating the moderate majority within the NUM if a decision on privatisation and an adverse decision on Belvoir were to be made this spring (but conversely, of course, a favourable decision on Belvoir would make it easier to announce privatisation).

We are not much impressed by the argument about the NCB's finances: a similar argument applies to all privatisation measures, and of course foregone profits could to some extent be recouped through a licensing system. Nor do we think the NUM would call

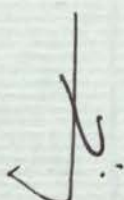
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industrial action on this issue alone, having just failed to achieve a majority for industrial action on the much more important issue of pay.

And there are good arguments in favour of privatisation. Open cast mining is highly profitable, and privatisation might even enable an increase in output. Disposal would therefore considerably reduce the NCB monopoly, perhaps to the extent of 15% of output. It would be hard to reconcile a decision against privatisation of open cast mining with the Government's general privatisation policy.

The balance of the arguments is not absolutely clear, although it seems to us to favour privatisation. We think that E(DL) is unlikely, on the basis of Mr. Lawson's recommendations and a lukewarm attitude by the Treasury, to recommend privatisation. The Prime Minister may feel that all the arguments should be considered carefully and brought to her before a decision is taken, and that you should write to the Chancellor (as Chairman of E(DL)) indicating that she is not wholly convinced by the arguments in Mr. Lawson's paper.



11 March 1982