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Prime Minister ①
Energy are aiming to clear this paper
in correspondence. But it is a controversial paper,
as the Policy c. Mr Walters
Mr Mount
Unit point mt. Agree I write as at X overleaf?

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MR. SCHOLAR

NCB: DRAFT POLICY LETTER AND CLOSURES

MUS 3/6 Yes mb

(attached)

I think the Prime Minister will want to look particularly carefully at two important papers which have been copied to us relating to the Government's strategy vis a vis the NCB and the NUM: the draft policy letter to the new Chairman of the NCB, circulated by Mr. Lawson under cover of his paper for E(NI), and Mr. Moore's letter of 28 May to the Chancellor about pit closures in 1982/83. You and I have had a word about these, and I have now discussed them with Alan Walters, the Treasury and the CPRS.

Draft Policy Letter

There is much in the draft policy letter with which we can agree, and I am told that it has been discussed in some detail - but not agreed line by line - with the Treasury and the CPRS. In particular, the timetable for the break-even target, the productivity targets, and the provision for an agreed corporate plan are all highly desirable, and useful to get on the record with a new chairman (although it seems to me inevitable that they will have to be negotiated all over again with any ^{further} new Chairman). And I think we should be prepared to accept, as Mr. Lawson recommends, the exclusion from the letter of explicit references to closures, manpower reductions and the introduction of private capital, as long as these objectives are spelt out orally.

But one critical strategic issue remains, addressed in paragraph 2 of Mr. Lawson's covering paper, and spelt out in the section under Capital Investment, in paragraphs 5 and 6 of the draft letter. Mr. Lawson states as a fact that over 70% of the CEGB's requirements will probably still be met in the year 2000 by NCB coal; and concludes that a policy of cutting back on investment so as to reduce NUM monopoly power is unlikely to succeed, and would result in "early confrontation". This assumption, that the NCB can operate on as large a scale as is compatible with profitability, and continues for the indefinite future to provide a high proportion of the CEGB's coal requirements, precludes a reduction, however gradual, in, any NUM monopoly power. As the Prime Minister knows,

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it has long been the strongly held view of the Policy Unit that however clever we are about preparations for coping with the NUM in a particular pay round, whether through stock building, oil burning or the use of the Services, the only long term measure for dealing with the NUM monopoly is to get rid of the monopoly. In our view it would be a great mistake to endorse a strategy based on the assumption that that monopoly must continue for the next 20 years and more. Alan Walters shares these views, and has spelt out his concern about future investment by the NCB in the attached note. We are unimpressed with the argument about the power of the NUM to enforce a particular level of new investment, which did not carry the day over Belvoir; and it seems to us that the Government's objective should be to minimise long life investment in coal, and maximise alternative forms of electricity generation, including gas and nuclear.

X { If the Prime Minister agrees, therefore, I suggest that you might write to Mr. Lawson's Private Secretary saying that she has seen his paper for E(NI) and noted paragraph 2; that she wonders whether this is not a step towards reinforcing rather than reducing the NUM's monopoly power, and believes that alternative approaches should also be explored. She could invite Mr. Lawson to circulate some further analysis, on the basis of which the Prime Minister could then decide whether she wished to hold a meeting. But this should be done soon: Mr. Lawson is seeking agreement in writing, and we do not want too many other Ministers to acquiesce in what he is proposing before the Prime Minister herself intervenes. }

Closures

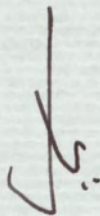
Mr. Moore's letter does not invite decisions by Ministers, but records the NCB's likely approach, which is to defer any closures above the level at which they have been running over the last two years or so until after the November pay settlement. This is of course a familiar line: there is never a good time to negotiate closures. But I do not think, particularly with a new Chairman, it is open to Ministers to second-guess the Board's approach. To do so would require a careful, pit by pit analysis of profitability, manning and alternative employment, which officials are not equipped to undertake. This tentative approach by the NCB to the issue of

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closures does however reinforce our doubts about endorsing a continuing programme of major new investments.

A handwritten signature in black ink, appearing to be 'J.M.M. Vereker', written in a cursive style.

J.M.M. VEREKER

2 June 1982

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