

SECRET

MR. SCHOLAR

Prime Minister

①
please see the Energy letter (attached) - and now me from Leon
Shall I arrange for

cc: Mr. Mount
Mr. Walters

25

Brittan

a meeting - with Messrs
Lawson, Sparrow and Brittan?

Yes no

MCS 11/6

NCB: Policy letter to the new Chairman

We had a word about the letter of 10 June from Mr. Lawson's Private Secretary, replying to yours, about the extent to which the policy letter to the new NCB Chairman ought to take account of the need to reduce the monopoly power of the NUM.

I think there are important issues at stake here which merit discussion among Ministers. Lying behind Mr. Lawson's draft of the policy letter is, as he points out, the issue of our long-term policy on coal, raised in the CPRS paper (not a joint paper with the Policy Unit) which was never properly discussed by Ministers. Mr. Lawson is wrong to imply that it is established Ministerial policy to reject "retrenchment", even though that is not in fact what we are proposing. Furthermore, I think the current situation following the NCB's proposal to close the Snowdown Colliery merits discussion in its own right - Mr. Lawson ought to give his assessment of the likelihood of Mr. Scargill convincing his Executive that a national strike is justified - as well as because the Snowdown issue illustrates and reinforces the need to find a long-term solution to the problem of NUM monopoly power. I understand that Mr. Lawson has indicated his preference for a bilateral discussion with the Prime Minister; I think that at any such discussion it would be essential to have present both the Chief Secretary and Mr. Sparrow.

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Yes
MCS

It may help if I clarify exactly what we think needs to be changed in Mr. Lawson's specific proposals. We have two suggestions, which we would like to see adopted at the meeting. (Alan Walters and Ferdy Mount agree these; and from my discussion with Energy, the Treasury and the CPRS, I think both stand some chance of being accepted by them).

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/ (a)

- (a) Mr. Lawson has already agreed to raise orally with the new Chairman two issues which he is reluctant to cover in a letter which, as he points out, will leak. The monopoly point is clearly suitable for covering at the same time. So we think he should add a third issue to those he has already identified in paragraph 4 of his memorandum, and that he should explain to the incoming Chairman that the Government wishes to see some long-term erosion of the dependence of the country's electricity generation on domestically-mined coal, so as to give customers access to a variety of fuel resources, and to improve competition within the energy market, and internationally. He should present this as being as much in the interests of NCB management, because it would reduce the monopoly power of the NUM, as of the Government, and he could explain that it would be achieved by individual decisions on capital investment rather than by a series of major confrontations with the unions.
- (b) We think the point at which the draft policy letter then needs to be changed is not the opening three paragraphs on objectives, but paragraph 5 on capital investment. We suggest a redraft as follows:-

"Capital Investment

The Board's capital investment is subject to special statutory approval, and the Government will continue to examine closely the proposals embodied in the Board's programme. The Government sees no case for an increase in the Board's deep-mined capacity (net of closures) before the industry has returned to break even and ended its dependence on grants. Thereafter the Government's examination of any new capital investment proposals will be made in the light of the Board's Corporate Plan, progress in reducing costs and increasing efficiency, and the costs and availability of energy from other sources, including nuclear generation and imported coal."