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PRIME MINISTER

Coal Industry

There are two main topics for discussion at your meeting on the coal industry tomorrow:

i. the tactics to be adopted by the National Coal Board (NCB) in their negotiations with the National Union of Mineworkers (NUM), and in particular the levels of the opening and final offers, as explained in the minute from the Secretary of State for Energy which you will be receiving today;

— FLAG A

ii. the action which might be taken to extend power station endurance in respect of ancillary materials, and in particular the two points for decision identified in my minute to Mr Scholar of 6 September covering a report by the Official Group on Coal (MISC 57).

— FLAG B

NCB pay offer

2. The NCB is proposing to make an opening offer of 5 per cent on basic rates (4 per cent on earnings) at the first negotiating meeting on 15 September. They envisage moving to a final offer possibly at a second meeting on 5 October, of 7-8 per cent on basic rates ( $5\frac{1}{2}$ - $6\frac{1}{2}$  per cent on earnings). This would compare with last year's settlement with the miners of 9.3 per cent on basic rates (7.4 per cent on earnings). The confidential target for the next pay round which was approved by the Ministerial Committee on Economic Strategy at its meeting on 1 July (E(82)17th Meeting, Item 1) was for settlements at 4 per cent and increases in earnings no higher than 6 per cent.

— FLAG C

3. There is clearly a difficult balance to be held in determining the right level for the opening and final offers. On the one hand it is desirable that the right signals should be given at the outset of the next pay round; on the other hand the NCB clearly needs to avoid an offer which is so low that it would play into the hands of Mr Scargill. Ministers will also be reluctant



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to force their own views on the NCB on this crucial tactical issue unless it is absolutely unavoidable to do so. Ministers may therefore feel that, provided that the NCB's final offer is indeed kept within the range proposed, and can be presented in due course as no more than  $5\frac{1}{2}$ - $6\frac{1}{2}$  per cent on earnings, the balance is probably about right.

Ancillary materials

4. It is unfortunate that, although coal stocks will now be sufficient to permit power station endurance of around 24 weeks, there is no way of increasing stocks of ancillary materials beyond 9 weeks' operation, the maximum permitted by available storage capacity. The problem was foreseen last autumn and the Secretary of State for Energy has been exploring earlier this year what might be done to improve the position. He will no doubt explain the difficulties. Essentially the problem is that increasing physical capacity for ancillary materials has a lead time of about a year and would be a visible process. Until that process is completed, there is a danger of merely advertising the existing vulnerability in respect of ancillary materials.

5. The discussion might therefore concentrate on the following points:

i. what could the Electricity Boards do to replenish stocks of ancillary materials in the course of a dispute;

ii. whether, when these efforts have been exhausted, it would be desirable and justifiable to use servicemen to replenish stocks;

iii. when consultations about the use of servicemen to replenish stocks of ancillaries this year should begin;

iv. whether the Electricity Boards should be allowed to begin taking steps now so that enough storage capacity will be available to permit stocks of ancillaries to be increased to 20 weeks by November 1983.



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6. On i. the paper by MISC 57 reports that the CEGB is confident of being able to restock once without outside assistance and this would probably increase stocks by 2-3 weeks, ie up to 12 weeks. Thereafter much would depend on the attitude and location of pickets and special tactics would be required. It would obviously be desirable to encourage the Electricity Boards to increase endurance by these methods to the maximum extent possible. Once these efforts are exhausted the only option would be to use servicemen, but no detailed plan for doing so has yet been prepared.

7. On ii. the use of troops in the context of a miners' strike would clearly be highly sensitive. On the other hand a distinction might be drawn between action by troops to move coal and action to move other materials necessary to maintain power supplies in circumstances where there were ample coal stocks which could not otherwise be used. There ought to be a good deal more public sympathy for the use of troops in such circumstances. Moreover, since the quantities involved, by comparison with coal, are relatively small, the law and order risks ought to be less. Ministers may feel that, although the use of servicemen in such circumstances would be a last resort, it would be imprudent not to have available a plan for doing so. The only other course open would be to try and conserve ancillary materials, for example by rota cuts, and Ministers would probably feel that this was an even less attractive course.

8. On iii. the paper explains that consultations and preparation of a comprehensive plan to resupply ancillaries to power stations might take up to 3 weeks; some time would also be required to requisition specialist vehicles and train servicemen to operate them. Such consultations and preparations could not however be kept confidential. The paper therefore proposes that the consultations should be delayed until industrial action is clearly imminent or has begun. Since there is a reasonable prospect of prolonging the stocks by replenishment up to some 12 weeks, it should in fact be possible to delay the start of consultations until some time after the action has begun.

9. On iv. the paper by MISC 57 explains that the CEGB has recently decided to set in hand action which would increase storage capacity next year to 20 weeks. The capital works would cost about £30 million and the increase in stocks of the materials would cost a further £40 million. The CEGB are prepared to absorb these costs within their present EFL.



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10. In his minute of 11 August the Chancellor of the Exchequer has asked whether the costs would be justified and also whether starting work now might increase the chances of industrial trouble. We are advised that, if the storage facilities are to be operational by November 1983, work must begin by the end of this month.

11. So far as cost is concerned, the balance of argument would seem to favour the proposal. It would seem logical that, since coal stocks are to be maintained at a high level at considerable expense, stocks of ancillary materials should be brought into line. There is however a problem about the start of the work. It would seem hazardous to take any action which carried the risk of affecting the outcome of the miners' ballot, or which drew attention to the vulnerability in respect of ancillary materials at an early stage. Unless therefore the Secretary of State for Energy considers that there are preliminary steps which could be taken without risk of visibility, Ministers may feel that it would be better to defer the start of the work for the time being, even though this will increase the likelihood that the additional storage may not be ready by November 1983.

#### CONCLUSIONS

12. You will wish to reach conclusions on the following points:

- i. what reaction the Government should give to the NCB's proposed tactics and pay offers;
- ii. in respect of ancillary materials:
  - a. whether the Government is prepared to contemplate the use of servicemen to replenish materials when all other methods have been exhausted;
  - b. whether consultations to enable the preparation of a plan for this purpose should be undertaken, but deferred until after a strike has begun;



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c. whether the Electricity Board should take steps to increase stocks of ancillaries to 20 weeks by November 1983 but should defer the start of such action at least until the outcome of the miners' ballot is known and possibly thereafter, depending on the course of events.

*PLG*

P L GREGSON

9 September 1982