

MR WALTERS

cc Mr Mount
Mr Scholar

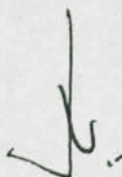
PIT CLOSURES

Thank you for your note of 7 January, in response to my earlier one to you covering the NCB's draft discussion document. I have now had a word with Ferdie about all this, and in preparation for the Prime Minister's meeting planned for 25 January I have discussed it with John Guinness in the Department of Energy.

The Department of Energy and the Treasury are agreed that the present draft is hopeless, and that it will have to be rewritten entirely. Between them they are making suggestions to the NCB as to how that should be done, including the need to take account of the worsened market prospects since the first draft was prepared. I told John Guinness that in our view the document would be seriously at fault if it did not take as a starting point the objectives set by Ministers for coal, in Mr Lawson's 18 June 1982 letter. I also said that there seemed to us little point in having a discussion document at all unless it made a serious attempt to assess future levels of demand and price - otherwise, we might as well proceed merely on the basis of judging what is the maximum rate of closures we can get away with.

But that is what we are going to have to do anyway, since the NCB will not have a revised document in time for the Prime Minister's meeting. Mr Lawson will therefore be sending the Prime Minister, and a few selected colleagues, a longish letter setting out the options and containing his recommendations. The letter will also have a number of annexes giving illustrative lists of closures, together with their location, losses and numbers employed. It will therefore be a pretty sensitive document, but none of the MISC 57 papers have leaked yet. I understand that Mr Lawson will be advised, consistently with the NCB's own judgement, that a rate of closures significantly faster than what the NCB described as the "reference case" in its earlier draft would lead to a national strike.

Since something a good deal better than the reference case is needed in order to achieve savings as rapidly as Ministers are likely to want them, we will have to give serious thought to a strategy of closing pits at such a rate that a national strike is likely, and assuming that we can win such a strike. I shall want to offer advice about that when I see the details of what Mr Lawson proposes: there has hitherto been a tendency on the part of the NCB and the Department of Energy to exaggerate the strike risk, ie to assume that a national strike becomes a possibility at a rather lower level of pit closures than is realistic.



11 January 1983

MR. VEREKER

PIT CLOSURES


I agree with most of your grumbles with the draft on pit closures. I think the document is very muddled and contains an inadequate and inconsistent account of demand and price. These are the critical elements in the whole strategy and, even in the low case the real price after 1985 is supposed to increase by 2% per annum. (It is not clear to me how they have dealt with the problem of restrictions on imports to the CEGB.)

In principle the exercise should take the following form.

- a. Forecast the world price of coal, taking into account the range of probable responses of the energy supply to price, on the one hand, and the effects on demand on the other.
- b. Find the import price of coal into the United Kingdom.
- c. Construct cost indices, taking account of real wages and capital cost, to find the amount that can be supplied, at costs excluding the royalty or rent element, from existing known sources.

This should tell us the range of closures that are needed. The trouble is it is all highly conjectural, especially Stage (a).

There is no evidence that they have done this sort of exercise. But we must allow that it is a draft document and perhaps does not properly represent what analysis has been done. Let's discuss it more.



7 January 1983

ALAN WALTERS