



Prime Minister (2) *not Ind*
 cc J.v. 41
 Mus 15/2

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Nigel Lawson MP
 Secretary of State
 Department of Energy
 Thames House South
 Millbank
 London SW1P 4QJ

14 February 1983

Nigel,

CEGB COAL IMPORTS

Thank you for your letter of 8 February about the imports of coal from Australia by the CEGB. I am disturbed at the suggestion that we should continue with import restrictions into next year. It is only with the greatest reluctance that we agreed to maintaining these restrictions for 1982-83. Apart from the significant costs to public funds involved, imports are one of the very few market disciplines on the NCB and there is the strongest case against such artificial distortions to the market.

It is perhaps debatable whether permission for the CEGB to import cheaper coal would really win sympathy for the miners. Nonetheless, over the next few months, our primary aim must be to achieve a higher rate of pit closures. To lift the restrictions suddenly could increase the risk of a national strike. For this reason, I am reluctantly prepared to accept that some restrictions could continue for the first 6 months of 1983-84. I hope that it will be possible to increase the rate of imports significantly, say to the 1m tonnes a year, mentioned in your letter. We must certainly look at the position again in the Autumn when progress on the rundown should be clearer.

You suggest that there might be a case for paying up to £25 million to reschedule the current Australian contracts. Our assessment - which the figures attached to your own letter bear out - is that such rescheduling only makes financial sense if we assume that import restrictions will continue for a further lengthy period of 2-3 years or more. But we have not yet agreed any such assumption. If that is what you have in mind when you refer to limiting imports "for some time", then I think you should put a full case to your colleagues, covering all dimensions of the problem. I am advised, for example, that if imports were to be restricted for a longer period, then the case for selling off the coal currently

stocked on the Continent would be much stronger. Doing so could generate cash to reduce the costs which your proposals imply.

I cannot therefore agree to your proposal for rescheduling these contracts as it stands. The CEGB may, if they wish, explore with the Australians the cost of this option further, but it must be made absolutely clear that there is no commitment of any kind on the part of the Government to proceed. If you do decide to put fresh proposals forward, I should be grateful if Treasury officials could be involved in settling the figures at an early stage. I suggest that they should also examine carefully the public expenditure consequences of the options for, while I note that you have not proposed an increase in the NCB's EFL, I understand that you think this could well be required.

/so small and You also asked for an increase in the level of compensation to be paid this year above the ceiling I agreed last May. It is important for financial discipline that we should stick to ceilings that we have settled, particularly since the excess is to pay for costs falling due next year. I am not prepared therefore, to agree to an increase of £5 million in the EFL. In any case, I should be reluctant to agree to any figure when, as I understand it, the administrative arrangements for the scheme have not yet been finalised nor firm estimates for costs in 1982-83 provided to the Treasury. We really must get guidelines agreed quickly.

I am copying this letter to the Prime Minister, the Home Secretary, the Secretaries of State for Employment, Scotland and Wales, to Sir Robert Armstrong and Mr Sparrow.

Law

Law

LEON BRITTAN
14 February 1983

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 Q1. Mr. Lofthouse asked the Prime Minister if she will list her official engagements for 8 February.

Coal
The Prime Minister Mrs. Margaret Thatcher: This morning I had meetings with ministerial colleagues and others including one with Prince Sadruddin Aga Khan. In addition to my duties in the House I shall be having further meetings later today, including one with the Prime Minister of Nepal. This evening I hope to have an audience of Her Majesty the Queen.

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Mr. Lofthouse: Will the Prime Minister inform the House whether Mr. Ian MacGregor has been offered, formally or informally, the chairmanship of the National Coal Board and if not, is she about to do so? Is the right hon. Lady aware that if this is the case—[*Interruption.*] Some Tory Members may think it funny but the miners do not—many responsible sections of the mining industry will feel that this appointment is based on political dogma and that Mr. MacGregor will be given a licence to butcher the manpower of the mining industry as he has done with that of the steel industry? If this is the case, is she aware—[HON. MEMBERS: "Too long"]—that there will be unity in the mining industry, the like of which she has never seen before? The miners know full well how to deal with callous and stubborn women.

The Prime Minister: As the hon. Gentleman will be aware, Mr. Siddall's present term as chairman of the NCB ends on 3 July. He is doing a wonderful job, but the Government have always been aware that he wished to serve for only a limited period. I am not yet in a position to make any announcement about Mr. Siddall's successor or about Mr. MacGregor's future when his current term ends in June. The present chairmen of both the NCB and the British Steel Corporation are both very able and are both doing a superb job.

Mr. Luce: In view of the widespread desire for progress on multilateral disarmament, will my right hon. Friend discuss with Vice-President Bush this week the prospect in Geneva in the next few months of picking up the Soviet disarmament proposals by the scruff of the

Mr. Neil Thorne: I am delighted to hear that my right hon. Friend is entertaining the Prime Minister of Nepal. Is she aware that this is the first occasion on which a serving Prime Minister of Nepal has visited Britain since 1907? At her meeting with him will she express the gratitude of the British people for everything that the

✓ CC JV ^{Not Ind} (2)

Prime Minister

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Mr Lawson wants to

Continue to limit

coal imports pretty

seriously.

MUS 8/2

8th February 1983

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1

CEGB COAL IMPORTS

For the last two years we have accepted that the CEGB's coal imports into the UK should be limited to 0.75mt a year. The Board have firm contractual commitments for some 2.3mt a year of Australian coal. The surplus tonnage has been put into stock on the Continent and the CEGB has been compensated for the additional costs involved via discounts on purchases from NCB and the latter's deficit grant. In 1981/82 the cost was £18.8m and this year the out-turn is expected to be about £35m.

I have been considering what to do in 1983/84. To remove all restrictions on the CEGB's imports would be very damaging to the NCB's efforts to achieve a higher rate of pit closures. It would lead to an early visible reduction in shipments of NCB coal from the North East and Scotland to Thames-side. Above all, it would give Scargill an issue over which he could almost certainly get a majority vote for a national strike, and on which - almost uniquely - the miners could count on substantial public support. Indeed, I fear that any significant increase in imports would materially increase the risk of a national miners strike on closures.

At this stage I believe that the most we are likely to wish to allow in this year is no more than 1mt, unless circumstances change radically. I propose to ask the CEGB to limit imports to 0.5mt during the first six months of 1983/84 and to defer for some months the decision on what to do in the latter half of the year. If the NCB are able to raise the rate of pit closures without provoking a national miners' strike, and in particular if we are able to move even faster on closures later on, then we may want as part of this strategy to continue to limit imports for some time.

There is next the question of whether to continue to put surplus arrivals of coal into stock on the Continent or whether to sell it off. The international coal market is very depressed at the moment and it is clear that the loss in 1983/84 from selling would be up to £20 a tonne greater than the cost of putting it into stock. I believe therefore that we should rule out sales for the moment.

Another possibility that I have asked the CEEB to explore is rescheduling their deliveries from Australia over a longer period. The present contracts largely run out in March 1985. The Board believe that they might be able to arrange with their suppliers to halve the rate of arrivals (without altering the total contractual take) for a cost of around £25m, though this figure is subject to considerable uncertainty pending the outcome of negotiations. Outright cancellation would cost perhaps £60-70m and would be most unwelcome both to the Board and to the Australian Government who have been in touch with me on a number of occasions.

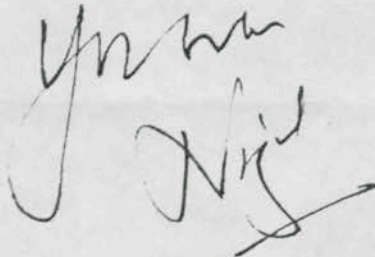
I believe that rescheduling to halve the rate of arrivals makes good sense. This will reduce substantially the rate of addition to Continental stocks which at present stand at 3mt and which in practise now have little strategic value, given the level of stocks at the power stations. We will, however, have to continue to compensate the CEEB for the extra costs involved in keeping out the remaining arrivals (over and above what we agree to allow in) and for holding this and past years' stocks on the Continent.

On the basis of rescheduling arrivals to half the present rate and restricting imports to the present 0.75mt, the cost of compensation would be of the order of £50m in 1983/84. With imports of 1mt, the cost would be about £45m. The figures are subject to considerable uncertainty, as noted above. Continuation of the present policy (ie 2.3mt arrivals, 0.75mt imports) would cost about £30m in 1983/84 since no compensation would be paid to the Australian suppliers; but the costs would be significantly greater than the other options in subsequent years because Continental stocks would be higher. The attached schedule shows these and other options.

At this stage I seek your agreement to authorise the CEEB to open negotiations with their Australian suppliers when they meet early next week. The objective should be to halve the rate of arrivals for the remaining period of the contracts at a cost of up to £25m. The Australian authorities will not be best pleased but I believe we can defend a commercial negotiation of this nature. Of course, if we cannot agree with them to reschedule on satisfactory terms, we would simply stick to the existing arrangements.

There is also the question of compensation for 1982/3 referred to in our correspondence of 4 August and 8 September. The CEEB's estimate for the year is £35m though this includes an element of advance payment for costs that will in fact be incurred in 1983/84. You suggested that payments in 1982/83 should be scaled down to reflect only the costs arising in this year. I can accept the principle of this, and the figures set out above for 1983/84 relate only to the costs falling before 31 March 1984. But at this stage reapportionment of compensation for 1982/83 would simply add pro rata to the compensation payments for 1983/84 which would seem to serve little purpose. I would be grateful therefore if you could agree to increasing the NCB's EFL and deficit grant by £5m to make good the difference between the expected out-turn and the £30m previously agreed.

I am copying this letter to the Prime Minister, the Home Secretary, the Secretaries of State for Employment, Scotland and Wales, to Sir Robert Armstrong and Mr Sparrow.

A handwritten signature in dark ink, appearing to read 'Nigel Lawson', with a large, sweeping flourish at the end.

NIGEL LAWSON

CEGB COAL IMPORTS

<u>Arrivals from Australia (mt)</u>	<u>Imports into UK (mt)</u>	<u>Balance of arrivals</u>	<u>Costs (£m)</u>		
			<u>1983/84</u>	<u>1984/85</u>	<u>Total for two years</u>
2.3	0.75	stocked	30	40	70
2.3	0.75	sold	50	55	105
1.15	0.75	stocked	50	30	80
1.15	1.0	stocked	45	30	75
0	0.75	-	85	20	105

The 1983/84 costs are based on CEGB estimates and are subject to considerable uncertainty particularly where contractual renegotiation is involved. Compensation to suppliers occurs in 1983/84. The 1984/85 costs assume unchanged prices from the previous year.

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