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Treasury Chambers, Parliament Street, SW1P 3AG
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Andrew Turnbull Esq
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London SW1

Dear Andrew,

COAL/ELECTRICITY PRICES

... We spoke about the idea of obliging the CEGB to pay a higher price for coal, thus enabling us to reduce the subsidy to the NCB. I attach a note which convinces me that this would be a bad idea.

No copies made.

*Yours ever,
J O Kerr*

J O KERR

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COAL PRICES

In a competitive market place private sector firms will aim to produce goods to meet extra demand as long as the price they receive will cover their costs and allow them to make a reasonable return on capital. Such firms cannot fix the price in the market place in the way a monopolist can. They have to take whatever price they can get.

2. The Government's policy of "economic pricing" is directed at nationalised industries which have monopoly power. The aim is to mirror what happens with private sector firms in a competitive market place - ie a price which enables these nationalised industries to cover costs and earn a reasonable return when meeting extra demand.

3. The market for coal is competitive and so automatically produces a market price which is consistent with "economic pricing". The competition to the National Coal Board (NCB) comes from imports. The market price is the price at which these imports are available. The Central Electricity Generating Board (CEGB) pays this price for the coal it buys from the NCB. This means it is paying the right price.

4. What is wrong is that, at this price, the NCB makes losses. In the private sector, a firm that made losses would have to cut its costs or go out of business. The NCB needs to cut its costs. The way to do this is to close loss making pits.

5. In brief, the real problem is not that coal prices are too low but that NCB costs are too high.

6. In economic terms the right way to handle this is to cut NCB costs. It would not be right to force the CEGB to pay an uneconomic high price for coal. This would put industries which used large quantities of electricity at a competitive disadvantage through no fault of their own.

7. In political terms, the aim is to focus attention on the need to close loss-making pits. This aim is best served by making the NCB's losses plain for all to see, and not by disguising the losses by forcing the CEGB to pay an unreasonable price for coal.