C

PRIME MINISTER

21 June 1985

LUNCH WITH THE NCB EXECUTIVE, MONDAY 24 JUNE

Your lunch with the NCB Executive provides an unusual opportunity to test the direction of Ian MacGregor and his management team.

You could ask:

1. How long does the NCB expect to enjoy a favourable climate during which the restructuring of the industry can proceed, without renewed confrontation and obstruction by the NUM?

2. How much resolve does the NCB Executive have over the terms of reference for the Modified Colliery Review Procedure? Earlier this week we got reports that James Cowans, leading the NCB negotiating team, was prepared to drop an explicit reference to "uneconomic pits" as one of the criteria for pit closure. Now we understand that Ian MacGregor has insisted that the explicit reference should stand. Does this mean a prolonged stalemate? How critical is the establishment of the Modified Review Procedure to the NCB's recovery plans? Do they intend to press ahead and implement the closure programme under the existing Colliery Review Procedure? If so, will this mean further delays?

3. NCB's Plans. We are unlikely to receive NCB's Corporate Plan much before December. The latest IFR forecasts show a continuing high cash requirement from Government:

	1986/87	1987/88	1988/89
	£m	£m	£m
NCB's EFL	750	700	575
Redundant mineworkers' payments	300	320	325
TOTAL:	£1,050m	£1,020m	£900m

In revenue accounting terms (historic cost basis) break-even is achieved by 1987/88. Presentationally this is important, so you will no doubt want to test the robustness of the forecast. To what extent does it depend on the rapid implementation of the closure programme announced so far:

COLLIERY CLOSURE PROGRAMMES

Area	Total employed	Jobs to go	Pits to close	Remarks
Western	17,000	—	—	Heavy investment
S. Midlands	10,000	2,030	2	"Super-pit" to open
N. Notts	16,800	—	—	—
S. Notts	11,000	—	2	Some voluntary redundancies
N. Derby	10,100	240	1 (workshop)	Most men to be transferred
Scotland	11,000	800	2	New jobs to go from no specific pits
North-east	22,000	2,500	2	Plus one workshop
Yorkshire	49,500			
North		1,000	1	Two other pit closures agreed before strike
Barnsley		3,000	2	Plus mergers of others
South		2,800	2	Large job cuts at three others
Doncaster		2,500	—	Eight pits affected
South Wales	19,500	1,800	3	Two further closures possible
Kent	2,200	700	—	Review in abeyance

Source: NCB

4. What assumptions have been made about productivity and disruptions due to industrial relations problems? How vulnerable is the NCB to a weak coal market, once the CEGB has rebuilt its coal stocks? Do the NCB's plans allow for the CEGB's understandable concern to achieve greater supply security, for example by making full use of imported electricity via the Cross-Channel link with France? How does Malcolm Edwards see the industrial market for coal? How sensitive are the NCB's marketing plans to a higher exchange rate against the dollar - the pricing basis for internationally-traded coal?

5. Is the Plan worth £1 billion a year? What further pit closures and redundancies are in prospect beyond those announced over the last month or two? Ian MacGregor has recently been quoted as saying that the future size of the coal industry will be determined by its customers. That is self-evident, although it does reveal the fundamental difference of emphasis between a supply-driven outlook and a market-orientated approach. Hopefully the notion of a Plan for Coal - in the sense of a rigid supply-related target, based on wishful thinking about energy markets - is dead. What is the new concept around which the NCB will be formulating its Corporate Plan?

6. Has the NCB management learnt from visiting US deep-mining operations. (Earlier this year, NCB Board

members were reported as being impressed by the US productivity rate, where face workers earning about $40,000 a year achieve output several times that of British miners on similar faces and using similiar equipment.) You could refer to the NCB's continuing £800 million per annum capital expenditure programme. Is it possible that a new balance should be struck between capital investment and the productivity of face workers utilising the assets created - highly-paid, highly-productive face workers requiring less investment? Could this transform the economics of existing pits, and postpone the need to make very heavy investment in the next generation of super pits?

If not, what realistic hope is there of achieving break-even in cash flow terms? Won't the next 3 years of capital investment at £800 million per annum be followed by an even more intensive rate of investment in the new pits?

7. NUM rule book, and the prospects of the changes being endorsed? What is the outlook for the structure and complexion of the NUM? What are the prospects for a decentralised NCB structure inducing a corresponding decentralisation of the NUM? How does the Executive regard the formation of a break-away union of moderate miners?

You might get some pleading from the Executive to be left to get on with the job, unimpeded by Whitehall pressures to produce carefully documented forecasts and exercises such as the Corporate Plan. They should be left under no illusion that any private sector organisation with the NCB's track record and prospects would be subject to even more rigorous scrutiny by bankers, analysts and shareholders.

JOHN WYBREW