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cc JW

BT

For discussion at next
Policy Unit meeting with
PM

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PRIME MINISTER

12 July 1985

All this is dependent on getting the
management right first AT.217

Speed up

COAL INDUSTRY STRUCTURE

We have argued that a "Plan for Coal" - in the sense of ordained production targets, based on wishful thinking about the market for coal - is an unsound basis for the industry. What we need is a "Structure for Coal".

What differentiates the UK coal industry from our vigorous profitable oil industry is not a lack of customers, competitive sources of supply, skills, or - potentially - access to private sector finance. The crucial difference lies in the rigid, monolithic structure of the coal industry. The NCB/NUM nexus locks in inefficiency, links the industry to the taxpayer rather than the customers, and allows it to become a political battlefield.

Restructuring the coal industry on business lines can't be done in one gulp. Before getting into detail, it would be worth considering the strategic choice. We see two broad options:

- The first - bold but more risky - seeks to capitalise on the defeat of the strike and the recent initiative of the Nottinghamshire miners. It also need room in the 1986-87 Legislative Programme for a bill which would remove NCB's monopoly control of all UK coal production and privatise part of the of NCB in this Parliament.

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- The second option aims, as it were, to "work with the grain", recognising that significant progress towards a restructured coal industry can be made ahead of such legislation. It is based on the judgment that the risks of presenting Scargill with a pretext for disruptive political action ahead of the next Election may be too great.

OPTION 1: EARLY LEGISLATION, ACTION IN 1986-87

This might involve three steps:

1. Transfer authority to license coalmining from the NCB to the Department of Energy. NCB cannot remain the regulator of the industry if there is to be commercial independence within it.
2. Privatise all NCB open-cast operations, by region, locality or site. Open-cast pre-tax profits were £210 million in 1983-84. NCB has given open-cast a low priority, so it might be increased to, say, £250 million, or £160 million net of tax. On a price/earnings multiple of 10, open-cast could realise £1.6 billion.
3. Arrange a management/employee buy-out of the Nottinghamshire coalfields, on attractive terms.

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These steps might secure perhaps 40 mt pa of reliable output. The rump of the industry might be given the proceeds of the open-cast sale, on the understanding that no further calls for cash would be considered for a period. One would hope that other areas - such as North Derbyshire or Western - might wish to follow Nottinghamshire. The NCB would be under pressure to finance itself by floating off further companies, and selling its land holdings.

OPTION 2: "WORKING WITH THE GRAIN" - DELAYED LEGISLATION

This option builds on Ian MacGregor's intention to decentralise the NCB and encourage Area Managements to find new and more productive modes of operation through local initiatives. This would entail the following measures, some of which are already in train: *(It could also incorporate 1 or 2 of Option 1)*

1. Rapidly implementing the closure of uneconomic pits, matched by the rundown of manpower. The NCB are aiming to reduce deep-mined production capacity to 90 mt pa, but the market probably won't bear this, and NCB's plans should provide for further downward flexibility.
2. Underpinning the transition from the old structure to the new, with intensified efforts to regenerate private business enterprise in the old coalmining areas which have no future in the new scheme of things.

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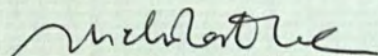
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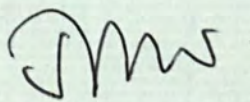
3. Radically decentralising NCB's deep-mining operations, establishing them as Regional Business Units. Without legislation, subsidiary companies cannot be formed, but this need not impede the rapid creation of their equivalent.

The Regional Business Units should be given authority to formulate their own business plans, compete for capital (on a commercial basis), conclude pay and productivity schemes appropriate to local circumstances, and develop and serve their own markets in competition with the other Units. Those regions with a moderate workforce should be encouraged to explore the potential, both for investors and mineworkers, of a new and substantially more efficient relationship between manpower (pay/productivity) capital investment and technology.

4. Lifting the CEGB's commitment to purchase 95% of its coal requirements from the NCB until 1987, thereby exposing the UK coal market to international competitive forces.

You may wish to consider which of these options you would like to see pursued.


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