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10 DOWNING STREET

From the Private Secretary

29 July 1985

MEETING WITH LORD MARSHALL: ENDURANCE

When Lord Marshall met the Prime Minister today he spoke about his fears for another coal strike. He did not believe the NUM would attempt a strike during the coming winter but could well do so in the winter after that. If such a strike were attempted the workforce of the CEGB would come under much greater pressure than it had last time. He doubted whether the breakaway by the Notts area would succeed convincingly. The new union would not achieve TUC support. In the next strike CEGB employees belonging to GMBATU and TGWU (both unions being under new leadership) would be instructed not to handle coal from the Notts area, as opposed to being advised in 1984. The CEGB workforce would find this pressure more difficult to resist.

The Prime Minister said the objective was to achieve coal stocks at power stations of 22 mt by March 1986. She hoped decisions would be taken to raise this to 31 mt by October 1986. Lord Marshall said CEGB could accommodate 35 mt if the Government wanted to go this far.

The Prime Minister argued that electricity consumers should pay the costs of holding stock at these very high levels as an insurance against interruptions to supply. Lord Marshall said the industry's financial targets were calculated on the basis that stocks of 14 mt were being held. If the cooperation of the CEGB workforce were to be secured, it was essential that the industry were not presented as being the agent of the Government in its struggle against the miners. This would best be done by building up stocks at power stations but adjusting the financial targets so that the costs were not passed on to electricity consumers. The Prime Minister pointed out that the effect of this would be to put the burden on the taxpayer irrespective of their consumption of electricity. The argument rested at this point.

SMH

ANDREW TURNBULL

Geoff Dart, Esq.,
Department of Energy.

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CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

29 July 1985

MEETING WITH LORD MARSHALL: THIRD TRANCHE COAL

When Sir Walter Marshall (by the time you receive this letter, Lord Marshall) came to see the Prime Minister today he set out the case for third tranche coal. First there were the industrial benefits from such a scheme. He argued that, under the present pricing system, the price of coal to large industrial users (via electricity generation) was loaded with costs from the uneconomic pits. The effect was to make it unprofitable to carry out certain industrial processes in this country and to drive them abroad, particularly to France. He disclaimed any intention, however, of seeking to match French subsidies. Secondly, he argued, there were benefits for the coal industry. It would provide those working in the newer, productive pits with an incentive to improve performance in the knowledge that this would lead to expanded markets. The NUM would oppose such a scheme as they favoured averaging the costs of the best and worst pits. By relating the selling price of coal to the costs of individual pits, there would be greater pressure on the NCB to close the uneconomic pits.

The Prime Minister said the opposite conclusion could be drawn. If the NCB were free to sell coal from the better pits at a lower price it would have less incentive to close the uneconomic pits, the cost of which would fall to the Exchequer. The NUM might well favour such an arrangement which allowed the industry to increase its sales while uneconomic pits continued in operation. It would be better to maintain a common selling price which would encourage the NCB to close those pits which could not break even at that price. Lord Marshall conceded that in a freely operating market this might be the best course but argued that the process of closing uneconomic pits was bound to take time. By the time the coal industry was brought into balance large scale users of electricity might well have migrated elsewhere.

No agreement emerged from this discussion during the course of which the following points were also made:

(i) Lord Marshall argued that NCB nearly broke even on steam coal and made the bulk of its losses on coking coal.

(ii) If the third tranche applied to 4 million tonnes it would be necessary to stimulate only an additional 1½ million in order to make up the revenue from cutting the price from £44 to £32 per tonne. He thought this was a feasible objective.

I am copying this letter to Rachel Lomax (HM Treasury).

ANDREW TURNBULL

Geoff Dart, Esq.,
Department of Energy.