

CF
BF for
Chancellor's
next bilateral.
DEW
PRIME MINISTER 10/9

Prime Minister

Agree to discuss at your
next bilateral with the
Chancellor?

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(1) Yes - on
a personal basis.

DEW
6/9.

5 September 1985

STRATEGY FOR THE COAL INDUSTRY

The strategy will have
to be considered
at the meeting with Mr. Walker - look
for the coming year
and when the
new chairman
of the NUM is released
etc

Nigel Lawson's proposals are most welcome: they
correspond pretty closely to the more radical of the two
options which we put to you in July.

If these proposals are not adopted, the efforts of the
last two years may be frittered away. It is naive to suppose
that better management and more room to manage by themselves
will solve the industry's problem, which is fundamentally a
structural one. A statutory monopoly, underwritten by the
taxpayer and protected from imports, is bound to produce
creatures like Scargill. The solution is to marginalise the
NUM by fragmenting the industry and making it compete with
itself, and with others. Once miners become accustomed to
negotiating with regional employers, and to drawing (in some
cases) substantial productivity bonuses, they are less likely
to be rallied by the NUM.

The issues which you should discuss with Nigel are:

- 1. Objectives: do we need the NCB?

Clearly the 1946 Coal Industry Nationalisation Act needs
to be amended to allow privatisation and competition.

(The Act begins "There shall be a National Coal Board
which shall . . . be charged with the duties of working

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and getting the coal in Great Britain, to the exclusion of any other person . . .".) Open-cast should be broken out. NCB must regionalise itself and negotiate on that basis. National pay awards should be discontinued.

← You should question whether a national organisation need remain in the longer term. While the NCB exists, the NUM has somebody to talk to. While NCB exists, decentralisation won't be a reality. But Nigel's note argues for NCB's continuation "to ensure that appropriate levels of investment are made in Nottinghamshire and elsewhere". NCB's record on investment appraisal is poor. It has deprived the taxpayer of his returns on open-cast and the profitable pits, and has thrown them down the black holes in Wales, Scotland and elsewhere. NCB investment appraisal was heavily criticised by the MMC. Its demand forecasts have been wildly wrong. We doubt its competence, because it believes, fundamentally, in mining coal for its own sake.

Without NCB, Department of Energy and Treasury will have to deal separately with Regional Coal Boards' EFLs and investment plans. More work for them, but worth it surely?

The way to dissolve the NCB is to set it an EFL which forces it to float off part of itself, eg by management/-employee buy-outs in Nottinghamshire, and to phase itself out in the uneconomic coalfields. The NCB is an

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unnatural monopoly, and has no place in our long-term thinking.

2. Timing and Tactics

Peter Walker will argue that getting to the break-even point is our first priority, and the 1985 Plan will achieve this. Structural change should be left aside until the next Parliament.

This is an illusion. A centrist NCB, dealing with the NUM, will never break even. The NCB persistently overestimates demand and underestimates the closures which will be necessary. For example, in 1980, NCB forecast a demand in the Year 2000 of 170 million tonnes. An independent source - Professor Colin Robinson, in "What Future for British Coal?" (1981) - put the figure at around half this level. In any case, break-even represents a nil return on the taxpayers' billions. So we need a programme for this Parliament.

The politics of change would be easier if we could create a constituency in favour of privatisation among the miners who would stand to benefit from it. The Nottinghamshire miners have not reached this point yet. But if we legislated in 1986-87 to remove the monopoly, transfer licensing to DEN, privatise open-cast in that session, and regionalise the NCB, the progressive Midlands miners would see that privatisation of coal

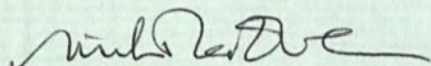
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production was both an option, and that it worked. They might vote for it in 1987-88.

The bolder alternative would be to privatise some deep-
mined coalfields in this Parliament. The conclusions of
the strike have prepared the public for something as
radical as this. If we wait for the next Parliament, the
mood may have passed.


NICHOLAS OWEN

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