10A. 2

CC BG

CC Home off

CC CDL's off

PRIME MINISTER

Copy No 1 of 8

COAL STOCKS AT CEGB POWER STATIONS

At our meeting in July we agreed to ask the NCB and the electricity supply industry (ESI) to aim to maintain coal deliveries at the maximum rate throughout the winter of 1985/86 to provide a stock level of some 22mt by the end of March 1986. That level of stocks in the Spring would enable stocks to be built up subsequently so as to give even higher levels of endurance, if the situation warranted it. We agreed to review the situation in December and are meeting on 19 December for that purpose.

THE INDUSTRIAL RELATIONS SITUATION

The general climate now looks much more favourable than it did in July. The summer delivery programme proceeded smoothly and successfully with stocks reaching over 23mt by early November. No difficulties are seen at present in being able to achieve the planned target of 22mt by the end of March 1986, provided that the weather is not exceptionally severe this winter. The coal fields are returning to normal and productivity is increasing markedly. There is no problem with the availability of coal for the CEGB.

What level of stocks to aim at beyond March 1986, requires a careful assessment of the likely risks of major industrial action in the coal industry. At present, the risks seem less than for some time. Scargill's authority has clearly been damaged by the outcome of the strike and its aftermath. The establishment of the UDM (which was registered on 6 December) and its prospects for further growth are encouraging. Even within the NUM, Scargill has suffered significant reverses. While the risks cannot be completely discounted, my judgement is that Scargill will not, in the near term, be able to rally his members for industrial action if there is no prospect of other support in the coal fields e.g. from the UDM or NACODS.

As far as the UDM is concerned there is no issue on the horizon over which they and the NCB should fall out and it should be within the power of the Board to ensure that this remains the case. I therefore judge the risk of an all-out stoppage involving both the NUM and UDM over next winter as small.

The position with NACODS is not so clear cut. General relations between the Board and NACODS are poor and a dispute could arise either over pay or some aspect of the closure programme. The NUM might be prepared to make common cause with NACODS which could lead to industrial action. However, it seems likely that UDM members would not support such action and therefore that the deputies in the Midlands and Nottinghamshire would come under intense local pressure to return to work. So, even a NACODS inspired stoppage seems likely to be patchy and probably short lived.

It is vital that nothing is done to provoke the UDM into joining with the other unions in some major stoppage. But the Management have that very much in mind, as should we, in considering our posture on coal stocks. The UDM areas should be able to produce 400kt of coal a week and this makes a very significant contribution to endurance.

COAL PRODUCTION AND PIT CLOSURES

The NCB has made good progress in bringing about pit closures since the strike. But much still remains to be done if they are to break even by 1987/88. We await their fully worked business plan. However, in building up coal stocks, we would not want to adopt a coal delivery programme that would mean delaying the closure of uneconomic pits that ought to be closed.

Assuming you agree that the risk of a strike next winter is low.

COAL STOCKS

A range of options is open to us, but the starting point should be that programme of coal delivery and stocks which minimises the cost to the PSBR and can be sustained by NCB production at a level that avoids delaying pit closures.

If we assume a stock of 22mt at the end of March 1986, a "normal" summer delivery programme to the end of October might consist of 41mt from the NCB and 2mt from non-vested production and contracted imports. Against this the CEGB might be expected to burn 38mt, leaving a total stockbuild of up to 5mt. Such a programme should be comfortably possible without any effect on the NCB's present plans. Thus, at no cost to the PSRB, a "normal" coal purchase profile for the next financial year would raise stocks to around 27mt by the end of October. This would represent some nine months' endurance assuming no coal deliveries; 400kt a week, from UDM areas, would extend the endurance to the first quarter of 1989.

There are options to build up the level of stocks more rapidly from March 1986 onwards. For example, stocks of 32mt and endurance of 12 months (even with no coal deliveries) would require a further 5mt to be delivered during the summer of 1986. NCB might, with difficulty, be able to deliver an extra 2 - 3mt. The balance would need to be met by non-vested suppliers (say up to 1mt at an increased cost of £32m to the PSBR) and by imports (say 1 - 2mt at a cost of £37m - £47m).

Getting to the same target by means of oil burn would be more costly in PSBR terms than the £69 - 106m suggested above.

An intermediate target about 27mt but below 32mt could, however, be achieved at no cost to the PSBR, but only if the NCB can meet the higher production required and maintain quality. The CEGB doubt whether this is achievable.

THE ESI'S FINANCES

In addition to the PSBR implications we must consider the effect on the ESI's financial position. So far the industry has been prepared to build stocks up to the 22mt target by end-March 1986 on the understanding that EFLs are adjusted to take account of this. This is being done for the 1985/86 EFL, but the outcome of the IFR discussions already makes it difficult for them to meet the extra costs involved in the IFR years. A stockbuild to 32mt by the end of October implies stocks of around 27mt at the end of the 1986/87 F.Y. (i.e a net stock build in the financial year of 5mt). It is clear that the industry will refuse to accept the financial burden of such additional stocks and will press for special payment arrangements or some other form of Government financial assistance.

CONCLUSION

It is for decision, therefore, what level of stocks we ask the two industries to plan for in October 1986. Subject to your, and colleagues', views my judgement is that there is no justification in the present climate for aiming at a greater level of security than would be obtained by stocks of 27mt at the end of October on the basis of no net stockbuild in 1986/87. Sufficient flexibility would remain in the system to move towards a higher level of security by accelerated deliveries, imports, or even oil burn, if the industrial relations climate worsened perceptively over the next six months or so.

I am copying this to Nigel Lawson, George Younger and Sir Robert Armstrong.

SECRETARY OF STATE
FOR ENERGY
12 December 1985

010

NBM. 10

SECRET

P 01830

From: J B UNWIN
12 December 1985

BRIGADIER BUDD

c Mr Norgrove - No 10

COPY FOR

COAL STOCKS: ENDURANCE

Mr Manley at the Department of Energy has reported the latest position to me as follows.

2. Mr Walker has approved the paper to be sent to the Prime Minister on the following lines. First, the NUM is in such disarray that there is no foreseeable risk on the industrial relations scene. No further action beyond that already in train is, therefore, required, although the position must, of course, continue to be monitored closely.

3. Second, so far as coal stocks are concerned, total stocks are expected to be around 22 million tonnes at the end of the present financial year. The Department's estimate is that, by taking all NCB coal available, these stocks will be up to some 27 million tonnes by next autumn, equivalent to about 9 months endurance. This will not involve any additional PSBR cost. It will avoid having to keep any extra pits open in order to produce additional coal, and will not require imports or any other special measures. By contrast, action to build up stocks by next autumn to the magin 31 million tonnes, could cost about an extra £100 million on the PSBR.

4. Mr Walker's recommendation is, therefore, in favour of the above no extra cost course; and his Office will suggest to No 10 that the meeting with the Prime Minister on 19 December is no longer necessary.

5. I asked how robust the above forecast was in face of, say, a very hard winter. Mr Manley said that it was pretty robust, although an exceptionally cold winter could reduce the autumn figure by 1 to 2 million tonnes.

6. Provided they accept the underlying arithmetic, the Treasury will presumably support the above analysis. You will recall that at the meeting in July the Chancellor did not want to go beyond building up a stock of 6 months endurance. Mr Manley said that the Department will be going over the numbers with the Treasury today. It would be useful, therefore, if you could make contact again and dicover

where matters stand "at working level".

7. Unless the Prime Minister is still set on building up to the 1 year endurance figure of some 31 million tonnes, it may well be that we shall not need a meeting next week. But I should be grateful if Mr Norgrove would consult me before any decision about changing the present arrangements is made.

J. Hensen

pp J B UNWIN