

CONFIDENTIAL



SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

The Rt Hon John MacGregor OBE MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Re Munk

N

14/8

14 August 1986

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OBJECTIVES FOR NEW CHAIRMAN OF BRITISH COAL

As you know, Bob Haslam takes over as Chairman of British Coal at the beginning of next month. I have been considering what objectives he should be given; my proposals are set out in the enclosed draft letters. They have been discussed informally with him, but it has, of course, been made clear that they are subject to discussion with my colleagues.

As you will see, it is envisaged that there would be a short set of published objectives, broadly on the lines of those given to Ian MacGregor but with more precision. In addition there would be a side letter, not for publication, dealing with two related matters on which the incoming Chairman needs to have some indication of our broad intentions - a capital reconstruction and the transfer of full financial responsibility to British Coal for the costs of future restructuring and redundancies.

*if the letter
can
be
published?*

The financial objective is to achieve break-even for 1988/89 as a whole, although the hope is expressed of breaking even in the latter part of 1987/88. It is already widely recognised both inside and outside the industry, that, following the loss of revenue which British Coal have suffered as a result of the collapse in oil prices, any more ambitious objective would simply not be realistic. There will for the first time be a quantified performance objective expressed in terms of real reduction in costs per gigajoule of coal produced. This will apply to mining activities taken as a whole, leaving it to the management to decide what the mix of deep-mined and opencast operations should be. The actual figure can be decided when we have completed our consideration of British Coal's plans and prospects in this year's IFR.

In the draft side-letter you will see that it is indicated that the capital reconstruction is unlikely to be before 1988/89. I am certain, as is Bob Haslam, that to attempt this earlier would be premature and would make it more difficult to achieve the rapid

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progress we seek in restructuring the industry. Redundancy and restructuring costs are likely to be heavy in 1987/88 and we need to get those behind us before attempting a new capital structure. Moreover a reduction in interest charges could be used by the unions as an argument against closures in the Colliery Review Procedure.

The references to the possibility of a capital reconstruction are balanced by the statement that, when this has been achieved, British Coal will assume full responsibility for the costs of future redundancies and restructuring. There is also a reference to a reduction in Exchequer support for those costs in advance of a capital reconstruction. The amount of any such reduction will however need to be very carefully judged. We must not give the new Chairman and his management a totally impossible task in attempting to break even within a reasonably near timescale. Indeed he will need a broad indication of our intentions about reduction of Exchequer support before he can accept the proposed financial target, and this should emerge from the current IFR.

I should like to reach agreement on these texts with Bob Haslam before he takes over as Chairman on 1 September. The letters would not however be sent until the IFR has been completed and the numbers settled. The objectives, but not the side-letter, would then be published, probably in the context of the debates on the forthcoming Coal Industry Bill.

I am sending copies of this letter and enclosures to the Prime Minister and Sir Robert Armstrong.

A large, stylized handwritten signature in dark ink, appearing to be "Peter Walker".

PETER WALKER



DRAFT OF 6.8.86

BRITISH COAL OBJECTIVES

1. Coal production, like any other business, must earn a satisfactory return on capital while competing in the market place. The basic objective of British Coal must be to earn a satisfactory rate of return on its net assets and achieve full financial viability without Government support. British Coal should accordingly aim to improve its profitability so as to achieve, after payment of interest and accrual of social grants, breakeven for the year 1988/89 as a whole (though it is hoped that a breakeven position might be attained during the latter part of 1987/88) and thereafter generate an increasing surplus on revenue account and to contribute increasingly to self financing.

2. British Coal should aim to maximise its long-term profitability by concentrating on low-cost production and on those sales which maximise profit on a continuing basis in competition with other fuels. It should plan its marketing, production, capital investment and research and development accordingly, bring productive capacity into line with its continuing share of the market, and ensure an adequate return on new capital investment.

3. British Coal's objective should be to ensure that over the period to 1989/90 the operating costs of its

... mining



mining activities per gigajoule of coal produced are reduced in real terms by []%, compared with the level recorded in 1985/86.

4. Either British Coal or the Government may propose additional objectives from time to time: any consequent adjustment to existing objectives would need to be discussed.



DRAFT OF 6.8.86

DRAFT SIDE LETTER.

[My separate letter of today's date] says that the basic objective of British Coal is to achieve full financial viability without Government support. It also sets the specific objective of achieving breakeven for the year 1988/89 as a whole. This specific objective is defined by reference to the accounting profit or loss after payment of interest and accrual of social grants.

2. In this context, it may be helpful if I set out the Government's provisional thinking on the future capital structure of the Board and on future support for the coal industry's redundancy and restructuring costs.

Capital Structure

3. On present information, the Government does not believe that the amount of the Board's remunerable capital is significantly out of line with the value of the Board's assets. That capital is, however, wholly in the form of loans from the National Loans Fund. The resulting high level of interest depresses profits shown in the Board's accounts and entails a higher gearing ratio in the balance sheet than is normal among extractive industries in the private sector.

... Provided



Provided that British Coal had made and was continuing to make satisfactory progress towards achieving its objectives, the Government would have it in mind, at the appropriate time (which would be unlikely to be before 1988/89) to propose to Parliament a reconstruction of the Board's capital. This reconstruction should enable a restructured coal industry, operating profitably in the market place, to meet its own future redundancy and restructuring costs; it would be likely to include the conversion of a significant part of the Board's debt to capital bearing a rate of dividend which would vary with the Board's profitability.

Redundancy and Restructuring Costs

4. For many years, successive Governments have made substantial contributions towards meeting the costs of restructuring the coal industry and of the redundancies unavoidably entailed by that restructuring. This has been made necessary by the scale of the costs and the condition of the industry's finances. Nevertheless, they are costs which, in most other industries, are borne wholly or mainly by the employer; and in principle it seems right that decisions about them should be taken by the employer, in consultation with his workforce, in the light of his assessment of the needs and circumstances of his business.

... 5. It is



5. It is in accordance with this approach that the Government has decided to end the Redundant Mineworkers Payments Scheme from March 1987. It is also the Government's intention that the new system of social grants to be proposed in the forthcoming Coal Industry Bill should allow a reduction in Exchequer support for the industry's future redundancy and restructuring costs. Any such reduction would, of course, take full account of the industry's objectives as set out in my separate letter of today's date, its financial prospects, and the potential effects on the motivation of management and workers. Further, if a reconstruction on the lines of paragraph 3 above were approved, the Government believes that there would be advantage to both sides if the Board were to bear, out of its increased accounting profits and without financial support from Government, all costs arising from redundancies and restructuring after the effective date of reconstruction.

023/2984



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London
SW1P 4QJ

6th March 1987

Dear Peter,

OBJECTIVES FOR THE CHAIRMAN OF BRITISH COAL
at 11ap

Thank you for your letter of 2 March.

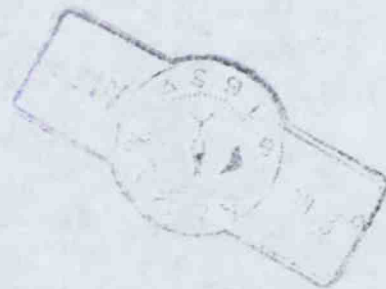
I am now content that you should announce
Sir Robert's objectives.

I am copying this letter to the
Prime Minister and Sir Robert Armstrong.

Yours,
John

JOHN MacGREGOR

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CCBG



SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

NBM.

The Rt Hon John MacGregor OBE MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

2 March 1987

[Handwritten signature]
Thank you for your letter of 15 February to Alick Buchanan-Smith.

16TH FEB, at 11am

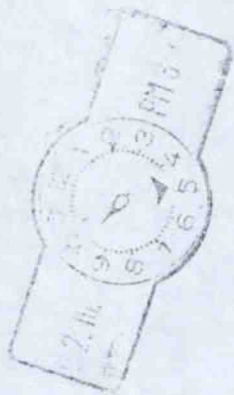
I do not expect any unwillingness on Bob Haslam's part to provide information on the strategic issues set out in your letter of 16 January. As Alick said in his letter of 11 February, we obtained at one stage or another in the 1986 round most of the information you mention; and I have every hope that we shall get it in future in a more structured form that we can pass to your officials. What is new is Bob Haslam's offer to discuss these strategic issues in depth with David Hunt and myself, so that we can explore with him personally the implications of the information he provides. I think this is an important step forward.

I hope you are now content that I should announce his objectives.

I am copying this letter to the Prime Minister and Sir Robert Armstrong.

[Large handwritten signature]

PETER WALKER





Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Alick Buchanan-Smith
Minister of State
Department of Energy
Thames House South
Millbank
London
SW1P 4QJ

16th February 1987

NBM

Dear Alick,

OBJECTIVES FOR CHAIRMAN OF BRITISH COAL

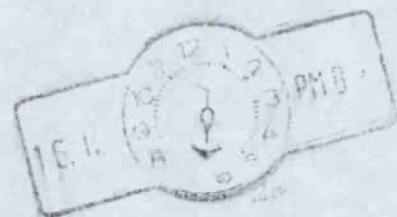
Thank you for your letter of 11 February.

I am glad that we are at one in trying to get a clear understanding of where the Corporation is trying to go in relation to its financial objectives. But in my letter of 16 January to Peter Walker, I was looking for something more than simply an "opportunity to explore" these issues. More specifically, I was looking for an assurance that your or Peter's understandings with Sir Robert gave us a firm expectation that the information along the lines summarised in my letter will be available.

I am copying this letter to the Prime Minister and Sir Robert Armstrong.

Yours,
JH

JOHN MacGREGOR





THE MINISTER OF STATE

DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ

Direct Line 01-211 3290
Switchboard 01-211 3000

The Rt Hon John MacGregor OBE MP
Chief Secretary
Treasury Chambers
Parliament Street
London
SW1P 3AG

11 February 1987

NBM.

Mr John,

OBJECTIVES FOR CHAIRMAN OF BRITISH COAL

Thank you for your letter of 7 January to Peter Walker. I am replying in Peter's absence due to illness.

I very much welcome your acceptance of the proposals for the level and coverage of grant towards restructuring costs, and your agreement to the cost reduction target of at least 20%.

I also share your view of the importance of getting a clear understanding of where the Corporation is trying to go in relation to the financial objectives we have set. During 1986 we obtained most of the information to which you refer in your letter, and our aim will be to get similar strategic information in 1987.

This will be a suitable opportunity for us to explore with Bob Haslam how the Board's own operating parameters relate to the targets for profit, cost reduction, and investment returns. When British Coal have prepared their medium and longer-term strategy and their Business Plans David Hunt will be seeking an opportunity to explore with Bob Haslam how British Coal's own operating parameters relate to the targets for profit, cost reduction and investment returns.

I hope that on this basis you are content with the side-letter attached to Bob Haslam's objectives. If so, I propose to announce the objectives by means of an arranged PQ at the earliest opportunity.

I am copying this letter to the Prime Minister and Sir Robert Armstrong.

Your ever,
Alick

ALICK BUCHANAN-SMITH

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CC: BG



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London
SW1P 4QJ

NBPN

16th January 1987

Dear Peter,

OBJECTIVES FOR CHAIRMAN OF BRITISH COAL

Thank you for your letter of 7 January.

My officials have spoken to yours about the proposed coverage and rate of grant towards social costs. It is clearly unsatisfactory that we are now being asked to establish a regime that is more generous than previously understood between us. I accept, however, the primacy of the break-even target and am prepared to accept your proposals on the basis that they strengthen Sir Robert's commitment to it.

I am content with the cost reduction target of at least 20 per cent in Sir Robert Haslam's objectives. My remaining concern is with Sir Robert's unwillingness to be more open about British Coal's internal operating parameters and the progress being made against them. Such information need not extend to results at individual pits; but we need a better understanding of how the operating parameters sit with his objectives to improve profitability, to ensure an adequate return on new capital investment, and to reduce operating costs. I therefore feel unable to accept the present draft unless you can give me more assurance of what Sir Robert's "keeping you informed" will mean in practice. I would certainly expect that the substance of the draft agreed between us can be met. At a minimum this requires an annual breakdown of output and investment by band of operating cost, an indication of

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the sensitivity of the aggregate results to changes in the parameters, and a regular and prompt flow of monitoring information against them. Much of this material should be in the annual corporate plan, which I trust we will be seeing soon.

As my office told yours, I was anxious not to stand in the way of your making an announcement on 15 January. But I understand that you preferred to consider on the basis of a letter.

I am copying this letter to the Prime Minister and to Sir Robert Armstrong.

Yours ever,

A handwritten signature, appearing to be 'JH', is written below the closing 'Yours ever,'.

JOHN MacGREGOR



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
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The Rt Hon John MacGregor OBE MP
Chief Secretary
Treasury Chambers
Parliament Street
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SW1P 3AG

OBJECTIVES FOR CHAIRMAN OF BRITISH COAL

Since your letter of 19 November I and my officials have held further discussions with Sir Robert Haslam about his objectives as Chairman of British Coal. Those discussions have not been easy.

RESTRUCTURING COSTS AND GRANTS

A key issue, as we expected, was the rate of assistance for British Coal's redundancy and restructuring costs in respect of events after March 1987. I pressed Sir Robert hard to accept that this assistance should be less generous than the existing system. However, he insisted that he could not agree that it should leave British Coal with significantly larger net costs than assumed in their IFR bid.

In essence, this means two things:

- (a) that coverage of grant should be extended to all redundancy and restructuring costs, including, in particular, those of British Coal Enterprise; and
- (b) that the rates of grant should be 75% in 1987/88, 72½% in 1988/89 and 70% in 1989/90.

My officials can give yours full details.

The extension of coverage I believe to be justified on merits: it will make for simpler administration, avoid artificial distortions in British Coal's decisions, and allow the percentage rate of grant to be kept to a minimum.

On the rate of grant I have had to take into account Sir Robert's increasing concern about the market for coal over the next 2 or 3 years - especially, though not only, sales to the electricity supply industry. I intend to discuss this with him shortly. Meanwhile however, I am sure that it would be wrong to fix lower rates of restructuring grant than those which he is prepared to

CCBG

PM

Prime Minister 2

You may wish to see the letter attached to this minute which sets out objectives for Sir Robert Haslam.
7 January 1987

This has now only to be agreed finally with the Treasury.



live with, as consistent with his commitment to the breakeven target for 1988/89. You will be aware that the rate of grant has no effect on the PSBR or public expenditure nor indeed on the terms which British Coal will apply to industrial redundancies after March 1987, as these have already been settled and announced.

OBJECTIVES AND SIDE-LETTER

On the objectives, the main outstanding issue was the cost reduction target. I am glad that Sir Robert has now agreed to accept a target of "at least 20 per cent". He has also asked for a number of drafting changes, mainly to the side-letter, which are indicated in the attached revised text. You will see that he is not prepared to accept anything which might imply Government involvement in assessing the results of individual pits but he has agreed, in the specific context of concentrating on low-cost production and on those sales which maximise profit, to keep me informed of British Coal's evolving strategies and of the progress they are achieving against them. He has offered to discuss the practical arrangements for this. This is a valuable step forward and I shall keep the Treasury informed about the new arrangements when they are established.

I hope that we can now agree on the rates and coverage of the restructuring grant and on the texts of the objectives and side-letter. We need to settle the restructuring grant for the 1987/88 Supply Estimates. An appropriate occasion for announcing the objectives would be the Report and Third Reading of the Coal Bill due to take place on 15 January.

I am sending copies of this letter to the Prime Minister and Sir Robert Armstrong.

PETER WALKER

BRITISH COAL OBJECTIVES

1. Coal production, like any other business, must earn a satisfactory return on capital while competing in the market place. The basic objective of British Coal must be to earn a satisfactory rate of return on its net assets and achieve full financial viability without Government support. British Coal should accordingly aim to improve its profitability so as to achieve, after payment of interest and accrual of social grants, breakeven for the year 1988/89 as a whole (though it is hoped that a breakeven position might be attained during the latter part of 1987/88) and thereafter generate an increasing surplus on revenue account and to contribute increasingly to self-financing.
2. British Coal should aim to maximise its long-term profitability by concentrating on low-cost production and on those sales which maximise profit on a continuing basis in competition with other fuels. It should plan its marketing, production, capital investment and research and development accordingly, bring productive capacity into line with its continuing share of the market, and ensure an adequate return on new capital investment in accordance with the principles set out in the White Paper 'The Nationalised Industries' (Cmnd 7131).
3. British Coal's objective should be to ensure that over the period to 1989/90 the operating costs of its mining activities per gigajoule of coal produced are reduced in real terms by at least 20%, compared with the level recorded in 1985/86.
4. Either British Coal or the Government may propose additional objectives from time to time: any consequent adjustment to existing objectives would need to be discussed.

DRAFT SIDE-LETTER

1. [My separate letter of today's date] says that the basic objective of British Coal is to achieve full financial viability without Government support. It also sets the specific objective of achieving breakeven for the year 1988/89 as a whole. The subsequent rate of profit improvement is a matter for later discussion: I note, however, your present expectation of a £70 million profit in 1989/90.

2. Paragraph 2 of my separate letter asks you to maximise the long-term profitability of British Coal by concentrating on low-cost production and on those sales which maximise profit.
British Coal should keep me informed of their evolving strategies and of the progress they are achieving against them.

3. The objective of breakeven in 1988/89 is defined by reference to the accounting profit or loss after payment of interest and accrual of social grants. In this context, it may be helpful if I set out the Government's provisional thinking on the future capital structure of the Corporation and on future support for the coal industry's redundancy and restructuring costs.

CAPITAL STRUCTURE

4. On present information, the Government does not believe that the amount of the Corporation's remunerable capital is significantly out of line with the value of the Corporation's assets. That capital is, however, wholly in the form of loans from the National Loans Fund. The resulting high level of interest depresses profits shown in the Corporation's accounts and entails higher gearing ratio in the balance sheet than is normal among extractive industries in the private sector.
Provided that British Coal had made and was continuing to make satisfactory progress towards achieving its objectives, the Government would have it in mind, at the appropriate time (which would be unlikely to be before 1988/89) to propose to Parliament a reconstruction of the Corporation's capital. This reconstruction should enable a restructured coal industry,

operating profitably in the market place, to meet its own future redundancy and restructuring costs; it would be likely to include the conversion of a significant part of the Corporation's debt to dividend capital in a form appropriate to the coal mining industry.

REDUNDANCY AND RESTRUCTURING COSTS

5. For many years, successive Governments have made substantial contributions towards meeting the costs of restructuring the coal industry and of the redundancies unavoidably entailed by that restructuring. This has been made necessary by the scale of the costs and the condition of the industry's finances. Nevertheless, they are costs which, in most other industries, are borne wholly or mainly by the employer; and in principle it seems right that decisions about them should be taken by the employer, in consultation with his workforce, in the light of his assessment of the needs and circumstances of his business.

6. It is in accordance with this approach that the Government have decided to end the Redundant Mineworkers' Payments Scheme from March 1987. We have also agreed that it would be right that the extent of Exchequer support towards the Corporation's redundancy and restructuring costs under clause 3 of the Coal Industry Bill now before Parliament should be progressively reduced, while taking full account of the industry's objectives, its financial prospects, and the potential effects on the motivation of management and workers. For planning purposes we have agreed that the rates of restructuring grant should be 75% in 1987/88, 72½% in 1988/89 and 70% in 1989/90. Neither of us would expect these rates or the coverage of grant to be altered unless major changes in external business circumstances made it necessary. Further, if a reconstruction on the lines of paragraph 3 above were approved, the Government believes that there would be advantage to both sides if British Coal were to bear, out of its increasing accounting profits and without financial support from Government, all costs arising from redundancies and restructuring after the effective date of reconstruction.

NON-MINING ACTIVITIES

7. The Government welcomes British Coal's intention to continue to pursue the disposal of peripheral activities where suitable opportunities present themselves.



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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London
SW1P 4QJ

19 November 1986

*Dear Peter,**N B M***OBJECTIVES FOR BRITISH COAL'S CHAIRMAN**

Thank you for your letter of 14 November.

I am grateful for the efforts made to accommodate my concerns. I am prepared to accept the revised drafts as a satisfactory compromise. I am therefore content for you to seek Sir Robert's acceptance of the drafts, subject of course to your coming back should any substantive problems arise. I also look forward to receiving your proposal for the cost reduction target, which it would be helpful if your officials could first discuss with mine.

As I noted in my last letter, it is important too that we move quickly to reach a decision on the future rates of social grant.

I am copying this letter to the Prime Minister and Sir Robert Armstrong.

*Yours ever,**JH*

JOHN MacGREGOR

Coal: NAT INDI: P+20.





SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

WBM

The Rt Hon John MacGregor OBE MP
Chief Secretary
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

14 November 1986

will request if required.
OBJECTIVES FOR BRITISH COAL'S CHAIRMAN

Further to my letter of 12 November, I attach a revised draft Statement of Objectives for Sir Robert Haslam, together with a revised draft of the side-letter. The changes made are underlined and reflect recent discussions between our officials. I hope that you are now content for me to seek Sir Robert's acceptance of the revised drafts.

British Coal are currently revising the figure for the cost reduction target to bring it into line with the outcome of the IFR. I will let you have this as soon as it is available.

I am sending copies of this letter to the Prime Minister and Sir Robert Armstrong.

PETER WALKER

DRAFT

● BRITISH COAL OBJECTIVES

1. Coal production, like any other business, must earn a satisfactory return on capital while competing in the market place. The basic objective of British Coal must be to earn a satisfactory rate of return on its net assets and achieve full financial viability without Government support. British Coal should accordingly aim to improve its profitability so as to achieve, after payment of interest and accrual of social grants, breakeven for the year 1988/89 as a whole (though it is hoped that a breakeven position might be attained during the latter part of 1987/88) and thereafter generate an increasing surplus on revenue account and to contribute increasingly to self-financing.

2. British Coal should aim to maximise its long-term profitability by concentrating on low-cost production and on those sales which maximise profit on a continuing basis in competition with other fuels. It should plan its marketing, production, capital investment and research and development accordingly, bring productive capacity into line with its continuing share of the market, and ensure an adequate return on new capital investment with a view to achieving a real return of at least 5% on a progressively larger proportion of its total assets.

3. British Coal's objective should be to ensure that over the period to 1989/90 the operating costs of its mining activities per gigajoule of coal produced are reduced in real terms by at least []%, compared with the level recorded in 1985/86.

4. Either British Coal or the Government may propose additional objectives from time to time: any consequent adjustment to existing objectives would need to be discussed.

DRAFT SIDE LETTER

1. [My separate letter of today's date] says that the basic objective of British Coal is to achieve full financial viability without Government support. It also sets the specific objective of achieving breakeven for the year 1988/89 as a whole. The subsequent rate of profit improvement is a matter for later discussion: I note, however, your present expectation of a £70 million profit in 1989/90.

2. The target for reducing overall unit costs is intended to stand side by side with British Coal's internal parameters for the upper limits of acceptable operating cost at individual collieries and opencast sites. These internal parameters are an important means of ensuring the profitability of all the Corporation's capacity. The Government will wish to be assured that they remain relevant for this purpose, and to be kept informed on a prompt and regular basis of performance against them.

3. The objective of breakeven in 1988/89 is defined by reference to the accounting profit or loss after payment of interest and accrual of social grants. In this context, it may be helpful if I set out the Government's provisional thinking on the future capital structure of the Corporation and on future support for the coal industry's redundancy and restructuring costs.

Capital Structure

4. On present information, the Government does not believe that the amount of the Corporation's remunerable capital is significantly out of line with the value of the Corporation's assets. That capital is, however, wholly in the form of loans from the National Loans Fund. The resulting high level of interest depresses profits shown in the Corporation's accounts and entails a higher gearing ratio in the balance sheet than is normal among extractive industries in the private sector. Provided that British

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Coal had made and was continuing to make satisfactory progress towards achieving its objectives, the Government would have it in mind, at the appropriate time (which would be unlikely to be before 1988/89) to propose to Parliament a reconstruction of the Corporation's capital. This reconstruction should enable a restructured coal industry, operating profitably in the market place, to meet its own future redundancy and restructuring costs; it would be likely to include the conversion of a significant part of the Corporation's debt to dividend capital in a form appropriate to the coal mining industry.

Redundancy and Restructuring Costs

5. For many years, successive Governments have made substantial contributions towards meeting the costs of restructuring the coal industry and of the redundancies unavoidably entailed by that restructuring. This has been made necessary by the scale of the costs and the condition of the industry's finances. Nevertheless, they are costs which, in most other industries, are borne wholly or mainly by the employer; and in principle it seems right that decisions about them should be taken by the employer, in consultation with his workforce, in the light of his assessment of the needs and circumstances of his business.

6. It is in accordance with this approach that the Government has decided to end the Redundant Mineworkers Payments Scheme from March 1987. It is also the Government's intention that the new system of social grants to be proposed in the forthcoming Coal Industry Bill should allow a reduction in Exchequer support for the industry's future redundancy and restructuring costs. Any such reduction would, of course, take full account of the industry's objectives as set out in my separate letter of today's date, its financial prospects, and the potential effects on the motivation of management and workers. However, the Government envisages that the pattern of Exchequer support would be decided as part of the financial framework within which the industry would plan and operate, and that it would not be altered unless major changes in external business circumstances made this necessary. Further, if a

reconstruction on the lines of paragraph 3 above were approved, the Government believes that there would be advantage to both sides if British Coal were to bear, out of its increased accounting profits and without financial support from Government, all costs arising from redundancies and restructuring after the effective date of reconstruction.

Non-Mining Activities

7. The Government welcomes British Coal's intention to continue to pursue the disposal of peripheral activities where suitable opportunities present themselves.

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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London
SW1P 4QJ

*Prime Minister 2**For the pink marked
X overleaf.**DBS
30/9*

29 September 1986

*Dear Peter,***OBJECTIVES FOR NEW CHAIRMAN OF BRITISH COAL**

Thank you for your letter of 14 August with your proposals for Robert Haslam's objectives. I am sorry not to have replied earlier, but I was hoping to be able to have had some discussion with you at our first PES bilateral, This was not in the event possible and we are still awaiting information from British Coal before reaching conclusions for the IFR as you know.

I welcome the emphasis on improving productivity and profitability by cutting capacity and setting challenging cost control targets. I am sure that we agree that there must be no doubt that the key objective remains reducing British Coal's capacity to bring it into line with prospects for profitable sales. It is far from clear that the level of deepmined capacity assumed in British Coal's IFR figures is consistent with this objective. We will clearly need to discuss this point when we resume our discussions.

I have some reservations about integrating deepmined and opencast management, but I understand the reasons for running a single operation in each area and therefore I can go along with this approach provided that it will remain possible to separate the two later should we decide to privatise opencast independently and that in the meantime separate operating cost and profit information continues to be made available. I assume, incidentally, that the cost reduction targets will be specified in terms of minimum required cost savings by adding "at least" before the figure in the penultimate line of paragraph 3.

The main objectives letter already seeks, in the second paragraph, an adequate return on new capital investment. This is obviously vital. I know the industry has made efforts to improve its investment criteria with this in mind. In view of our

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+ intentions on profitability, however, I think it is now time to go further and look for delivery of a 5 per cent real return on capital employed at each profit centre, i.e. each individual pit and opencast site (after full allocation of British Coal's costs other than interest). When you have considered with Robert Haslam how quickly this objective could be achieved, I should be grateful if you would let me have your proposal for the objectives letter.

As for the side letter, I wonder whether this is the right time to enter into commitments, however provisional, about the shape of a future capital reconstruction. It is obviously right to draw attention to our intention to transfer progressively the burden of redundancy and reconstructing costs to British Coal. The link between completion of that process and capital reconstruction is also valid. But to go further at this stage could be unnecessarily limiting. For that reason I see no need to go into future dividend policy. To do so in the way proposed would give way to pressure from the NICG which we have successfully resisted in general discussions with them.

The final paragraph of the side letter also contains an undesirable qualification by limiting the pace of transfer of redundancy costs to what will be compatible with the financial target. This may indeed be the hard reality. But I doubt whether we should give away this card to British Coal now. It could give quite the wrong impression that we would be willing to reduce the rate of transfer in order to enable British Coal to meet its financial target in circumstances in which its management was not performing up to expectations in other areas. There is no reason at this stage to restrict our room for manoeuvre on financial targets and sharing redundancy costs, limited though they obviously are.

Finally, I hope that the side letter can also contain a reference to progress on disposals of British Coal's peripheral assets. Robert Haslam has already begun to consider the possibilities so I trust he will have no difficulties with this.

I am copying this letter to the Prime Minister and to Sir Robert Armstrong.

Yours ev,
JH

JOHN MacGREGOR

9816
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"In the next few months there are several more books to be published on the coal dispute whose authors range from a senior Coal Board official to a former industrial correspondent. Doubtless a range of views will be expressed, representing the personal standpoints of the authors concerned.

If in the future there is an accurate factual account of the coal dispute it will show that the victory for democracy over the politically motivated militant Marxists was not due to any one individual, be it Mr MacGregor, Mrs Thatcher or Peter Walker.

The victory for democracy was due to the determination of those miners and their families who retained the democratic tradition of the National Union of Mineworkers in the face of dreadful intimidation from those who for political reasons have disregarded that tradition.

It was due to the policemen who with immense courage and, alas, many injuries carried out their duty to uphold the rule of law in this country. It was due to a common sense of trade unionists and their leaders who recognised the motives of Mr Scargill and refused to support him in his endeavours.

It was also due to a Conservative Government that throughout the bitterest and longest dispute in recent times had a total unity of purpose within the Cabinet and the parliamentary party to see democracy was defended."

Mr Walker intends to make no other comment, except to make it clear that none of the criticisms that appear in the book were ever made to him or any other Ministers, in spite of the scores of meetings that took place with Mr MacGregor both during and after the dispute.