

CCB/UP.

PRIME MINISTER

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THE IMPLICATIONS OF ELECTRICITY PRIVATISATION FOR COAL

Warned by anxious officials, Cecil Parkinson has been tiptoeing around the slumbering dragon of NUM militancy; his line has been that liberalisation and privatisation of the coal industry has no part in the Government's plans for electricity privatisation. Recent signs that the dragon is stirring again are likely to reinforce this view in the Department of Energy. Regrettably this is misguided. The link between the electricity industry and the coal industry must be confronted and tackled from the outset.

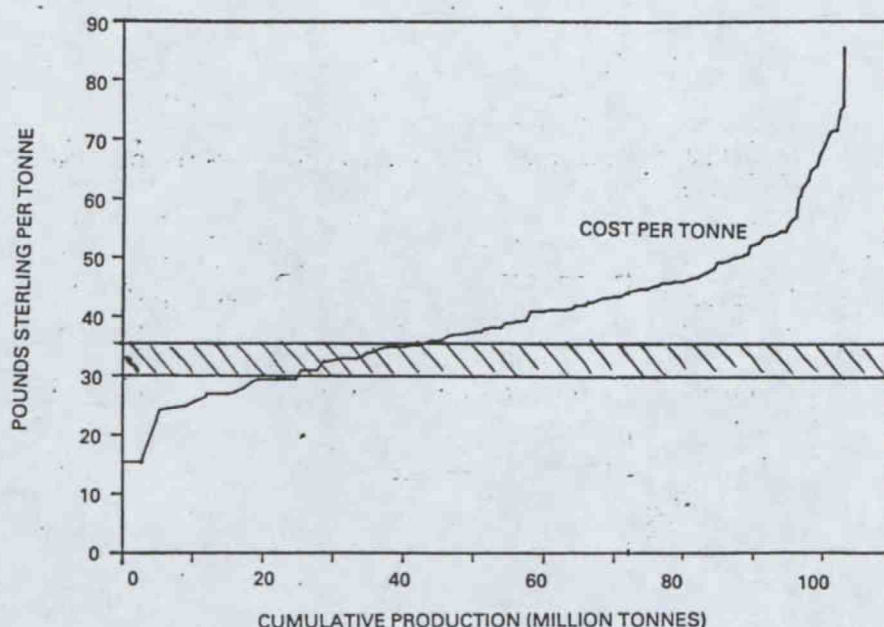
We cannot deliver the benefits of electricity privatisation to consumers and the economy without liberalising the generation of electricity and introducing vigorous competition. Since 80% of our electricity is generated from domestically-produced coal (accounting for over 50% of the CEBG's costs) this cannot be done without scrapping the Joint Understanding between British Coal and the CEBG. This illiberal supply contract very largely denies CEBG access to cheap imported coal and severely limits the supply of low-cost coal from our own small private sector.

For British Coal, the implications of terminating the Joint Understanding with the CEBG are profound. The CEBG represents 75% of its total market. A significant and growing proportion of this market would be exposed to competition from cheap coal imports. The market will also be penetrated, perhaps rapidly, by gas - fuelling, efficient combined cycle gas turbine plant operated by third-party generators competing against the CEBG.

In their excellent analysis of the UK coal industry, (CPS paper - "Privatise Coal", copy attached) Sykes and Robinson estimate that British Coal will have to be produced for less

IN ATTACHED FOLDER

than £35 per tonne (or ultimately even £30 per tonne) to be sustainably competitive against imports. The measure of Bob Haslam's task is illustrated by the following comparison of this competitive target against British Coal's cumulative cost curve per tonne of total production in 1986:



Formidable as this task may seem, the only real barrier to its attainment in say five years time is the NUM's tenacious adherence to work practices rooted in the days when coal was won with pick and shovel - the 1908 Powers of Work Act and the 40-year-old Five-Day-Week Agreement. The new pits which will determine British Coal's future competitiveness are highly mechanised and four times more capital intensive than the old pits still in operation. To yield the economic benefits of such capital investment and mechanisation, they need to be operated intensively; hence the compelling requirement for flexible shifts and weekend working. For the mineworkers this implies not more, but more flexible working time - and more reward. In any other capital-intensive industry this would be long established practice.

With the Government set to liberalise the supply of

electricity and privatise the ESI, the coal industry is approaching a crossroads. Either it shapes up and becomes a competitive modern business enterprise, or it remains dogged by Luddite attitudes and practices, becoming decimated by competition from imported coal and alternative fuels.

When Cecil Parkinson announces his plans for electricity privatisation in the Autumn he can fudge this issue to avoid arousing the miners. But as the details and significance of these plans unfold during the passage of the legislation and the preparation of the ESI for privatisation, the implications for the coal industry will become starkly apparent. If there has to be another confrontation with the miners over the issue of whether the coal industry becomes a competitive business rather than remaining a social service for miners, it is surely better to face it now on our terms; the alternative is a time bomb set to go off in perhaps 2-3 years with the miners taking up common cause with the power workers to defeat the Government's plans in the run-up to the next election.

We need to seize the high ground from the start. This would entail Cecil Parkinson outlining plans for the parallel liberalisation of electricity generation and coal production - two activities neither of which is a natural monopoly and together accounting for at least 75% of the cost of our electricity. Far from destroying our domestic coal industry, the aim of the liberalisation of the UK coal market would be to complete the recovery of the coal industry to sustainable commercial health.

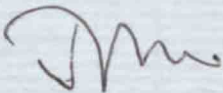
For the time being, British Coal would be left essentially intact. The licensing and regulatory functions of British Coal would be transferred to the Government; likewise the receipt of royalties on coal production.

The restrictions on coal imports would be removed. The illiberal Joint Understanding between the CEGB and British Coal would be scrapped and replaced by new arrangements conducive to competition and enterprise. The severe limitations on the scope of our small, private sector coal industry would be removed. Licences for coal exploration and the development of new deep or open-cast coal mines would be tendered competitively.

Management/employee buyouts of British Coal's deep mines would be welcomed and facilitated.

Conclusion

The link between the electricity industry and the coal industry must be confronted and tackled from the outset. If we try to proceed by stealth as regards the implications of electricity privatisation for coal, we face the serious risk of miners and power workers finding common cause at the least favourable time.



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