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SUBJECT CC MASTER

From the Principal Private Secretary

27 September 1988

John Staphen,

PRIVATISATION OF THE COAL INDUSTRY

The Prime Minister discussed with your Secretary of State this afternoon the privatisation of the coal industry. I should be grateful if you could confine knowledge of this discussion and this letter to a limited circle, on a strict need-to-know basis. Please could you not make copies of this letter without the authority of No. 10.

Your Secretary of State said that Ministers had announced in general terms that the coal industry would be privatised after the next Election. The question now at issue was whether legislation should be passed this Parliament, and if so what should be its scope. A Bill would need to be included in the 1989-90 Programme if it was to be certain of enactment before the next Election.

Legislation this Parliament could take various forms. First, in its most restricted form, it could essentially tidy up the NCB's balance sheet. Second, it could give private mine owners greater freedom by raising the manpower and output limits on private mines. Third, it could provide for the industry's privatisation by vesting licensing etc. rights in the Crown, or in a Crown body, dealing with the NCB's obligations regarding subsidence, vesting assets in a plc, etc. The first course - restructuring the Board's balance sheet - could well be necessary in any event. The second - liberalising private mine development - was much sought after by private mine owners, who had support from some Government backbenchers. The third route - a full-scale privatisation bill - would enable the industry to be privatised at the outset of the next Parliament. But it was certain to provoke major opposition from the mineworkers and their supporters in Parliament, who had provided vocal opposition to the more limited measure for port facilities for coal imports. Moreover, such a battle would take place at the time when the electricity industry was being privatised and when the restructuring of the coal industry would require it to lose perhaps some 31,000 miners in the next two or three years with 19 pits closing.

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The Prime Minister said that she shared your Secretary of State's analysis. The forthcoming Parliamentary Session would be dominated by the legislation privatising the water and electricity industries. 1990 would see the implementation of that legislation as well as other important elements in the Government's programme, such as the Community Charge. The Government needed to be wary of creating public indigestion. The aim should be to achieve calmer waters in 1990, in a way which maintained activity in Parliament. She did not therefore wish there to be a major battle on coal privatisation this Parliament. The Government's energies should be directed to passing the Manifesto measures and to implementing them. She would, however, be willing to contemplate the minor bill restructuring the Board's finances if your Secretary of State thought one necessary.

During the discussion the Prime Minister expressed concern about the effect of redundancies on the UDM pits. Your Secretary of State said that the Board were shielding UDM areas as much as possible.

The Prime Minister asked your Secretary of State to prepare a paper on "the true costs of coal". The paper should deal with such issues as the costs of subsidence, coal-fired power stations' contribution to the greenhouse effect and to acid rain, and to the problems of disposing of coal spoil. It might also refer to the number of miners who are killed or injured at work in this country, as well as the industry's medical costs, such as the £49 million payments to miners for deafness to which your Secretary of State had referred.

*Yours only**Nigel Wicks*N. L. Wicks

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Department of Energy.



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