

Prime Minister

Before the holiday season I asked British Coal and the CEBG to review the coal purchase arrangements under the Joint Understanding for the period 1 November 1988 to the esi's Vesting Day, ie 31 December 1989. I said that the two industries should reach a realistic agreement and one that would pave the way towards the fully commerical relationship which will be needed by the time the esi is privatised.

After some tough negotiating, I am glad to say the two industries reached such an agreement yesterday. BCC will freeze its prices to the CEBG for the 14 month period as opposed to raising them by 4% had the price escalation arrangements under the Joint Understanding been followed. In addition British Coal will offer a further reduction of £28 million in its prices to the CEBG under the Understanding to reflect lower oil prices. The net effect of this agreement is that CEBG will pay £165 million less over the next 14 months to British Coal than they had assumed on their interpretation of the Agreement. This compares with a reduction of about £50 million last year and a cumulative reduction of £350 million since April 1986 when the Joint Understanding commenced.

In the circumstances I think this is a satisfactory outcome and is a step towards a fully commercial relationship between the two industries. I have also asked the two industries to give a high priority over the coming months to working out the longer term arrangements that will be necessitated by the privatisation of the esi. I shall, of course, keep you fully informed of developments on this front.

I am sending copies of this letter to the Chancellor, David Young, Malcolm Rifkind and Sir Robin Butler.

C.P.
Secretary of State for Energy

18th October 1988

CONFIDENTIAL



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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

20 October 1988

COAL PURCHASE AGREEMENT

The Prime Minister was grateful for your Secretary of State's minute of 18 October recording the satisfactory outcome to the negotiations between British Coal and the CEB.

I am copying this letter to Alex Allan (H.M. Treasury), Neil Thornton (Department of Trade and Industry), David Crawley (Scottish Office) and to Trevor Woolley (Cabinet Office).

Paul Gray

Stephen Haddrill, Esq.,
Department of Energy.

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