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PRIME MINISTER

COAL LIBERALISATION AND THE UDM

At your meeting with Cecil Parkinson and others on Tuesday on electricity matters you left him in no doubt of the importance of doing all he could to help the UDM.

One of the many papers in your folder for that meeting was the recent letter from Cecil Parkinson setting out his proposals for modest liberalisation of the statutory limits on private sector coal mining in the Bill he has next Session. Greg Bourne had recommended the possibility of a more radical liberalisation. Time did not however permit further discussion of that issue.

You may therefore want to consider raising this point again with Cecil Parkinson. The papers attached are:

Flag A - Cecil Parkinson's original proposals, which have been supported by other colleagues. ✓

Flag B - Greg Bourne's original note. ✓

Flag C - A further note from Greg Bourne, in which he points to the way in which further liberalisation of the private sector could be deployed to help the UDM. ✓

Do you want me to minute out asking Cecil Parkinson to look again at the scope of his proposed liberalisation proposals as one means of doing what he can to help the UDM?

Patricia A. Parkin

Yes please m

H. PAUL GRAY

7 July 1989

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

10 July, 1989.

COAL LIBERALISATION

The Prime Minister has been reflecting further on the links between the discussion at last week's meeting on electricity contracts and your Secretary of State's letter of 16 June to the Lord President about measures to liberalise private sector coal mining.

I should be grateful if you would ensure that this letter is seen only by those with a clear need to know.

The Prime Minister would be grateful if your Secretary of State could look again at the proposed liberalisation measures to explore the possibility of pushing the process further, so stimulating the prospects of private sector coal operations in which, for example, members of the UDM might play a role.

Paul Gray

Stephen Haddrill, Esq.,
Department of Energy.

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to



SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 238 2290

The Rt Hon John Wakeham MP
Lord President of the Council and
Leader of the House of Commons
Privy Council Office
68 Whitehall
LONDON
SW1A 2AT

11 June 1989

Dear John,

Thank you for your letter of 7 June. I have noted the contents and will ensure that our proposed Coal Bill is ready for prompt introduction at the start of the next Session.

As you already know, the core of the Bill comprises further financial support for British Coal. The need for this is becoming firmer.

In my initial bid for a Coal Bill in the next Session, I indicated that we were under pressure to include provisions on subsidence along the lines of the Government's 1987 White Paper response to the Waddilove Committee. I have looked at this again in the light of your advice that the legislative programme for the next Session is a very full one. Although non-controversial, the need to codify existing legislation in one Bill would involve a medium-sized Bill of perhaps 20 clauses, and I cannot justify this in the next Session. I do, however, believe we shall need to legislate on subsidence in the present Parliament, and it seems to me a very suitable candidate for the next-but-one Session.

However, subject to the views of colleagues, I would like to include in the Coal Bill a modest but useful step to raise the statutory limits on private sector coal mining imposed by the 1946 Coal Industry Nationalisation Act. The legislation I have in mind is a straightforward one-clause addition to the Bill amending the existing licensing limits from 30 men underground to 150 men underground (in respect of deep-mines) and from 25,000 tonnes to 250,000 tonnes (in respect of opencast mines).

We have committed ourselves to privatising the coal industry after the next Election, and I am cautious about introducing any radical, controversial legislation on coal in the meantime. However I am satisfied that it would be sensible to increase the licensing limits without delay. Small private sector mines account for less than 2% of total UK coal production. A significant part of their output is of qualities and grades, such as anthracite and large domestic coal, which are in short supply

A CEF
→ RA

Prime Minister²

You will wish to be
aware

Recd

11/6

attached



in the UK or in particular coalfields and where the private mines are effectively competing with imports. Elsewhere they provide a small, but locally useful, competitive stimulus to British Coal in the power station market. As the UK coal market has become more open, the licensed sector, like British Coal, has become more exposed to pressure from international coal prices, but the statutory limits on manpower and output have constrained the sector's ability to respond by expanding and investing to cut costs. Their output is currently falling at an annual rate of 20%. Under pressure from my predecessors, British Coal has endeavoured to interpret the statutory limits as flexibly as possible in awarding licences. But there is a growing risk that this flexibility may be challenged in the courts by environmental groups opposed to opencast mining. Without some increase in the limits I am concerned that it may be difficult to prevent the sector's decline accelerating.

We can expect any increase in the licence limits to be opposed by Labour (although liberalisation in this area has been advocated by the Centre parties and there are increasing numbers of Labour MPs from the Welsh and Scottish coalfields who recognise the job opportunities in mining that would result). But I believe that the Opposition would find it difficult to vote against the Bill in its entirety given the very substantial financial assistance it offers to British Coal. It will also reduce controversy if we can demonstrate that the measures do not represent a back-door privatisation of British Coal mines. The new limit of 150 underground workers I propose for deep-mines is therefore well below the 250 or so men required for British Coal's smallest mines; and only a very small proportion of the opencast mines worked by the Corporation are smaller than the new ceiling of 250,000 tonnes I am suggesting for opencast licences.

I am copying this to the Prime Minister, Nigel Lawson, David Young, Nicholas Ridley, Peter Walker, Malcolm Rifkind, other members of QL Committee, and to Sir Robin Butler.

Lawson *End,*
Leid.

CECIL PARKINSON

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PRIME MINISTER

6 July 1989

COAL LIBERALISATION AND THE U D M

Helping the UDM survive and, if possible, thrive is essential. Not only do we still have reason to thank them for their efforts during the miners' strike but also we must not allow the coal industry to return to the hands of the NUM.

PP | Cecil Parkinson's liberalisation measures, detailed in his letter to John Wakeham dated 16 June, will go some way to help the small private sector mining interests. Modified and expanded, they could also be used selectively to help the UDM (probably at the expense of the NUM).

Some UDM pits must close because of geological conditions or exhausted reserves and Roy Lynk understands this. Others, however, may be scheduled for closure on economic grounds because of the costs of updating them as part of British Coal. Some of these could be worked profitably by the private sector, when unencumbered by British Coal's overheads and management structure. Roy Lynk is asking for that chance and is supported by some private coal operators.

In conjunction with private sector organisations, UDM members could acquire the fixed assets of a closing mine at a nominal value. They would then work the mine under licence to British Coal.

If the Secretary of State handled it well, such a move could be portrayed as the Government seeking every possible way to encourage a viable competitive industry in which the men finally have a stake. Critics will undoubtedly talk of "creeping privatisation" and it will be important to defuse that criticism especially by pointing to the employment consequences of full closure.

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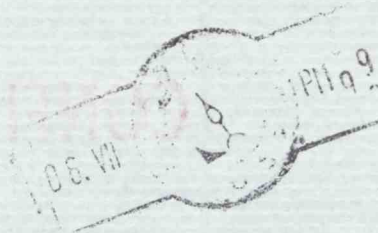
RECOMMENDATION

Welcome Cecil Parkinson's recommendations on liberalisation. However, he should be encouraged to explore the possibility of moving the industry further towards competitive operation while also assisting the UDM.

Ann Clark

RP. GREG BOURNE

11/14/1910



NAT IND: Coal P. 21

PRIME MINISTER

29 June 1989

COAL LIBERALISATION

Next session, Cecil Parkinson has a slot for a Coal Bill aimed at financial restructuring of British Coal. The restructuring, which has not yet been fully negotiated between DEN and HMT, will provide substantial financial assistance to British Coal and is a necessary step on the road to commercial viability and ultimate privatisation.

The Secretary of State proposes amendments to raise the statutory limits on private sector coal mining to allow:

- (a) up to 150 men to work underground in deep mines (up from 30);
- (b) open cast reserves of 250,000t to be worked (up from 25,000t);

These are good first moves and will go some way towards ensuring that the small private sector coal mining operators are not squeezed out of business by BC as it comes under increasing pressure to become commercial. (The attached letter to George Guise indicates some of the problems.)

However we need to do more. Other restrictions on competition that need to be removed are:

- (c) the requirement for private mines to pay similar wage rates to those agreed between BC and the mine unions;
- (d) the Joint Understanding between BC and the CEGB which causes low prices to be paid for privately mined coal and high prices for BC's coal.
- (e) the requirement for private mines to pay royalties to BC set not by statute, but at BC's discretion;

I believe that restrictive practices (c), (d) and (e) could be removed this Parliament; however, DEn would need your direction. Currently, DEn officials claim that you have banned any work on liberalisation until after the next election and consequently resist any attempts by myself or HMT to discuss possibilities in detail.

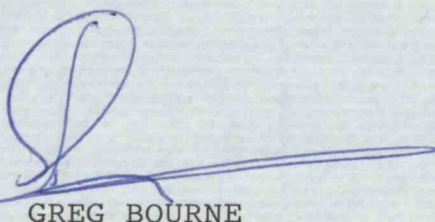
In order to sweep away all restrictive practices, it may even be possible to vest the coal reserves with the Crown this Parliament and treat BC as just another licensee. This is a necessary step towards full privatisation which would of course occur next Parliament.

Liberalisation must come before privatisation. In the lead-up to British Telecom privatisation, slowly but surely the original monopoly powers were stripped away, allowing a small but ever-growing and flourishing private sector to emerge. Likewise, we must encourage the private sector coal interests. Without liberalisation, the private sector coal business will not survive. Moreover, by not liberalising, we forego the opportunity of working deposits of coal, uneconomic to BC but possibly commercially viable if worked in the private sector. (The UDM have already indicated that they want a chance to show what they can do in the private sector.)

RECOMMENDATION

While you can welcome Cecil Parkinson's modest initiatives, more needs to be done.

I believe DEn need to provide a paper to yourself and E(A) discussing the possibilities of further liberalisation this Parliament.



GREG BOURNE

SGW/GJ

22 June 1989

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Dear Sir

ANTHRACITE SUPPLY

General Background - Anthracite Supply UK

British Coal has recently cut back on the anthracite collieries in South Wales. Sizeable capacity (approximately 1m tonnes per annum) still exists from opencast and one remaining deep mine. This mine is presently performing poorly and could result in closure.

Of the 1 million tonnes presently mined by British Coal, approximately 50% is sold after processing to supply the domestic market. In addition to the 1 million tonnes there is approximately 200,000 - 300,000 tonnes of private sector anthracite producing a similar proportion of domestic products.

The cut-backs in British Coal capacity has led to a UK shortfall of domestic anthracite which is in the order of 1 million tonnes and is being met by imports, the largest exporting nations being China, South Africa and West Germany.

In an attempt to retain control of the domestic anthracite market, British Coal is itself importing these anthracites. Chinese anthracite was recently purchased into Cardiff in a 20,000 tonne shipment. It is known and can be proved that British Coal lost a considerable amount of money on this shipment in order to control the market for anthracite distribution. More recently, British Coal has purchased a high volume (expected to be near 0.5m tonnes) of West German anthracite. British Coal's 51% owned subsidiary, BFL is purchasing South African anthracite (quantities unknown).

South Wales Coalfield - Anthracite Reserves

There are still significant deposits of high grade anthracite in South Wales. Ryan International has been attempting to specialise in anthracite coals predominantly in underground mining with some small scale opencast mines.

Pentreclwydau Mine

Since September 1988 Ryan has been attempting to licence an anthracite deposit of some 71 million tonnes. In 1984 British Coal abandoned a mine, Aberpergwm, operating in this reserve block. Since then there has been no activity in that block of coal.

Ryan International plc has
been re-registered as a
private company and is now
known as
Ryan International Limited

The mine development (involving the re-opening of a closed British Coal colliery) by Ryan is for a large anthracite complex mining up to 250,000 tonnes per year using American technology. The project has been continually frustrated by British Coal on a number of issues which would have been ignored had they been mining themselves. They are, in our opinion, trivial issues. They would earn approximately £400,000 per annum in royalty payments from the mine. The mine would be a showpiece; computer controlled, monitored, highly mechanized with high productivity using only 30

Bryn-y-Garn Opencast Site

underground workers.
This potential opencast site is 2 miles from the closest habitation and is an extension to a site previously worked by the Company. It is a high quality anthracite deposit with a low mining cost. British Coal is refusing the site on the grounds that an adjacent block of coal extends the deposit beyond 50,000 tonnes, the present restricted limit. If Ryan worked the deposit British Coal would earn £550,000 in one year in royalties for no outlay or any operational work other than a small amount of administration.

The Planning Authorities and local dignitaries are helpful in both Pentreclwydau and Bryn-y-Garn possibilities, particularly as Pentreclwydau could have upwards of 200 employees. The landlord on both sites is the Forestry Commission who are also extremely helpful in both matters and wish the sites to succeed.

The output of these opportunities would directly replace imports as they would be inexpensive and of equal or better quality compared to the foreign coals.

These two opportunities presently being frustrated are just two of numerous commercially possible operations which could be taken on were it not for the State monopoly. Further monopoly is extended to the Power Station market where British Coal presently receive 20-25% above the price of private coals in the power station.

Ryan seeks not to complain on the coal price but on the false market created by British Coal's products being subsidised both on price (due to the monopoly) and by direct nationalised handouts.

The real level of coal prices in the UK are almost certainly closer to a mid point between the two levels.

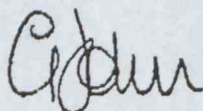
Despite this, Ryan has built up a portfolio of overseas clients for specialised carbon products from anthracites and will export approximately £0.5m this year. For each tonne of coal sold wherever the market British Coal is receiving a royalty which on opencast is £11 per tonne (25% of the total value of the coal).

Almost certainly we would gain an even greater competitive edge if we were not frustrated by such royalties.

Further information on these matters is of course available. I hope this will be of some help.

Kind regards

Yours faithfully



S G WILLIAMS
MANAGING DIRECTOR