

SUBJECT

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From the Private Secretary

30 November 1989

Dear John,

Coal Contracts

The Prime Minister this morning held a meeting to discuss coal contracts. Those present were the Chancellor of the Exchequer, your Secretary of State, Mr. Wilson and Mr. Monger (Cabinet Office) and Mr. Bourne (Policy Unit). The meeting had before it minutes from the Secretary of State for Energy dated 24 November and from the Secretary of State for Scotland dated 30 November.

I would be grateful if recipients would ensure that this letter is seen only by those who have an operational need to do so and that no copies are taken.

Your Secretary of State said that the negotiations between British Coal and the electricity generators had proved to be very difficult. The agreement now reached had been voluntarily entered into by the parties but he had had to intervene to bring it about. The agreement should ensure that the electricity industry could be successfully privatised and should also provide British Coal with a soft landing. British Coal would be loss making throughout the period of the contract, and he had been able to secure the agreement of Sir Robert Haslam only by assuring him that the Government was prepared to take action to give them a chance of breaking even. There would be 25,000 job losses over the next four years, but 10,000 of these would have been necessary in any event because of higher productivity. The UDM could not be completely protected from closures, but he would continue to urge Sir Robert Haslam to help them as far as possible. It was possible that some arrangements, benefiting the UDM, could be worked out for the purchase of extra coal at a premium price, perhaps to reflect greater security of supply, but this required more detailed work.

Sir Robert Haslam had argued with some force that the Independent Review procedure on colliery closures would need to be suspended for the first 10 or 12 pits to be closed, but your Secretary of State said he would continue to press British Coal on whether this controversial step which would be seen as an act of bad faith was really necessary. As to the risk of industrial

action, it could not be ruled out, but there were good reasons for thinking it could be avoided. The tonnages covered by the agreement were higher than the 60m tonnes which had been widely expected. Mr. Scargill had failed to get the agreement of the recent special delegate Conference of the NUM to any industrial action. The level of stocks had increased by $\frac{1}{2}$ m tonnes since the earlier discussions with the Prime Minister when it had been agreed that stocks were adequate. Power station stocks now totalled 26 $\frac{1}{2}$ m tonnes.

As to the effect on the electricity industry, your Secretary of State believed that it should allow for a successful privatisation. He still hoped for broad stability in the real level of electricity prices. Whether that objective could be achieved was more likely to depend on other factors.

Continuing, your Secretary of State said that the intention was that the agreement should be announced by British Coal next Monday 4 December in time for the debate on the Coal Bill later that day. It was important that it should be British Coal, not the Government, that made the announcement and that the agreement should be presented as one freely negotiated between the two industries. It was also important that it should be presented as an interim agreement, and to emphasise that discussions on the longer term were continuing. Realistically, however, an agreement on the longer term was a long way off, since there was a big difference between the two sides on the prospects for world prices after the three years.

In discussion, it was noted that the agreement had substantial implications for public expenditure. That was part of the price to be paid for providing coal with a comparatively soft landing and minimising the risk of industrial action. It was unfortunate too that the agreement provided for coal to be priced in large tranches. This would allow British Coal to continue their practice of cross-subsidising the less efficient pits. Another feature of the agreement that might attract undesirable attention was the inclusion of price openers for exchange rate movements. Nevertheless, the agreement was to be welcomed for making the privatisation of the electricity industry possible, and for moving British Coal nearer to economic pricing, even though there was some way still to go.

The Prime Minister, summing up the discussion, said that the group accepted that the package put forward by your Secretary of State was the best that could be obtained, and he was to be congratulated on the outcome. They agreed that it should be made public by British Coal on 4 December. In future work, it would be right to bear in mind the difficulties of Sir Robert Haslam's position. The group thought that it would be undesirable to suspend the independent review procedure, since to do so would produce an adverse reaction from NACODS in particular, and call into question the Government's good faith. The group was also interested in the possibility of introducing more differentiation with coal prices, to the advantage of the UDM.

I am sending copies of this minute to the Private Secretaries of the Chancellor of the Exchequer, the Secretaries of State for Trade and Industry and Scotland and Sir Robin Butler, and to the others present at the meeting.

*Yan,
Paul*

PAUL GRAY

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Department of Energy.