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Prime Minister

COAL CONTRACTS

I have seen John Wakeham's letter of 24 November to you about the interim outline agreement reached between British Coal and the Generators in England and Wales. Unfortunately, I have a meeting on the Steel Industry in Scotland tomorrow, and will not be able to attend the meeting at No 10. You and colleagues might find it helpful to be aware of the position in Scotland.

The 3 year agreement between British Coal and the Generators in England and Wales is likely to clear the way for an agreement in Scotland. It is likely to be more difficult for the Scottish Electricity Boards to secure longer term export contracts in the absence of any certainty about coal prices in England and Wales in years 4 and 5, and so the diversity of electricity supply we seek will be harder to achieve.

So far as coal production is concerned, Longannet is the only deep mine remaining in Scotland and I judge it important to secure the future of the pit at least in the medium term. Its recent high levels of performance suggest that closure is not justified on economic grounds, though British Coal may still need to be persuaded of this.

Nevertheless, on the basis of improved productivity at Longannet and the availability of low cost opencast, the coal industry in Scotland now seems to have the potential to produce competitively priced coal. It is, however, important for BC to recognise market forces and their own cost structure in their price offers: a starting price of 170 pence per gigajoule as proposed for England could not be sustained against competing fuels and something significantly lower is needed. It would

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also be essential for the coal price indexing arrangements in England and Wales to apply in Scotland in order to maintain the Scottish electricity industry's ability to export.

Irrespective of the outcome of the Court action being pursued by BC to establish the basis of supply arrangements affecting Longannet and Cockenzie power stations (on which an outcome is still awaited) sensible pricing should safeguard the positions of the Longannet mine complex and the Scottish Electricity Boards in relation to exports, and so contribute to our objectives on diversity.

I am copying this to John Major, John Wakeham, Nicholas Ridley, Brian Griffiths and Sir Robin Butler.

MR

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30 November 1989

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