

SECRET AND PERSONAL



cc G. Gyase
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SUBJECT
cc MASTER

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

24 April 1990

Dear John,

BRITISH COAL

The Prime Minister discussed colliery closure procedures with your Secretary of State and Sir Robert Haslam (Chairman of British Coal) today.

I should be grateful if you could ensure that copies of this letter are restricted to named officials and that a record is kept of all copies made.

Sir Robert Haslam said that British Coal were planning to close about ten pits in the next year. A further eight pits were expected to shut as their coal reserves were exhausted. The ten pits were being closed because, following the new Central Electricity Generating Board contract with the Coal Board, the UK market for coal had been reduced. Domestic demand was expected to fall by about 10m tonnes over the next three years. There would therefore be an expectation of pit closures and job losses: but the British Coal proposals were less dramatic than widely feared in the industry.

In these circumstances he believed it was right not to make a formal break from the existing IRB procedures, but to aim for a single IRB hearing on the whole closure programme. The first step would be to discuss the proposals with the union leadership and the unions should determine whether they would then refer the matter to the IRB. The unions could be expected to challenge the package and the three QCs on the IRB had shown some sympathy for union positions in the past. He nonetheless believed it would be better to negotiate the closures as a package, than to run the risk of progressively heightened and prolonged confrontation as each closure was considered over a period.

The following points were made in discussion.

- i) It would be important not to break with the existing IRB procedures. That could be represented as bad faith on the part of the Government. While the objective should be the closure of the ten pits, this might better be handled one by one, emphasising the generous redundancy terms available and changed market prospects for the coal industry.

SECRET AND PERSONAL

- ii) Revealing a programme of ten prospective closures could provide just the issue which would unite the mining unions in opposition to British Coal. Already 60 per cent of the present mining workforce had moved once: in some cases miners had moved jobs twice. Resistance to job losses might now be firmer. Moreover industrial action could be very expensive for the economy, despite the precautions of high coal stocks at power stations and pit heads.
- iii) Handling closures one by one would elongate the closure process and lead to higher costs for British Coal. On the other hand, playing the issue long might be less costly for the economy in the longer term.
- iv) It might be necessary to adjust the criteria relevant to IRB procedures to encompass a wider measure of costs, including delivery costs at power stations as well as production costs at the pit heads. Cash flows generated and the treatment of 'sunk' capital costs might also have to be amended.
- v) The composition of the IRB might be brought back up to its original strength: one of the additional QCs should be an individual with relevant commercial experience.
- vi) If the domestic market was contracting, it might be necessary to look to other markets. The international market for coal was changing. Environmental as well as cost factors would continue to be important. UK coal in general had a lower sulphur content than that of the US: much of the coal in West and East Germany was lignite with a high sulphur content. Exports to Germany might be attractive, although the German market was currently well protected. Further opportunities might open up through liquefaction processes to convert coal into oil and gas, though this was currently not economic while oil prices remain below \$30 a barrel.
- vii) The Government was aiming to privatise British Coal during the lifetime of the next Parliament. The right form of privatisation might be by sale to a major UK company, with interests in mining: part of any sale package should include a shareholding for employees and management. The idea of individual pits becoming independent operators in the meantime has attractions in principle. But in practice this would necessitate closures elsewhere for British Coal.

Summing up the discussion, the Prime Minister said that British Coal should continue with the existing IRB procedures, taking each of the proposed closures separately through the IRB and amending the IRB criteria as necessary. Sir Robert Haslam should consult further with the Secretary of State on how best to implement the proposed approach. The Prime Minister thanked Sir Robert for his support for the way forward agreed at the meeting.

SECRET AND PERSONAL

- 3 -

I am copying this letter to John Gieve (HM Treasury), Clive Norris (Department of Employment) and Stephen Williams (Welsh Office).

Yours,
Barry

BARRY H. POTTER

John Neilson, Esq.,
Department of Energy

SECRET AND PERSONAL