

PRIME MINISTER

FUTURE STRATEGY FOR THE COAL INDUSTRY

At Flag A is a minute from the Energy Secretary covering a paper on the future strategy of the coal industry.

The paper paints a predictably gloomy picture. Once the existing contracts with the electricity generators expire, coal output must be expected to fall. How far output will decline will depend upon the competitiveness of UK coal production. That in turn will depend upon:

- domestic pit head costs;
- overseas production costs and in particular the <sup>exchange</sup> cable rate against the \$; and
- the importance of environmental factors.

But it is only a question of scale of output decline: pits will have to close including some in the UDM area.

The paper is very long (it makes the same points several times over). But the paper is neither thorough in analytic terms nor rigorous in its policy conclusions. A useful note from George Guise in the Policy Unit (Flag B) is attached.

Important errors or lacunae in the paper are as follows.

- i) There is no examination of the physical structure of the industry, ie the different geology and the difference between open-cast and deep mining.
- ii) Neither is the related cost structure considered - the Policy Unit bring out some of the important points.

- iii) There are anodyne statements about the need to raise productivity. But there is no quantification of the actual scope for raising productivity and hence impact on reducing costs.
- iv) The analysis is presented in a vacuum: it needs to be put in the context of energy price developments more widely.
- v) Privatisation is discussed on the basis of the industry as a whole. The possibility of breaking the industry up into individual companies prior to privatisation is not mentioned.
- vi) In short, the analysis is too narrow in scope and the conclusions consequently discredited.

Conclusion

Treasury have not yet responded to the proposals. But I know they are concerned both about the quality of the analysis and undue optimism about the scale of the industry post-1993.

In view of the points above, the Policy Unit comments and the Treasury concerns, it does seem that further work is necessary. There is no need to take any decision in the last few days before the summer recess. In my view it would not be appropriate to give John Wakeham the broad approval for this strategy which he is seeking.

- i) Content for me to minute out that, in view of the importance of this issue and the need for thorough analysis, you wish to go for a collective Ministerial discussion in the early autumn?

BHP

Yes MR

BARRY H. POTTER

20 JULY 1990

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*From the Private Secretary*

27 July 1990

FUTURE STRATEGY FOR THE BRITISH COAL CORPORATION

The Prime Minister has seen your Secretary of State's minute of 13 July covering a paper setting out the future strategy of British Coal.

The Prime Minister considers that, in view of the importance of the issues raised and the need for a thorough analysis of possible ways forward, the next step should be a collective Ministerial discussion.

Accordingly, the Prime Minister would be grateful if your Secretary of State could bring forward a comprehensive paper for discussion in the early autumn.

I am copying this letter to John Gieve (H.M. Treasury) and Sonia Phippard (Cabinet Office).

BARRY H. POTTER

John Neilson Esq  
Department of Energy

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