

Prime Minister

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I understand this slightly  
understate Treasury concerns about the  
OTN paper. You have indicated  
a need for a discussion in early

Treasury Chambers, Parliament Street, SW1P 3AG <sup>autumn</sup>  
071-270 3000 (background papers

attached) Treasury are content  
to wait for the discussion.

PRIME MINISTER

Do you want:

i) a discussion at [A]

ii) a smaller meeting  
with key Ministers?

Smaller meeting  
no



BHP 30/7

**FUTURE STRATEGY OF THE BRITISH COAL CORPORATION**

I found John Wakeham's minute of 13 July a most helpful summary of the prospects for British Coal (BC). I agree with the Prime Minister that a discussion in the Autumn would be useful, but it may be helpful if I set out my views in advance of that discussion.

2. As John says in his paper, we must start from the position that the Corporation's strategy must create a reasonable expectation of a sustained trading profit. The Corporation will need to reduce capacity further to achieve this and we will have to face up to closures at least of the order John sets out. Though we do not need to take firm decisions now about BC's capacity in 1993, I have to say that if anything, I am more pessimistic than John. BC's projections are based on a real exchange rate of \$1.60/£1, which looks low. I think we should make clear to BC that sales of 50 mt to the generating companies look very much like an upper limit and that their negotiations with the gencos must be profit driven, not sales driven. As John says, we will have to watch BC's negotiation stance carefully.

3. In my view we should tell BC that for the period up to the new contract negotiations their aim should be:

- (i) to work on the assumption of an exchange rate of \$1.80-\$1.60 and to focus on profit maximisation;



- (ii) to get out of unprofitable markets (other than the generators) as quickly as possible;
- (iii) to provide us with a clear plan of action which will at least validate their costs and productivity assumptions;
- (iv) to restrict investment to profitable activity.

4. It would be helpful if John could circulate in draft the speaking note he will use to communicate our decision to Lord Haslam. We will also need to consider a new set of targets for BC in time for John and Norman Lamont to take them into full account in the Investment and Financing Review in September; and then look at objectives for the new Chairman.

5. I share John's lack of enthusiasm about BC's proposals for diversification overseas. To me, such expansion seems inimical to our general approach to nationalised industries. And as he says, it would be difficult to defend overseas acquisition at the same time as capacity is being closed at home.

6. On BC's privatisation, I am pleased to learn that there will be a presentation in the autumn by Energy officials on the future structure of the industry. I hope that, as for the strategy review, my officials will be involved. And on the technical issues, I suspect that there may be some advantage in planning now the preparation of a draft Bill for the next Parliament. We should not leave too much to be done after the election so that we can move quickly if we wish. For the same reason I would favour an early discussion on the options for restructuring the industry in the run up to privatisation.



7. Finally, I am sure John is right that with a new chairman to be appointed next year, there will clearly be a need to look at BC's strategy again in 1991.

8. I am copying this minute of John Wakeham and to Sir Robin Butler.

[j.m.]

30 July 1990

NAT IND: Coal

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