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MR POTTER

13th September 1990

BRITISH COAL STRATEGY

John Neilson's minute states that the proposed agenda for Ministers has been cleared with me. In fact I spent an hour at the Energy Department trying to get the scope of the agenda expanded beyond Wakeham's rather limited minute of July 13th. They were reluctant to put in any new numbers about the cost structure of supply which is essential homework to understanding the industry and its problems. However, I did get them to include some remarks about their current activities on privatisation at the end of the agenda.

There is little point in going back to the Energy Department to have their annotated agenda expanded even though it does not extend the scope of Wakeham's original paper. The Prime Minister should, however, re-read my July 20th brief prior to the Ministers' meeting. This does contain some figures on cost structure as well as thoughts on possible routes to privatisation.

Within the scope of the draft minute, three points in particular should be expanded in discussion:

1. The electricity supply industry must not be expected to do more than its proportionate share of CO2 reductions. If we are to give our coal industry a reasonable chance of successful privatisation, it must not be hamstrung by also sharing Transport's burden.

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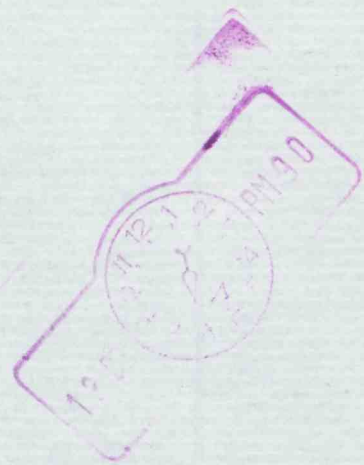
2. Is it sensible for British Coal to plan forward on an exchange rate range with an upper limit of only \$1.80? Presumably, the Treasury considers such a range adequate but we should have some idea how vulnerable coal is above this figure.

3. The Department seem very confident that Scargill is a busted flush. We must be quite sure that this is not pious hope based only on his current predicament. Even if the assertion is true, and Scargill's authority within the NUM has been eroded, it does not automatically follow that he will lose his lifetime Presidency. It is certainly not clear to me whether it would be better to have a lame-duck leadership in the NUM or a Scargill replacement of greater credibility who might galvanise the militants.

In summary, therefore, we should let this minute issue and set a date for the Ministers' meeting.



GEORGE GUISE





file

dearman/Neilson.

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

17 September 1990

FUTURE STRATEGY FOR THE BRITISH COAL CORPORATION

Thank you for your letter of 12 September covering an advance copy of the proposed agenda for the Meeting of Ministers on the future strategy of British Coal.

I submitted the draft agenda to the Prime Minister over the weekend. She is content for this to serve as the basis of the forthcoming Ministerial discussion.

I will be in touch shortly to fix a date for the meeting.

(BARRY H. POTTER)

John Neilson, Esq.,
Department of Energy.

PERSONAL AND CONFIDENTIAL
THE RT HON JOHN WAKEHAM MP



Department of Energy
1 Palace Street
London SW1E 5HE
071 238 3149

Barry Potter Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Prime Minister - A ①

Content for ~~use~~

note (agreed with Policy Unit)
to ~~provide~~ serve as the basis
for the proposed small
Ministerial meeting on the
future strategy for British Coal?

BHP
14/9

12 September 1990

Yours

Dear Barry

FUTURE STRATEGY FOR THE BRITISH COAL CORPORATION *Play.*

When we discussed your letter to me of 27 July, we agreed that I should send you an advance copy of the proposed Agenda for the meeting of Ministers on the future strategy of British Coal. I should be most grateful if you could check your notes to establish this is along the lines that the Prime Minister would find helpful. It has already been cleared with Treasury officials and George Guise. Once I have heard from you, my Secretary of State can circulate this Agenda formally.

Separately, I wonder whether a date could now be fixed for the Ministerial meeting. Hopefully this can be as soon as possible after 16 October.

Yours
John

J S NEILSON
Principal Private Secretary

PERSONAL AND CONFIDENTIAL



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- OVERALL OBJECTIVE

Our overall aim must be to achieve a Corporation with a reasonable expectation of achieving a sustained trading profit over time? The key task will be the renegotiation of the contracts with the Generators. These must be profit, not volume, driven. We will need to set the Corporation profit, financing and productivity targets consistent with our agreed response.

- LEVEL OF CORPORATION'S FUTURE CAPACITY

A further significant reduction in the Corporation's capacity in around 1993 appears to be inevitable although the extent of this will depend on external factors eg the price of competing fuels and the £/\$ exchange rate. Do we accept that:-

- (i) we should encourage the Corporation to continue to adjust capacity to the needs of the market place to the extent necessary to maintain overall profitability. Per contra we should reject the Corporation's wish to maintain production at some particular level, regardless of profitability, for security of supply reasons;
- (ii) the Corporation's approach should be to attempt to put the industry in the best possible position over the next two years to negotiate with the Generators for coal contracts beyond the end of March 1993 eg by minimising loss making sales wherever possible and thus displaying its commitment to profitability;
- (iii) we should tell the Corporation to plan for the moment on the basis of an exchange rate of \$1.80-1.60 and we should encourage the Corporation



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to take advantage of opportunities for additional colliery closures consistent with meeting their contractual obligations;

- (iv) *nevertheless we should not attempt to prejudge the outcome of the negotiations with the Generators in 1992-93 and seek to reduce the Corporation's capacity significantly further now in anticipation.*

While this (or indeed any other) policy would no doubt attract Mr Scargill's recurrent threats of industrial action, there is very little credible prospect of Mr Scargill bringing about serious industrial action and even less of it being successful. While the Corporation, and indeed the UDM, have a clear interest in presenting Mr Scargill as a dangerous bogeyman, there is every reason to believe that his ability to cause real trouble no longer exists.

- **CORPORATION'S LONGER-TERM FUTURE**

Over and above the expected significant reduction in the power station market, increasing environmental pressures will continue to limit the future prospects for the industry, in terms of restrictions on both sulphur dioxide and carbon dioxide emission levels from burning fossil fuels. We should note that the prospect for the industry is therefore one of further decline (especially given that no new deep mines are likely to be seen as profitable investments) and that, particularly, any move to require the Electricity Supply Industry to meet significantly more than their proportionate share of the agreed reduction in CO₂ emissions, eg to counteract growth in transport emissions, would rapidly accelerate the coal industry's decline.



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- **GOVERNMENT ACTION**

One key action, which is in hand, is the appointment of a new Chairman to replace Lord Haslam. This should be followed by a strengthening of the Board. Apart from this, do we accept that we should broadly endorse the Corporation's proposed strategic response and that:-

- (i) we should continue to offer generous support for the necessary future restructuring of the industry, ie maintaining restructuring grant at least at the present level of 90% and considering the possibility of moving to 100% for the next major round of closures likely after the election;
- (ii) while there is no need to prejudge now the position to be taken with regard to the handling of that round, the Corporation should be told to anticipate that the Government will wish to see the maintenance of the present policy of voluntary redundancy and the opportunity for an IRB hearing;
- (iii) we should be prepared to look at any proposals from the Corporation for expansion overseas. However, we would anticipate little justification for significant increases in present levels of exposure; any advantages seen for management morale must be balanced against possible industrial relations difficulties, wider policy considerations concerning the expansion of nationalised industries into new areas and the Corporation's poor record in this area in the past;
- (iv) we should, subject to value for money and public expenditure considerations, continue to support the development of clean coal technology and draw up,



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and agree, a future research, development and demonstration strategy for this area; and

(v) we should continue to review the position with the Corporation on at least an annual basis.

- PRIVATISATION

To note that none of the actions proposed above prejudice in any way our freedom to decide how best to privatise the industry. A presentation on the likely options in the light of the above will be made to the Secretary of State for Energy in the autumn. Work is in hand on the "technical" issues involved and the method of privatisation and the proposed future structure of the industry can be settled after the next election.

26/8

NAT INDS: Coal p122

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THE RT HON JOHN WAKEHAM MP



Department of Energy
1 Palace Street
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071 238 3149

Barry Potter Esq
Private Secretary to
the Prime Minister
10 Downing Street
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SW1A 2AA

20 September 1990

Dear Barry,

FUTURE STRATEGY FOR THE BRITISH COAL CORPORATION

With reference to your letter of 27 July to John Neilson, it was agreed subsequently that rather than a further paper, it would be useful to provide an annotated agenda. I attach therefore my Secretary of State's suggested agenda for the meeting.

We will be in touch to arrange a suitable date for the meeting.

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

Yours sincerely,

Terry Carrington

TERRY CARRINGTON
Private Secretary

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ccp/h.
n. b. P.M.
RHP
20/9



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NAT IND: Coal #22.