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MEETING RECORD

SUBJECT U MASTER

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

2 November 1990

Dear John,

Your Secretary of State considered the future strategy for British Coal with the Prime Minister yesterday. Others present were the Chancellor of the Exchequer, the Chief Secretary, Professor Brian Griffiths (Policy Unit) and Mr Peter Owen (Cabinet Office).

I would be grateful if you would ensure that this letter is not copied without your authority and is seen only by those with a strict need to know.

The Secretary of State for Energy said that the strategy review undertaken by British Coal (BC) had proved to be a valuable exercise. Two principal objectives needed to be pursued: to move BC back into profit, and subsequently to privatise it. In order to restore profitability, painful cuts in capacity would be required. Their scale would depend on the outcome of negotiations with the electricity Generators at the end of the current three-year contracts, but it would be realistic to expect that at least a third of the remaining deep-mining operations would need to be discontinued from 1993/94. The difficulty of that task made it all the more important to ensure that the management of BC was strengthened when the present chairman retired. Options for privatisation were being considered jointly by Department of Energy and Treasury officials, but no outside consultations were taking place at the present time.

The Chief Secretary said that he was content with the thrust of the Secretary of State for Energy's proposals. It would be important for BC to withdraw from unprofitable markets over the next few years. It seemed likely that 50 mt would be the upper limit of sustainable production in the mid-1990s. The exchange rate assessments used by BC in assessing prospects over the medium term seemed over optimistic, but it would be possible to take a more realistic view in 1993/94. He considered that it would be undesirable to increase restructuring grant beyond the present 90%, since this would limit the incentive for BC to seek the most economical means of coping with the manpower effects of capacity reductions. Privatisation of the coal industry would be difficult and politically controversial; it would be important to have detailed proposals prepared in time for disposal to take place early in the next Parliament.

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In discussion the following were the main points made.

- (a) BC's practice of averaging the price of coal was unsatisfactory. If coal were sold at pithead prices, the economic advantages of different sources of production would be more obvious. Coal from productive pits and from open-cast sites would be cheaper, and it would be possible for Generators to purchase coal from sites adjacent to power stations. This would reduce the cost of coal to energy consumers and help to secure the long-term future of the most productive sections of the industry.
- (b) Research on fluidised combustion techniques had been continuing for a number of years with little evidence of results. It should be accelerated. A wider strategy for coal research was needed, perhaps in collaboration with the Americans.
- (c) The Government had been generous in its treatment of the coal industry. It had written off back debts, secured long-term contracts, and given the industry every encouragement to survive. It was important for the nation that the coal industry should continue in operation on a sound basis. In due course, when gas and oil reserves had been exhausted, coal would regain a strategic importance; stocks should be conserved with that in mind.

The Prime Minister, summing up the discussion, said that the group were content with the proposals put forward by the Secretary of State for Energy. They noted that the Secretary of State attached particular importance to strengthening the Board of British Coal and would be seeking to attract a chairman with the necessary experience to carry out the difficult restructuring that was required. For the present the existing level of restructuring grant and the practice of referring closures to the Independent Review Body should be maintained, though these matters might be reviewed once the detailed level of closures was established. Plans for privatisation should be completed in time for action very early in the next Parliament. The group noted that the proposed legislation on subsidence would have an important bearing on the likely success of privatisation proposals.

I am copying this letter to John Gieve (HM Treasury), Jeremy Heywood (Chief Secretary's Office), Sonia Phippard (Cabinet Office) and to Professor Griffiths and Peter Owen.

Yours,
Barry

BARRY H POTTER

John Neilson, Esq.,
Department of Energy.