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FROM: FINANCIAL SECRETARY
DATE: 27 MARCH 1991

PRIME MINISTER

BRITISH COAL PRIVATISATION

WMBP

I have seen John Wakeham's minute to you of 27 March on coal industry privatisation.

2. As John says, the Government has a clear commitment to privatise British Coal after the election. I welcome the progress in preparatory work towards this aim which John reports. In particular, I agree strongly with him that it would be sensible to appoint external advisers soon after Easter.

3. John notes that I have been keen to explore an alternative timetable, leading to a sale in mid 1992. An early sale would have the advantage of allowing new management to take forward negotiations with the electricity generators on the new contracts that take effect from March 1993. New private sector management, together with the more progressive of BC's existing management, would be well placed to achieve productivity improvements. They might well see the potential for a larger profitable core industry than the existing management, reducing the number of pit closures.

4. The ability of private sector management to negotiate with the generators, rather than simply inherit contracts, might even enhance proceeds. However I do not believe that maximisation of proceeds is the main objective. This should be to secure wider resource benefits to the economy as a whole through a competitive UK coal industry.

5. I recognise that a 'fast-track' approach would represent a considerable challenge. The implied timetable is set out in the attached annex. In particular, we would need a Bill this Autumn,

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to give us powers to create new companies to be sold, and probably a second Bill in 1992-93 to address more detailed operational and regulatory issues. There would also be some heightening of the political profile before the election, involving consultation with a wider range of people within British Coal. You may feel, however, that there would be political advantages in being seen to press ahead.

6. I know that John is concerned that this fast track would prove impractical. I agree that it carries risks, although also potential political and economic gains. I am not, however, yet persuaded that it cannot be done. I therefore endorse John's suggestion that the advisers should be asked to explore the possibility of early privatisation once they have appointed. If you are attracted by this option, I am sure that it would be helpful to give them a steer accordingly. They would of course need to let us have their initial reactions very quickly. In the meantime we could ask officials to investigate in more detail what would be involved.

7. Whatever the timetable for legislation, I am inclined to agree with John that we should not embark on a consultation exercise before the election, assuming that it is this year. There are too many issues in John's Annex C on which we should first make up our own mind.

8. I am copying this minute to Norman Lamont, John Wakeham and to Sir Robin Butler.



FRANCIS MAUDE

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