

MORNING REPORT

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SUBJECT & MATTER



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10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

1 May 1991

Dear John,

**COAL PRIVATISATION**

The Prime Minister discussed the privatisation of British Coal with your Secretary of State, the Chancellor and the Financial Secretary earlier today. The meeting was also attended by Mr. Alan Rosling (No. 10 Policy Unit).

NO FURTHER COPIES SHOULD BE MADE of this letter, and it should be made available ONLY to other Ministers and officials with a STRICT NEED TO KNOW of its contents.

Your Secretary of State explained that there was a wide measure of agreement between the Treasury and the Department of Energy on how best to proceed. The Government was committed to privatising British Coal (BC) and to achieving significant increases in productivity. It was agreed with the Chancellor that financial advisers should now be appointed to advise on the timing of the privatisation. The key issue was whether privatisation would be sensible and practical before new contracts were drawn up between British Coal and their principal customers, the Electricity Generating companies (GENCOS). If the answer was no, then the so-called "fast track" privatisation option, which would involve privatising British Coal next year, was not on.

In his view, it would not be possible to privatise British Coal before new contracts with the GENCOS had been negotiated. If the size and shape of those contracts were not clear, then it would be very difficult to define what the actual business was which was being privatised. There could be PAC implications to consider. The fast track approach would involve two Bills: the first would force the sale of certain BC assets; the second would provide for splitting up existing contracts and would require a level of co-operation with British Coal management that might be very difficult to obtain. It had to be recognised that, if the fast track option were not available, then every effort must be made to require British Coal to achieve the increases in productivity which the Oakes Report had shown were possible. He would be meeting the new chairman tomorrow to put that message across forcefully.

The Chancellor said that the objective of the fast track privatisation approach was to get private sector management in place before the contracts were determined with the GENCOS. Private sector management would be more flexible on both pricing

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and output; they would force through the changes in working practices that were necessary to achieve successful privatisation; and they would therefore bring benefits for both the electricity and coal industries and for the energy consumer. Fast track privatisation was a very worthwhile prize.

The Financial Secretary said fast track privatisation represented a huge prize in his view. Even private sector management would take time to achieve the potential increases in productivity that were required. It was questionable whether the present management of British Coal could hope to achieve the required improvements. In order not to close off the fast track option, it would be necessary to move quickly. More generally, there was a desire to know what was planned for the future of the coal industry. The present uncertainty was damaging.

Summing up the discussion, the Prime Minister said the best way forward was clear. First, external advisers should be appointed now and asked to report back within three months on whether the "fast track" privatisation was realistically practical. The key questions were could it be done; would it make a significant difference in terms of receipts, the future of the industry and the wider benefits to the economy and the consumer; and what would be the impact on other aspects of the privatisation, such as share and employee ownership and the likely response of the unions involved. Although British Coal might seek to appoint their own advisers, your Secretary of State should try and compel British Coal not to do so. Secondly, and simultaneously, further work was required on options for the structure of the privatised industry, including issues such as regulation, licensing, ownership and reserves, etc. and the relevant merits of different means of sale (flotation, trade sales, etc.). This should build on the existing work of the Department of Energy and the Treasury; No. 10 Policy Unit should also be brought in; and there was a case for Cabinet Office being involved in their usual role. Finally, it was agreed that while the appointment of advisers on the proposed privatisation should be undertaken quickly and announced in a low key way, that announcement should be made no earlier than Friday 3 May.

I am copying this letter to Jeremy Heywood (H M Treasury) and Philip Rutnam (Financial Secretary's Office).

*Yours ever,*

*Barry*

BARRY H. POTTER

John Neilson, Esq.,  
Department of Energy.