

CONFIDENTIAL

Prime Minister

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Prime Minister

A progress report only. Mr Wakeham is aiming to provide a substantive report on privatising BC by end-September.

Final confirmation however, that the fast-track privatisation is not on.

BH

29/7

COAL PRIVATISATION

Dear

We agreed at our meeting with the Chancellor and the Financial Secretary on 1 May that we should appoint advisers in order to carry forward the work on privatisation of the coal industry. Accordingly, I have now appointed Rothschilds, Touche Ross and Clifford Chance as financial, accounting and legal advisers respectively, and have in hand the recruitment of consulting mining engineers.

As we agreed was desirable, I have been able to persuade Neil Clarke, Chairman of British Coal, to postpone the appointment of financial and other external advisers at this stage, on the basis that we and our advisers would work closely with the Corporation during the initial phase of consideration of the prospects for the industry and options for its future structure and sale. Good working relations have indeed been established, with Neil Clarke himself participating in the Joint Management Committee which reports progress to me, and with British Coal well represented on the three Working Groups that are carrying out the detailed analysis. The Treasury are also actively engaged.

The Joint Management Committee has now agreed a detailed work programme for the first phase, aimed at a report by the end of September setting out an initial appreciation of the likely options for privatisation. The annex attached summarises the action in hand. The report will include financial projections in respect of successor companies as well as an assessment of the industry's liabilities and of the decisions that would be needed to settle the content of the main legislation. I suggest that in the light of this report we should take decisions on the way forward, particularly the timetable for legislation.

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The present work programme should allow a substantial Bill to be introduced before the end of 1992. Rothschilds were asked for advice on whether a speedier time-table might be adopted, which Norman Lamont and I have discussed. We recognised that while this would just be feasible it would be an extremely tight timetable with real political and logistic risks. We therefore agree that this option should not be pursued further. Nevertheless it is clearly important to maintain the momentum we have built up. I shall therefore be aiming to put to you and the Chancellor by the end of September a substantive report, based on the work referred to above, on the options for coal privatisation. This should give us an opportunity to exclude those options which are likely to be unacceptable and will enable effort to be focussed on refining the analysis so that a full report can be prepared by the end of the year. We could then start more formal but private consultations with the Corporation early in the New Year. There might be a period of wider consultation immediately after the election, perhaps based - depending on the precise timing - on a green-tinged White Paper in which we would set out our broad intentions.

I am copying this minute to Chancellor of the Exchequer, Financial Secretary, Treasury and to the Cabinet Secretary.

SECRETARY OF STATE FOR ENERGY

22 July 1991



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Annex

PRIVATISATION WORK PROGRAMME

1. The Joint Management Committee has agreed a provisional range of options for a privatised coal industry for initial consideration. All three Working Groups have now substantially agreed tasks, priorities and time-tables for the phase of work leading to the end September report to Ministers.
2. Working Group 1 (economic and business issues) has made good progress in agreeing a range of assumptions about the external world as a basis for economic and financial analysis; only a few outstanding matters now need to be settled. It is intended to utilise British Coal's suite of models for the main analysis.
3. As a base case, it is intended to develop a "reference pricing" scenario for a unitary industry, based on agreed common assumptions. A number of restructuring options have been identified, ranging from unitary privatisation to a pit by pit approach. These will be modelled in parallel with an analysis of contractual possibilities, with a view to identifying the possible viable and sustainable industry structures, as well as preferred contracting strategies. Subsequently balance sheet issues, in particular treatment of liabilities, and methods of sale will be considered with the aim of completing a first but fairly full analysis for the end September report.
4. Working Group 2 (statutory and licensing) has identified a wide range of issues that will need to be decided before the privatisation legislation can be prepared and arrangements made to parcel up the coal reserves for licensing or for sale. Priority issues include the ownership of the coal, powers of compulsory access to land for opencasting, policy on extraction of economic rent (particularly from opencasting where the licensed sector is currently paying royalty of £5.50 - £6.00 per



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tonne), and the safety regime appropriate for different industry structures

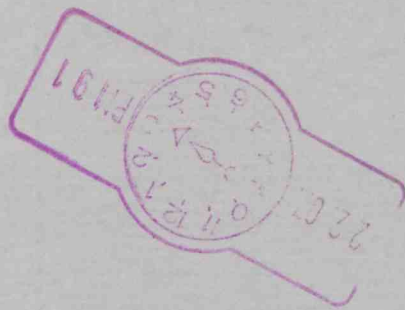
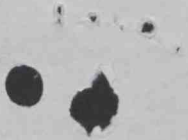
5. Other priority issues for Working Group 2 are the assessment of the scale of effort required (a) to delineate parcels of the coal resource and (b) to document the constraints on working rights for each such parcel, whether as a basis for licensing or for sale of freehold. These tasks could be on the critical path of the vesting process.

6. Working Group 3 (accounting issues) has started the task of identifying and quantifying British Coal's liabilities, as well as addressing the Corporation's accounting policies and tax status. Most of this work is being carried out through discussions between British Coal, Touche Ross and the Corporation's auditors. The JMC has agreed that the sensitive issues of pensions, employee incentives and miners' welfare should be examined in due course in a separate joint group.

7. All parties are now fully committed to the task in hand, good working relations have been established, and no significant impediments identified other than a short-term constraint arising from British Coal's need to give priority to completing work on the 1991 Strategy Review.

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10 DOWNING STREET
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From the Private Secretary

25 July 1991

Dear John,

COAL PRIVATISATION

The Prime Minister was grateful for your Secretary of State's minute of 22 July recording progress on coal privatisation.

The Prime Minister has noted that advisers have been appointed to carry forward the work of privatisation of the coal industry; that the Joint Management Committee with British Coal have agreed a detailed work programme for the first phase; and that the present work programme should allow a substantial Bill to be introduced before the end of 1992.

The Prime Minister has also noted that your Secretary of State will aim to put a substantive report to the Chancellor and him by the end of September.

Subject to further comments from Treasury Ministers, the Prime Minister is content to proceed as proposed by your Secretary of State.

I am copying this letter to Jeremy Heywood (Treasury), Philip Rutnam (Financial Secretary's Office) and to Sir Robin Butler.

Yours ever,

Barry

BARRY H POTTER

John Neilson Esq
Department of Energy

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