



PRIME MINISTER

Prime Minister

To note. A progress
report only. Chancellor
is content.

BHP

30/9

COAL PRIVATISATION

In my minute of 22 July I said that I hoped to put to you before the end of September a substantive report on the options for coal privatisation based on the extensive work programme that we had set in hand. I can report that excellent progress is being made. All three working groups we established have completed substantial work programmes enabling Rothschilds, our financial advisers, to produce a first draft of the report earlier this month. We have also now appointed two firms of consultant mining engineers to provide technical advice on privatisation issues and to report in detail on the scope for productivity improvements at British Coal's deep mines. The considerable progress that we have made in all areas has been made possible by the continuing high level of co-operation from British Coal who are fully involved in every aspect of our work programme.

Rothschilds initial draft report included an assessment of all the key issues, including the full range of possible structural options. On the basis of this initial assessment I have agreed with the Chancellor that we can now drop from further consideration three of the original wide range of structural options that I agreed should be looked at:



- more than three independent companies;
- a fully fragmented industry;
- selling all the industry's undeveloped opencast land assets separate from its current opencast operations.

We agreed that none of these options would realise the true value of British Coal's assets or would meet our aim of creating a structure for the industry most conducive to the largest economic coal industry in the longer term.

Rothschilds are now producing a further more detailed draft of the report taking account of the comments they received and of the further work that has now been completed. The revised report will also be able to take account of a preliminary assessment of the scope for cost reductions and productivity improvements at British Coal's deep mines from our consultant mining engineers, the US mining company John T Boyd. Boyd's full assessment of the scope for cost reductions will be available in time for incorporation in the end December report.

The report should be available shortly and I am aiming to put it to you and to the Chancellor on 4 October before the Party Conference. Although this is very much an interim report it does cover a number of very sensitive issues and will need very careful handling. Once you have had a chance to consider the report it would be helpful therefore if we could discuss how best



to take things forward with colleagues. One option would be to arrange a briefing session for yourself, the Chancellor and a small group of colleagues on the main issues covered. This would enable us to avoid wide circulation of the report whilst ensuring that key Ministers are fully up to date with our thinking.

I am copying this minute to the Chancellor of the Exchequer and to Sir Robin Butler.

A handwritten signature in blue ink, appearing to be 'J. Smith', is written above a horizontal line.

SECRETARY OF STATE FOR ENERGY

27 September 1991

CONFIDENTIAL

SAM



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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

1 October 1991

Dear John,

COAL PRIVATISATION

The Prime Minister was most grateful for your Secretary of State's minute of 27 September giving a progress report on the proposed privatisation of British Coal. He has noted the state of play in the three working groups and that your Secretary of State should have a fuller report available shortly to present to the Prime Minister and the Chancellor.

The Prime Minister is content to proceed as proposed by your Secretary of State. I will be in touch shortly to discuss how circulation of the report should best be handled; and how the Prime Minister, Chancellor and other senior Ministers can best be briefed on the findings.

I am copying this letter to Jeremy Heywood (Treasury) and to Sir Robin Butler.

Yours ever,

Barry

BARRY H POTTER

John Neilson Esq
Department of Energy

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