

PRIME MINISTER

COAL PRIVATISATION

You have a presentation on privatising British Coal at 1545 tomorrow. The slot is one and a half hours.

The lead will be taken by Mr. Wakeham and DEN officials plus Rothchilds, the privatisation advisers. The presentation will reflect the contents of the Rothchild report (attached). I also attach a summary prepared by Alan Rosling.

Following the presentation the meeting will discuss the way forward. In addition to Mr. Wakeham, the Chancellor and the Industry Secretary (plus one official), Peter Owen, Cabinet Office, will be present.

I attach Mr. Wakeham's minute and a brief prepared by Alan Rosling.

Following consultations with the offices of Mr. Wakeham and the Chancellor, I think there are four main issues for discussion tomorrow.

- * Future scale of the industry. In essence the size of the industry depends on success in cutting costs and winning contracts to supply the electricity generators. Excluding 10 million tonnes annual sales to industry and the domestic sector, the coal market is dominated by sales to the generators. This year, sales will be 70 million tonnes, next year they will be 65 million tonnes.

Under Rothchilds' proposals the core sales to generators are set at 35 million tonnes (mid 1990s). That means only 14 pits, much less than the present 61. Of these six would be UDM pits.

X But if unit costs could be reduced by a further 10 per cent, the UK coal industry might be 10 million tonnes larger. That would enable 22 pits to remain - including one or two extra UDM pits, though most of those saved would be in Yorkshire.

- * Managing the run down Local management and men thus have a real incentive to cooperate in achieving cost reduction. Their future depends on it. It will be critical to get that message across; and the timing and careful management of measures to reduce costs (mainly through new technology) over the next few months will be crucial.

DEn officials seem relaxed about industrial action in the winter. But while its economic significance is much less than 5 years ago, you will be conscious of its political impact. Mr. Wakeham needs to consider how to start achieving the reduction in costs to maximise the size of the industry without causing industrial action from pit deputies (NACODS) or the NUM. Safety will be an issue.

- * DEn\British Coal Strategy Mr. Wakeham is confident that British Coal management is improving. He is impressed with the new Chairman Neil Clarke and with Bert Wheeler (a mining engineer recently elevated to the board). The previous thorn in the Government's side (Malcom Edwards, the Commercial Director) has now gone.

But DEn and British Coal need to work up an aid strategy for losers - generous redundancy terms; stimulating British Coal enterprise; the EC RECHAR programme. And I would not rule out some help through the regional map. (Ministers have foresworn further changes to the area incentives map: but the map no longer reflects the patterns of heavy job losses.)

There may be a political case for extra aid to UDM areas. This is perhaps more easily done through the regional map, than special training or other incentives confined to UDM areas.

- * Future Structure of a Privatised Coal Industry This will be the area that Mr. Lilley is keenest to discuss. Both Treasury and DTI believe the Department of Energy will favour a British Gas solution, ie. a single privatised company.

I am assured that Mr. Wakeham favours a two company option. But you will want to tie him down. A two company option which split geographically i.e. between a Scottish firm supplying the two Scottish generators and the rest, would not achieve competition.

- X And you need to check on the precise timing. The earliest Paving Bill is not until the next Parliament.
- X Is the next public step a commitment in the Manifesto?
- X What would be the nature of that commitment?

Conclusion

Ministers are broadly agreed on the way forward. There are two pieces of further work you need to commission.

- The BC strategy for achieving cost reduction and - in slower time - an orderly run down of at least 40 pits.
- Further work on the privatisation options.

BHP

BARRY H. POTTER.

12 November 1991.

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