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PRIME MINISTER

12th November 1991

COAL PRIVATISATION

John Wakeham will present to you tomorrow the work that has been progressing on coal privatisation. He will have with him Bill McIntyre, a very able Grade 3, and Keith Palmer, a Director of N M Rothschild. Palmer has a good reputation and the work his team have done on coal has been excellent. Also present will be the Chancellor and Peter Lilley.

The Presentation

The substance of the work is well in hand and John Wakeham will be seeking your approval for pushing on with it (see attached summary of the Rothschild report). Decisions on structure are still some way off. McIntyre and Palmer will use boards to explain:

- the future of the coal market
- the importance of the electricity contracts
- the privatisation options
- the future work programme.

John Wakeham will seek your endorsement of:

- the conclusions of the work to date
- the three preferred privatisation options
- the next steps.

You should have little difficulty in agreeing to these points.

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Points for Discussion

The discussion is likely to focus on the handling of the next six months.

The future of the industry depends upon two distinct but closely connected processes.

i) Cost Reduction

The management of British Coal under their newish Chairman Neil Clark need to make the industry competitive. This will involve not just pit closures (6 more this financial year, making 12 in total) but probably more contentiously cost reductions and productivity gains in the pits that should survive. Pit face technology, transport systems, management structures, working practices and pay systems all need to be challenged. Industrial unrest is more likely to come from the pit deputies (Nacods) than the NUM. Savings on central overheads away from the pits of up to 50 per cent are planned for.

ii) Electricity Contracts

The two major generators (National Power and PowerGen) take 77 per cent of British Coal's output. The current long-term contracts expire in March 1993, and the sale of the industry depends on their successful renegotiation. This needs to be completed by mid-1992, as going to the wire in the negotiations would only prod the Generators to increase their sources of alternative fuel to safeguard their businesses. The size of the contracts agreed will be determined by British Coal's success in offering competitive prices, and hence on the cost reduction programme.

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We must expect that these two processes will be accompanied by publicity, leaks and press comment, which could be damaging politically if poorly handled. Key issues include:

i) The Role of HMG in the Contract Negotiations

John Wakeham expects to act as facilitator, go-between and nanny to the process. You will want to hear his reading of how things should be managed.

ii) Publicity Management

We have an excellent story to tell on why we are pushing through this policy. Journalists and then the public need to understand the true position and the real benefits (up to 5 per cent off electricity bills) that will flow from privatisation. You will want to be satisfied with John Wakeham's plans for controlling the debate. Essentially, he would like to use Neil Clark to do the briefing (Clark has little experience of this type of role), along with himself and David Heathcoat-Amory. DEN are constrained from having a public relations consultant by the delay in the paving bill.

I am concerned that DEN's plans are insufficiently proactive and leave responsibility for telling the story too diffuse and ill-defined. I suggest you ask John Wakeham:

- to prod British Coal into appointing outside public relations managers quickly;
- for a clear strategy to be ready before the end of the year for putting the message across.

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iii) Presentation of the job losses and pits closures

DEN have a number of proposals which would soften the blow of pit closures:

- redundancy terms are generous (up to £37,000 for a miner) but need to be reviewed, especially for management;
- BC Enterprise has an excellent track record. More cash might be injected and better management put in place;
- EC Rechar funds are currently blocked due to the argument with Bruce Millan over additionality. There is £100 million over 4 years to be unlocked here. A Ministerial meeting will consider soon how the dispute with the Commission might be resolved;
- An announcement on support for clean coal research would be welcome.

You could ask for DEN to work up a strategy along these lines.

iv) Nottinghamshire

I have minuted you previously about the political need to be seen not to be abandoning the UDM miners. Something additional is needed for Nottinghamshire.

The scheme I have in mind is for the Government to announce some additional funds for mining areas which would be bid for by local groups consisting of the local TEC, local business people and possibly a union. The funds could then be used to

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assist miners make the transfer away from the industry. Such a scheme could be structured in such a way that the UDM leadership would welcome the initiative but the NUM would find it impossible to bid for money on political grounds.

If you agree with this thought, you could ask John Wakeham to work it up.

v) British Coal Management

The whole thrust of policy depends upon British Coal's management. You will want to question John Wakeham closely on whether he is satisfied with the strength of the BC Board. Neil Clark is a cautious accountant. He is supported by Ken Moses, a sound thinker, and Bert Wheeler, a good mining engineer. But the Company is weak on commercial drive, with Malcolm Edwardes, the Commercial Director, a real loose cannon.

Does British Coal need a Chief Executive to strengthen the top team?

(He may
be
dismissed)
BHP
12/11

Alan Rosling

ALAN ROSLING