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CABINET
MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

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COAL TRIPARTITE DISCUSSIONS

Memorandum by the Secretary of State for Energy

1. My minute of 25 February to the Prime Minister reported the outcome of the Coal Industry Tripartite held on that day. We should now consider how to handle the next Tripartite provisionally arranged for 11 March.
2. The Tripartite on 25 February was satisfactory from our point of view. But the danger of industrial action by the miners remains and, if we are to continue to control the situation, we must be able to show further progress by 11 March. We need to consider this under two heads:
 - a. The commitments we have already undertaken on the cost of withdrawing the closure programme and replacing imports.
 - b. The other items in the NUM "shopping list".

The commitments

3. On 25 February I repeated the commitments we had agreed on the costs to the Board of withdrawing the accelerated closure programme and buying out imports. I did not put any figures on these costs, but we now need to consider our tactics on the possibility of doing so.

4. The figures themselves are uncertain. On the cost of withdrawing the closure programme, the Board have given us a figure of £150m, which assumes that after an interval they could return to an annual closure rate of 1½m tonnes a year. On such an assumption, the underlying addition to costs resulting every year from the withdrawal of their accelerated closure programme would certainly be of this order. But the assumption is crucial: if the Board got more closures than 1½m tonnes a year (though at the moment it would be wrong to assume that they could), the figure would of course be less, while if they got none it would rise to more than £200m. We must remember too that closures involve initial costs and that if the Board had succeeded in their plans for closures in 1981/82 they would have incurred extra costs of some £50m offsetting, for that year alone, the underlying benefit for them. After 1981/82 the benefits of the closures would have risen cumulatively without any such offset and it is therefore important for us to avoid, if we can, extending our commitment beyond that year. The figure for the cost of import substitution is also uncertain. The Board gave an estimate of £60m for 1981/82, but this figure depends on the outcome of negotiations with the CEBG and BSC. Displacement of BSC imports accounts for half the £60m.

5. It would therefore be better to avoid giving a figure for the cost of the two commitments we have undertaken. Given the uncertainties, a high figure could be an overestimate, but a low figure could be used by NUM militants as evidence of the Government's withdrawal from its undertakings. Perhaps most important of all, giving a figure would risk making it harder to secure more closures than had been allowed for in calculating it.

6. In my view, therefore, we should still try to avoid giving figures, and certainly not volunteer any before the Tripartite. But we should recognise that at the Tripartite itself the NUM may well press so hard for figures that it would be unwise to refuse to give any at all. In that case, we should reduce the risks by:

- a. Mentioning only a single figure covering both withdrawal of closures and imports.
 - b. Ensuring that the figure was given by, or attributed to the Board.
 - c. Using as wide a range as possible, I suggest a range of £100-£200m, for closures and imports together, which takes account of the uncertainties mentioned above.
7. We shall also need to show that some progress has been made in the negotiations with BSC and CEBG on displacement of imports. I may be able to report progress on these orally at our next meeting.

Other items on NUM shopping list

8. The other proposals made by the NUM were as follows:
 - a. Support for Phurnacite investment and cut price coal for old age pensioners. I rejected these at the last Tripartite.
 - b. Reduction in the retirement age for mineworkers. I said that this was a matter for the Board in the first instance.
 - c. Support for coal research. I am considering whether some limited funding of demonstration projects for fluidised bed combustion could be arranged within my Department's present budget. I shall aim to avoid discussion of support for the proposed liquefaction plant at Point of Ayr and shall in any case undertake no new commitment which cannot be met within my Department's budget before we know the total size of the package we can put to the NUM.

d. Improved redundancy payments and support for a scheme of oil substitution in industry. I am sure that action on these two points is desirable quite apart from our need to show progress in the Tripartite, and I have consulted my colleagues directly concerned accordingly.

9. The other items on the NUM shopping list were the level of capital investment and a number which directly concern the Board's financial arrangements: stocking aid, coking coal grants, reduction of interest payments, and help with export sales. My minute of 25 February to the Prime Minister reported that the Board now estimate their cash requirements for 1981/82 to be some £450-£500m in excess of their External Finance Limit. This estimate is still being examined by my Department and the Treasury but it indicates the scale of the financial problems now facing the Board. We cannot yet however take a decision on how much help the Board will need in total, or whether it should take the forms suggested by the NUM. In any case, we must try to avoid involving the Tripartite in these matters. I would therefore propose to say nothing about the Board's general financial arrangements at the next Tripartite, beyond repeating that discussion between the Board and the Government will be necessary.

Next steps

10. Our aim must be to bring this series of Tripartite meetings to an end as soon as it can safely be done. But this must be subordinate to the more important objectives of keeping the situation under control. Our chances of closing off this whole business will be considerably improved if we can settle on the improved redundancy terms and use the oil substitution scheme - which means money for private industry not the coal industry - to head off further demands. Nevertheless we may have to accept the need for at least one further Tripartite after 11 March, and we must be prepared for the possibility that the union will press for further issues on their "shopping list" to be addressed which could then involve some discussion of the Board's general financial arrangements - although our aim must be to avoid this.

Summary and conclusions

11. I therefore recommend:

- a. We should try to avoid giving any figures on the cost of our two commitments and should not volunteer them before the Tripartite.
- b. But the unions may press hard for such figures at the Tripartite. We should be prepared if they do for an NCB estimate to be given that the cost of the two commitments together will be some £100-£200m.
- c. We should deal with the other items in the NUM shopping list as suggested in paragraphs 8-9 above.
- d. We should aim to bring this series of Tripartite meetings to an end as soon as we safely can, but this must be subordinate to the more general objective of keeping the situation under control.

Department of Energy
3 March 1981

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