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E(81) 9th Meeting

COPY NO 57

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at  
10 Downing Street on  
THURSDAY 5 MARCH 1981 at 11.30 am

PRESENT

The Rt Hon Margaret Thatcher MP  
Prime Minister

The Rt Hon William Whitelaw MP  
Secretary of State for the  
Home Department

The Rt Hon Lord Carrington  
Secretary of State for Foreign  
and Commonwealth Affairs  
(Item 1)

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP  
Secretary of State for Industry

The Rt Hon Lord Soames  
Lord President of the Council

The Rt Hon James Prior MP  
Secretary of State for Employment

The Rt Hon John Nott MP  
Secretary of State for Defence

The Rt Hon Peter Walker MP  
Minister of Agriculture,  
Fisheries and Food  
(Item 1)

The Rt Hon Michael Heseltine  
Secretary of State for the  
Environment

The Rt Hon John Biffen MP  
Secretary of State for Trade

The Rt Hon David Howell MP  
Secretary of State for Energy

The Rt Hon Leon Brittan QC MP  
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon George Younger MP  
Secretary of State for Scotland  
(Item 1)

The Rt Hon Nicholas Edwards MP  
Secretary of State for Wales  
(Item 1)

Mr Kenneth Baker MP  
Minister of State, Department  
of Industry  
(Item 2)

Mr J R Ibbs  
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong  
Mr P Le Cheminant  
Mr D J L Moore

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## 1. COAL TRIPARTITE DISCUSSIONS

The Committee considered a memorandum by the Secretary of State for Energy (E(81) 25) on his tripartite discussions on the coal industry with the National Coal Board and the National Union of Mineworkers.

Their discussion and conclusions reached are recorded separately.

The Board of Public Sector Assets (BSA) has agreed that the Government should aim for the sale in the Autumn of next year of less than 50 per cent of its shares in C&W. Under these arrangements the Government would retain management responsibility for the company, so as to ensure that it would be classified as public as part of the private sector. BSA had, however, judged that the Government should retain originally more than 50 per cent of its shares in order to satisfy overseas governments that there would be a continuing close relationship between the Government and C&W, backed up by a degree of control which, in these governments' eyes, would be sufficient to protect their local interests. Approximately 30 governments had been consulted on this formula, and the Commonwealth Telecommunications Organisation and its members had been informed. Any change now in the proposed arrangements would have to be subject to further consultations, and would run the risk of provoking overseas governments to refuse to extend their cooperation to C&W as these expired. It was particularly important in this respect to secure the willing acceptance of the Hong Kong and Bahrain governments to the proposals for the sale of shares, since the profits of C&W were heavily dependent on their business in these areas. Kistner had advised that any whereby provisions in the Articles of Association, to provide the Government with a veto on resolutions taken by the Court of C&W, would depress the value of the shares. He strongly recommended, therefore, that the Committee should endorse the recommendations of BSA, which were fully supported by the Court of C&W, that initially the Government should sell 50 per cent, less one, of its shares in C&W and that steps to sell additional shares in C&W should be taken as soon as this could be arranged consistently with securing the future of the Company's overseas operations.

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## 2. CABLE AND WIRELESS

The Committee considered a memorandum by the Secretary of State for Industry (E(18) 27) on the sale of shares in Cable and Wireless (C&W).

THE SECRETARY OF STATE FOR INDUSTRY said that the Sub-Committee on Disposal of Public Sector Assets (E(DL)) had agreed that the Government should aim for the sale in the autumn of just less than 50 per cent of its shares in C&W. Under these arrangements the Government would relinquish management responsibility for the company, so as to ensure that it would be classified in future as part of the private sector. E(DL) had, however, judged that the Government should retain marginally more than 50 per cent of its shares in order to satisfy overseas governments that there would be a continuing close relationship between the Government and C&W, backed up by a degree of control which, in those governments' eyes, would be sufficient to protect their local interests. Approximately 30 governments had been consulted on this formula, and the Commonwealth Telecommunications Organisation and its members had been informed. Any changes now in the proposed arrangements would have to be subject to further consultations, and would run the risk of provoking overseas governments to refuse to extend their concessions to C&W as these expired. It was particularly important in this respect to maintain the willing acceptance of the Hong Kong and Bahrain governments to the proposals for the sale of shares, since the profits of C&W were heavily dependent on their business in these areas. Kleinworts had advised that any blocking provisions in the Articles of Association, to provide the Government veto of decisions taken by the Court of C&W, would depress the value of the shares. He strongly recommended, therefore, that the Committee should endorse the recommendations of E(DL), which were fully supported by the Court of C&W, that initially the Government should sell 50 per cent, less one, of its shares in C&W and that steps to sell additional shares in C&W should be taken as soon as this could be arranged consistently with securing the future of the Company's overseas operations.

CONFIDENTIAL

THE PRIME MINISTER, summing up a short discussion, said that in the light of the attitude of the other governments with which C&W had dealings, and of the fact that consultations had already taken place with those governments, the Committee endorsed the recommendations of E(DL) for the sale in the Autumn of slightly less than 50 per cent of the Government's shares. Their agreement was, however, on the understanding that, in contrast to the arrangements made for British Aerospace, nothing should be said or done that would fetter the Government's freedom to sell further shares in the Company at a later date should a suitable opportunity arise. The Committee agreed that, subject to consultation with the business managers, the Minister of State, Department of Industry, could make an oral statement announcing the Government's decision on Monday 9 March.

The Committee -

1. Approved the recommendations in paragraph 12 of E(81) 27
2. Subject to consultation with the Chancellor of the Duchy of Lancaster and Paymaster General and the Chief Whip, authorised the Minister of State, Department of Industry to announce their decision in an oral statement on Monday 9 March.

Cabinet Office

6 March 1981

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COPY NO 9

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX  
E(81) 9th Meeting Minutes, Item 1  
THURSDAY 5 MARCH 1981 at 11.30 am

SECRET

1. COAL TRIPARTITE DISCUSSIONS

Previous Reference: E(81) 7th Meeting Minutes

The Committee considered a memorandum by the Secretary of State for Energy (E(81) 25) on his tripartite discussions on the coal industry with the National Coal Board (NCB) and the National Union of Mineworkers (NUM).

THE SECRETARY OF STATE FOR ENERGY said that the next tripartite meeting would be on 11 March. His immediate aim was to conclude the tripartite discussions as soon as possible on a basis which would be helpful to moderate opinion in the NUM but would at the same time avert any further bids from the unions for financial assistance. On the two commitments which the Government had made in order to avoid strike action, the NCB estimated that the cost of withdrawing the closure programme might be in the order of £150 million in 1981-82, on the assumption that after an interval they could return to an annual closure rate of 1½ million tonnes a year; and that the cost of import substitution in the year might be £60 million, though this figure would depend on the outcome of current negotiations with the Central Electricity Generating Board (CEGB) and the British Steel Corporation (BSC). Given the uncertainties surrounding these figures, he would not volunteer them in the tripartite discussion; but, if the NUM were to press hard, he recommended that the NCB should be authorised

to tell them that their estimate was that the cost of the two commitments together would be in the range of £100-£200 million. To open the way to resuming closures at an annual rate of 1½ million tonnes a year, and to accelerating this rate subsequently, he judged that it would be necessary for him to make specific proposals at the tripartite discussion for improved redundancy terms. He would then wish to lay an Order, providing for the implementation of those terms, on 11 March, at the same time as an Order which he already planned to lay on the Mineworkers' Pensions Scheme. If this could be done a single debate on the two Orders would suffice. He was discussing with the Chancellor of the Exchequer his proposals for a scheme to provide grants towards the capital costs of converting oil-fired industrial boilers so that they could use coal: such a scheme would be useful in the current negotiations with the NUM, but more important, it could be justified in its own right as helpful to private sector industry and as leading to public expenditure savings as a result of the reduction in the costs of financing coal stocks. He was considering further whether some more financial support for coal research might be found from within his Department's present public expenditure provision. A further problem was that the Chairman of the NCB had now revealed that he expected that the industry's cash requirements in 1981-82 would be some £450-500 million in excess of their External Finance Limit (EFL), and that their revenue account loss would be about £550 million. This indicated an alarming and substantial deterioration in the NCB's underlying financial position, and his Department and the Treasury were scrutinising the figures. The options for dealing with this situation should remain a separate matter for decision by the Government and the NCB; it would not be appropriate to raise them in the tripartite forum. He proposed, therefore, to say nothing about the Board's general financial arrangements at the tripartite meeting on 11 March, beyond repeating that discussion between the Board and the Government would be necessary. He would seek to ensure that Sir Derek Ezra, the Chairman of the NCB, adopted the same approach.

In discussion the following were the main points made -

- a. It was highly unsatisfactory that the Chairman of the NCB had not revealed until the last week in February the substantial deterioration in the Board's overall financial position, even though he must have been aware of it earlier in the month when the tripartite discussions were first called. This underlined the need for a review of the Government's relationship with the nationalised industries generally, including the provision of adequate and timely financial information. Among other matters the Board of any well run private company would expect to receive monthly financial statements, and the Government should not accept less from the nationalised industries.
- b. The tripartite discussions should be concluded as soon as possible and the wider question of the NCB's overall financing requirements should be dealt with as a separate matter between the Government and the Board. The Chairman of the NCB should be left in no doubt that he should not table any further bids for financial assistance in the tripartite discussions.
- c. Rather than offer substantial and generous improvements in redundancy terms immediately, with no assurances on the resulting rates of closure, it might be better to offer some improvements initially to encourage the restoration of the basic closure programme, and then to offer more subsequently if there seemed a real prospect of the rate of closures being accelerated. On the other hand, there would be dangers in such a piecemeal approach. There was no prospect of the NUM explicitly agreeing a national rate of closure now or in the future; and if they thought the Government were prepared to consider even better redundancy terms they could well refuse to agree to any closures until these had been agreed. In the long run therefore the two stage approach might well prove more expensive than the package presently proposed.

d. Measures to reduce the level of coal imports should be concentrated on subsidies to the NCB to enable it to reduce its own prices to competitive levels. Although the BSC and the CEBG should be encouraged to buy more <sup>from</sup> the NCB they should not be subsidised directly, and interference with their existing contracts should be avoided. In this way it should be possible to reduce the risk of repercussions in other parts of industry by drawing a ring fence round the subsidies given to the NCB. It was noted that the Monopolies and Mergers Commission would shortly be publishing a report recommending higher, rather than lower, purchases of imported coal by the CEBG.

e. In so far as coal now in stock was not suitable for power stations, consideration should be given to exporting it at whatever price was necessary to secure its sale. Although this might lead to objections from other European producers, it was better than continuing to bear the heavy burden of financing large coal stocks.

f. It was essential to avoid entering into commitments going beyond 1981-82. Otherwise, quite apart from the cost, the Government's scope for exercising a restraining influence in the course of any subsequent negotiations would be reduced. Apart from action on closures, imports and redundancy payments other concessions should be kept to a minimum and, if made, should be used in negotiation to help avoid commitment for the later years on the main issues.

g. In public presentation of the package of assistance it should be possible to make clear that the apparently generous redundancy terms were necessary to secure closures at a time when modern pits, such as Selby, were being opened and in order to get miners out of old pits with bad working conditions. On the other hand, it had to be recognised that, while working conditions were bad in many of the South Wales pits, there was no alternative employment available in the Principality, either in new pits or in other industries.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that, if the NUM pressed hard for the figures, it could be made known at the tripartite meeting on 11 March that the NCB's estimate of the cost of withdrawing the closure programme and replacing imports was in the range of some £100-200 million for the two commitments together. The Secretary of State for Energy could put forward proposals to the tripartite meeting for enhanced redundancy payments, subject to prior agreement on the details with the Secretary of State for Industry, the Lord President of the Council and the Chief Secretary, Treasury; and he could lay an Order to give effect to those arrangements on the same day. His aim should be to conclude the tripartite discussions of these issues as soon as possible. He should, therefore, strongly discourage the raising of any further proposals in this forum, and he should make it clear to the Chairman of the NCB, before the meeting, that this was his intention. The Committee were deeply concerned at the substantial deterioration in the NCB's overall financial position, and by the Board's failure to give warning of this in good time. This would be for further consideration between the Government and the NCB, and should not be dealt with in the tripartite discussions. In the meantime, the Secretary of State for Energy should reach agreement with the Chancellor of the Exchequer on his proposals for grants to encourage the substitution of coal for oil in industrial boilers. Any further support for coal research and development would have to be found within the Department of Energy's existing public expenditure provision. The NCB should be encouraged to reduce the financing costs of stocking by selling other types of coal in export markets at world competitive prices. Finally the Committee were deeply concerned at the defects in the relationship between Government and the nationalised industries generally, of which the situation which had arisen in the coal industry was the latest example. She was considering separately how these relationships might best be reviewed.

The Committee -

1. Approved the recommendations in paragraph 11 a and b of E(81) 25.
2. Agreed that steps should be taken actively to discourage the National Coal Board from raising in the tripartite meeting, and the tripartite meeting from discussing, any new issues beyond those which the Government was already committed to discuss in that forum.
3. Agreed that the question of the revision of the National Coal Board's financial outlook, their External Finance Limit and of any corrective action which might be called for, were not appropriate to the tripartite discussions and should be handled in the normal way between the Government and the National Coal Board.
4. Agreed that any subsidies to secure reduced imports of coal should be paid directly to the National Coal Board and not to other industries.
5. Invited the Secretary of State for Energy -
  - i. to aim to conclude the tripartite discussions as soon as possible and to avoid the introduction of new elements into them;
  - ii. Subject to clearance of the details with the Secretary of State for Industry, the Lord President of the Council and the Chief Secretary Treasury, to offer improved redundancy terms at the tripartite meeting on 11 March and, on the same day, to lay an Order giving effect to those arrangements;
  - iii. to discuss with the Chancellor of the Exchequer his proposals for grants to encourage the conversion of industrial boilers from oil to coal use;
  - iv. to encourage the sale from stock of other types of coal in export markets at competitive prices;
  - v. to circulate a memorandum on the overall financial position of the National Coal Board.

6. Took note that the Prime Minister was considering how best to review the present unsatisfactory relationships between Government and the nationalised industries generally.

Cabinet Office

6 March 1981