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PRIME MINISTER

AT 25/11

25 January 1985

COAL - MILLSTONE OR MIRACLE?

Shell UK have a scenario nicknamed "The MacGregor
Miracle". As oil and gas suppliers, they see it as a long-
term threat because it envisages a slim and hungry UK coal
industry capable of fuelling power stations at very
competitive prices. You could then have a virtuous circle,
with efficient indigenous coal generating competitive
electricity and winning new business from gas and oil.

Let us focus on 1990 and think of what it could look like:

- By then the 5 new AGRs should be operational,
substituting 20 million tonnes pa of coal.
- Assume that between now and 1990 gas, and to a lesser
extent oil, win, say, 10 mt pa of new business from
troubled, unpopular coal.
- Open-cast mines already supply 15 mt pa of low-cost coal.
They are prime candidates for expansion, so by 1990 they
could be supplying 20 mt pa.
- The call on deep-mined production would drop from 105 mt
pa before the dispute to 70 mt pa by 1990.

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- The "MacGregor Miracle" would require that to be accompanied by the closure of the least economic pits and the continued development of the new generation of super pits. The immediate human costs would be large, but so would the corresponding gains in competitiveness:

<u>NCB's deep-mined production potential</u> (mt pa)	<u>Manpower Reduction</u>	<u>Average minehead cost</u> (1984 money)
105	-	£46 per t
90	50,000	circa £40 per t
70	+50,000 more	circa £35 per t

- Imported coal is unlikely to be cheaper in real US dollars than today's \$50 per T landed at an East Coast port.

Thus, by 1990 a "MacGregor Miracle" could put NCB in a position to deliver coal to the average CEGB inland power station for as much as £10 per t less than imported coal. Moreover, that would be something like half the equivalent cost of heavy fuel oil assuming that oil prices remain at today's level.

This could be the light at the end of the tunnel.


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