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SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH

MILLBANK LONDON SW1P 4QJ

01 211 7214

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1

20 May 1985

Dear Andrew

COAL INDUSTRY

Thank you for your letter of 26 April, listing a number of topics discussed by the Prime Minister and my Secretary of State on 24 April. I set out my Secretary of State's views on the handling of these topics in this letter, which also takes account of relevant parts of your further letter of 13 May recording the Prime Minister's conversation that day with Ian MacGregor.

- (i) Replenishment of power station stocks. I attach a note on the logistics and financial implications of setting a target of 28 million tonnes of coal stocks at the power stations in substitution for the target of 23 million tonnes by the autumn (6 months endurance) agreed when Ministers last discussed this in March.

The CEGB and NCB are now working to an agreed programme designed to achieve the 23 million tonnes by October/November. My Secretary of State is monitoring achievement very closely. The programme is broadly on course, as Mr MacGregor indicated: although there is nothing to spare at present because a good performance on delivery has been balanced by higher consumption attributable to the unseasonably cool weather.

The uncertainties about achieving 23 m tonnes include the effects of the overtime ban by NACODS; the risk of industrial action on the railways; and the rate at which, disruption apart, the coal industry can complete its recovery to normal production.

On the higher target, both Boards are at present saying that 23 million tonnes is close to the maximum which can be achieved by this autumn by delivery of UK coal. This judgement assumes optimum use of the nuclear component, consistent with availability during the winter. The Boards are having to cope with the maldistribution of



stocks at both pits and power stations which resulted from the strike.

The NCB commercial interest is to rebuild power station stocks from UK coal to the limit of the possible. So when Mr MacGregor suggests that the CEGB should rebuild stocks at Rotterdam, that tends to confirm that there is not much scope for going beyond 23 m tonnes out of UK coal. In fact, however, the Rotterdam stock did not help endurance during the recent strike. The difficulty for the CEGB was not to obtain foreign coal but to import it. If importing can be freely undertaken, there is no great difficulty about obtaining coal overseas and little advantage in spending money on a Rotterdam stock pile.

Unless therefore the judgement of the two Boards is quite wrong - and our best assessment is that it is not - to achieve a further 5 million tonne increase in stocks by this autumn, or anything approaching it, would require large extra coal imports or a large extra oilburn, or some of both. Any combination of extra imports and extra oilburn to achieve an extra 5 million of stock would be likely to add between £400 million and £500 million to the PSBR, and rather more (because of oil duties) to the level of public expenditure. Both imports and oilburn would be visible and would require the acquiescence of the trade unions in the transport and electricity supply industries as well as in the coal industry itself.

There is therefore a judgement to be struck between the high PSBR and balance of payments costs of coal imports and oilburn, and the advantages of raising endurance by the autumn beyond 6 months. It is hard to believe that the NUM could again face a prolonged strike as soon as next winter. Mishandling of NACODS could produce loss of output but again, it is difficult to envisage this leading to a stoppage of a large part or all of the coal industry for many months on end.

- (ii) Long term power station endurance. As your letter said, the CEGB is conducting an appraisal of the options which will not be available until June. A report for Ministers on lessons of the strike is also being prepared in the Cabinet Office (MISC 57). My Secretary of State proposes to consider both reports together and to bring to his colleagues his conclusions on longer term power station endurance in the light of that.



(iii) NCB programme: Closures and redundancies. My Secretary of State notes that the Prime Minister spoke to Mr MacGregor about this on 13 May. Since the end of the strike the NCB has been concentrating on short-term planning, but my Secretary of State has repeatedly pressed for a longer term programme leading to break-even. Provisional Area Budgets for 1985/6, with preliminary plans for 1986/7, were adopted by the Board on 10 May, and a brief summary of the Board's targets, for these 2 years only, was made available to my Secretary of State last week. My Secretary of State is anxious to discuss this plan with the Prime Minister and the Chancellor when the material made available by Mr MacGregor has been confirmed, examined and amplified. He is pursuing this urgently with Mr MacGregor.

(iv) Acceleration of opencast mining. My Secretary of State welcomes the proposal for an early meeting with the Secretary of State for the Environment on speeding up the present approval process for opencast sites. Some Labour Councils have shown reluctance to approve opencast operations which they see as unwelcome competition to deep mining and the NUM.

This situation has a bearing both on endurance and on the finances of the NCB. Opencast coal supplies do represent some element of diversification in the sources of UK coal for power stations and industry; and the manpower in them is mainly in the TGWU, not the NUM. The operations on site are undertaken by the private sector. Opencast operations are profitable to the NCB and loss of part or all of that profit would impair the Board's ability to achieve break-even by 1987/88.

It follows that the question of opencast mining, and of planning permission for it, arises on both items (iii) and (v) of your letter (the break-even plan and the longer term structure of the industry). My Secretary of State sees the immediate requirement as being to ensure a proper flow of planning approvals.

(v) Longer term structure of the coal industry. My Secretary of State feels that it would be much easier to consider sensibly the longer term structure of the industry when an effective plan for achieving break-even and eliminating grossly uneconomic capacity has been approved and put in place. For example, the shape and balance of the regions of the Coal Board will only be evident when the break-even programme is clear; and the future of opencast depends on it not being frustrated by



the planning machinery. He would be very ready to put in hand work in these areas as soon as there is a basis on which to build.

- (vi) Personnel changes in the NCB. My Secretary of State is in touch separately with the Prime Minister about this and has noted your record of the Prime Minister's discussion with Mr MacGregor on this subject.

I am copying this letter to Rachel Lomax and to Peter Gregson, with the same injunction that distribution is on the strictest need-to-know basis.

*Yours sincerely
Michael R.*

M F REIDY
Private Secretary



10 DOWNING STREET

From the Private Secretary

26 April 1985

Dear Michael

COAL INDUSTRY

There are a number of issues on the coal industry which Ministers will need to consider in the coming months and for which it is necessary to agree a timetable for the work involved. When your Secretary of State came to see the Prime Minister on Wednesday on another subject, she raised a number of these issues with him.

(i) Replenishment of power station stocks

Your Secretary of State reported that NCB and CEBG had agreed a schedule of deliveries which would achieve 22.9 mt at power stations by end October. The Prime Minister wondered whether this was sufficient and suggested 28 mt. Your Secretary of State replied that when this had been discussed in March a target of six months' endurance had been set which 23 mt would provide. The Prime Minister would be grateful if your Secretary of State could consider the logistic and financial implications of aiming at a higher target.

(ii) Extending power station endurance

Ministers will need to consider a variety of options eg expansion of inter-connectors, dual firing (whether oil or gas), mixed firing, a further expansion of coal stocks, increased access to alternative coal supplies. The Prime Minister understands that the CEBG is engaged on a major technical appraisal of the options which is unlikely to be ready before early June.

(iii) NCB Programme for closures and redundancies

Your Secretary of State told the Prime Minister that NCB had still not set clear objectives for closures and redundancies for the next two years. He suggested that the Prime Minister might meet the Chairman to discuss his plans. This would need to be preceded by a meeting of Ministers.

(iv) Acceleration of open cast development

There are two separate issues; first, securing an adequate flow of planning consents, and secondly, the

priority which the NCB gives to open cast operations. On the first, advice is expected shortly from Sir Robert Armstrong, after which a meeting will be arranged with your Secretary of State and the Secretary of State for the Environment. The second can be dealt with in the context of (iii) above.

(v) Longer term structure of the coal industry

The Prime Minister is anxious that work should be set in hand on the longer term structure of the coal industry to consider such issues as regionalisation, privatisation, joint ventures and the hiving off of open cast operations.

(vi) Personnel changes on the NCB

Ministers will need to consider the successor to the Deputy Chairman and the consequential managerial changes.

The Prime Minister would be grateful for advice from your Secretary of State on a timetable for dealing with these issues.

I am copying this letter to Rachel Lomax (HM Treasury, copy no. 2) and to Peter Gregson (Cabinet Office, copy no. 3). Please could you ensure that it is shown only to those who need to know of its contents.

Yours sincerely

Andrew Turnbull

ANDREW TURNBULL

Michael Reidy, Esq.,
Department of Energy.