c/L

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

E(80) 33rd Meeting

COPY NO 56

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
MONDAY 15 SEPTEMBER 1980 at 3.00 pm

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 Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

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 Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon John Biffen MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

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

The Hon Adam Butler MP
Minister of State
Department of Industry

Earl of Mansfield
Minister of State
Scottish Office

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant
Mr D J L Moore (Items 1 and 2)
Mr G D Miles (Item 3)

CONTENTS

CONFIDENTIAL

1. STRATEGY FOR COAL

Previous Reference: E(80) 25th Meeting, Item 1

THE COMMITTEE considered memoranda by the Secretary of State for Energy (E(80) 96) and the Central Policy Review Staff (CPRS) (E(80) 99) on the Strategy for Coal.

THE SECRETARY OF STATE FOR ENERGY said that the financial strategy agreed for the National Coal Board (NCB) last year provided for external financing reducing steadily in real terms up to 1983-84. Since then the economic recession had led to falling demand for coal and to a considerable deterioration in the Board's cash flow and revenue account projections. To offset these increases the Board were reducing costs and, in particular, had stepped up the rate of pit closures from 1½ million to 2½ million tonnes of capacity a year. Nonetheless after allowing for prospective savings, it was still likely that the Board would be in excess of their cash ceilings by amounts rising to over £500 million in outturn prices in 1983-84. They were now examining the possibilities for eliminating this excess by a combination of cuts in output at continuing pits and in capital investments. He recommended that they should be allowed to complete this work and to put forward proposals in December in the context of their next medium term development plan. This was preferable to intervention by the Government to impose its own solutions, since this would both put at risk the coming pay negotiations with the miners and make it harder rather than easier to obtain an adequate level of closures.

MR IBBS said that the CPRS considered that over-capacity, and the high costs of some pits, were at the root of the problem. They recommended therefore that the Board should be asked how an increased closure programme might be achieved and what would be the consequences. They agreed that it was necessary in dealing with the present financial problems to give primacy to cash rather than revenue objectives.

In discussion the following points were made -

a. The increased financing requirements of the nationalised industries were one of the main sources of the Government's difficulties in bringing public sector borrowing under control in this year and next.

185

The nationalised industries were not being as vigorous in looking for cost reductions as many firms in the private sector. It was essential that the additional requirements of the NCB, and of the other nationalised industries, should be reduced.

b. While there were inevitable uncertainties about the level of finance required by some nationalised industries, it was important that the Cabinet's discussion in October of future public expenditure levels should be on as firm a base as possible. There could be no presumption that figures agreed for the NCB in October could be reopened later in the year when the Board's further work had been completed.

c. Present negotiating procedures led to delays in the implementation of closures. It might be worth offering more attractive redundancy terms in return for agreement to quicker closures, and the further work on savings should include an examination of whether this would be cost effective.

d. The report on the measures to implement the strategy within the financial limits should include an assessment of the implications of closures in each region, and of the possible cost to the Government of implementing measures to offset those closures.

e. With the rising price of natural gas and limitations on the supplies available from the British Gas Corporation (BGC) there might well be opportunities for the NCB to increase their sales of gas manufactured from coal. Such sales could well be at prices competitive with those offered by the BGC if the coal used as feed stock were made available at prices covering the costs of the more efficient pits.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that the provision for the external financing of the NCB should remain at the levels agreed last year, and that this should be a firm assumption in the coming discussions on the 1980 Public Expenditure Survey. The Secretary of State for Energy should inform the Chairman of the NCB of the importance which the Government attached to the Board finding realistic savings to ensure that these ceilings were not exceeded and should report further to the Committee on the NCB's proposals to achieve this objective when these were available to him.

The Committee -

1. Agreed that the provision for the external financing requirements of the National Coal Board should be at the levels approved last year.

2. Invited the Secretary of State for Energy -

a. To report further, in the light of the board's medium term development plan, on the savings which they proposed to make in order to keep within their financing limits and on their implications, including those for the regions.

b. To consider further the suggestion that it might be cost-effective to secure swifter implementation of closures in return for some improvement in redundancy terms, and to report.

CONFIDENTIAL

2. BRITISH GAS CORPORATION - DISPOSAL OF OIL ASSETS

Previous Reference: E(80) 30th Meeting, Item 3

THE COMMITTEE considered a memorandum by the Secretary of State for Energy, (E(80) 97) on the disposal of the British Gas Corporations's (BGC) oil assets.

THE SECRETARY OF STATE FOR ENERGY said that, although the BGC remained reluctant to dispose of a majority holding in their oil interests, he had now persuaded them to commission Lazards to advice on how this might be done in a way consistent with the Corporations's statutory responsibilities. The Corporation would be able to give him their proposals, in the light of Lazards' report, in the first week of October. In the meantime he had made clear to them that in the absence of a positive response to this proposal he would issue a direction under the Gas Act 1972 requiring them to dispose of their holding in the Wytch Farm oil field. The draft of this direction and of the letter formally consulting the Corporation on it had been prepared and could, if necessary, be laid soon after the House reassembled. He would report further, with his recommendations on which course of action to follow, in October and in the light of BGC's recommendations.

The Committee -

1. Approved the proposals in paragraph 7 of E(80) 97.

2. Invited the Secretary of State for Energy to make recommendations by mid-October on the disposal by the British Gas Corporation of a part of their oil interests.

5. BRITISH NATIONAL OIL CORPORATION: TIMING OF CLYDE OILFIELD DEVELOPMENT

THE COMMITTEE considered a Memorandum by the Secretary of State for Energy (E(80) 98) discussing proposals for the timing of the development of the Clyde oilfield, in which the British National Oil Corporation (BNOC) were the main licencees, in partnership with Shell and Esso.

THE SECRETARY OF STATE FOR ENERGY said that the depletion policy for North Sea oil, discussed by the Committee earlier in the year (E(80) 9th Meeting), envisaged that some oilfield developments might be deferred, to prolong the period of United Kingdom self-sufficiency in oil supply. The Clyde field was a candidate for such treatment, and deferment for up to five years could be justified. Action on these lines would both delay public expenditure and, by deferring capital expenditure by Shell and Esso, increase the payment of Corporation Tax by those companies. A five-year deferral could improve the Public Sector Borrowing Requirement (PSBR) by some £200 million over the period. On the other hand, delays to the construction of the production platform would remove one of the major prospects for work in the platform construction industry, and it was likely that if a five-year delay was decided upon, the companies would close down all work on the project for the time being, and the teams involved would be disbanded. This could seriously affect BNOC's capability in the field of oil production, since they did not have alternative outlets for the staff concerned. If however, the project were deferred by only two years it seemed likely that the companies would maintain the project by stretching the timetable. This would preserve the project teams and maintain the early prospect of additional work for the platform yards while making a useful contribution to depletion policy and the PSBR. On balance he favoured a delay of two years.

In discussion, the following main points were made -

a. Although the platform construction would be a major project for the construction industry, it was only one out of many orders that would be required to keep the industry adequately employed. It was relevant that current demand for new exploration rigs appeared high.

b. A short rather than a long delay would be preferred by other members of the European Community, where prime interest was in oil supply, and would also be in the commercial interest of the companies involved. But the United Kingdom national interest would best be served by prolonging the period of self-sufficiency as far as possible.

c. Although the oil companies might lay great emphasis on the consequences for their teams of skilled men when faced with the prospect of deferral, they might well make suitable alternative arrangements for them once a firm decision to defer had been taken.

THE PRIME MINISTER, summing up the discussion, said that the ~~new~~ view of the Committee was that on balance, the potential benefits of deferment to the PSBR and depletion policy out weighed the disadvantages. The Committee therefore agreed that the Clyde field development should be deferred for five years. The Secretary of State for Energy ~~was persuaded~~, should proceed accordingly unless, upon further detailed examination of the consequences, he was convinced that a shorter deferment would have sufficient specific advantages for employment, or in other ways, to justify reopening the question. In that event he was free to ask the Committee to reconsider its decision.

The Committee -

1. Took note, with approval, of the summing up of their discussion by the Prime Minister.

2. Invited the Secretary of State for Energy to arrange for the deferral of the development of the Clyde field by five years, unless detailed examination of that prospect convinced him that the Committee should reconsider the question.

Cabinet Office

16 September 1980