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Secretary of State for Industry

2 March 1981

The Rt Hon D A R Howell MP
Secretary of State for the Department
of Energy
Thames House South
Millbank
London SW1

Prin. Answer

Dear David,

*Pr
(and see today's
reply at Flag E)*

COAL IMPORTS: BSC

Flag D Thank you for your letter of 24 February asking me to take action with Mr MacGregor to attempt to persuade him to reduce BSC's imports of coal.

2 I know that you are intensely aware of all the dangers in the present situation and that I do not really need to explain them to you. But the repercussions are potentially so great that it may be helpful if I explain in rather greater detail than you might wish the reasons why I oppose making any approach to Mr Ian MacGregor.

3 I am sure that you appreciate how the proposal would conflict with our general policy that industry should be exposed to price competition from imports and should be obliged to improve its efficiency in order to meet the challenge which imports present. So far as monopoly nationalised industries are concerned all of us have emphasised the need to create competitive conditions; you are permitting private electricity generation, Norman Fowler is encouraging competition in public transport and I am significantly reducing the telecommunications and postal monopolies. In contrast deliberate action to discourage BSC from acquiring its coal at market prices would help create an artificial monopoly for inefficiently produced domestic coal. You yourself said in the Appendix to E(81)21, para 18 "the pressure on NCB prices and efficiency from imports has been salutary and contributed towards their present readiness to accept drastic measures".

4 I am also worried, as I am sure you are, about the precedent that might be created. Much of British industry is seriously affected by imports of cheap competitive products; very real harm is being done and firms which have previously made themselves efficient by shedding surplus capacity and reducing overmanning (unlike the NCB and without Government subsidies) are going out of business. The wish to be protected from import competition is

/never ...



never far from the surface and much of manufacturing industry would be most gratified if the Government contrived an opportunity to displace imports and to reduce its spare manufacturing capacity. It is hard to see why the coal industry should receive preferential treatment as you propose and it seems dangerous to foster the coal industry's expectation that it will receive such treatment.

5 Third, I wonder if any of us have given sufficient thought to the consideration that, by making concessions on imports, we would be allowing the NUM ~~to~~ in effect ²¹ control our policy over a wide area. The NUM has already secured a massive reversal of our policies but the concessions have so far been confined to coal industry matters. Restrictions on imports, or even pressures to restrict imports, affect a wider area. I hope you will agree that we should pause before giving in to any union, however strong it may be, which seeks to dictate general economic policy.

6 You have said in the context of your proposals on coal substitution that you are confident that the price of imported coal will rise sufficiently to secure a market for NCB coal. If that is the case, there is even less case for taking special action to achieve what the market should bring about in due course.

7 I am particularly reluctant to put pressure on Mr MacGregor to change his policy on coal imports. The taxpayer is already providing financial assistance to enable the NCB to lower its prices to "buy out" competition from imports. Under the agreement reached last September, BSC offers contracts to the NCB as they come up for renewal. The NCB is permitted to match ruling world prices to secure these contracts but imports of certain grades of coal in assured quantities are essential (as even the NUM appear to accept). If BSC were to go any further, it would incur an additional cost burden, would damage its commercial relations with suppliers in countries to which it exports its products and would represent a significant interference in the way Mr MacGregor conducts his commercial affairs. You are giving the NCB a further subsidy and, given this advantage, it is surely for the NCB to win contracts by their own commercial efforts. (Indeed, I am not clear why, if its stocks are too high, the NCB does not sell the surplus on world markets at prices which would ensure disposal; that is what a private sector company would attempt to do).

8 Finally, I am worried as I am sure you are too about the impact of the pressure which you are bringing to bear on the CEGB. They too need access to competitively priced coal and imports have played an important role in this. If the CEGB are persuaded to restrict artificially their imports of coal, the price they pay could increase, which would have an impact on the price of electricity. Industry is already burdened by electricity prices which I have argued elsewhere are too high. Since the CEGB would not be slow to place the blame for prices increases on our shoulders, pressure on the CEGB could lead inexorably to further damaging criticisms of our policies from industry.



9 I am looking carefully into the scope for action on redundancy payments. I accept that, since I cannot meet you on coal imports, the way ahead may be through concessions to the NUM on the redundancy payments front.

10 I am copying this letter to the recipients of yours.

Yours,

Kear