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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

NATIONAL COAL BOARD AND CENTRAL ELECTRICITY
GENERATING BOARD: 1980/81 EFL'S

MEMORANDUM BY THE SECRETARY OF STATE FOR ENERGY

1. Because any decision on the CEGB's EFL for 1980-81 will directly affect the NCB, my colleagues may find it helpful to have this paper on NCB's prospects of keeping within their EFL for 1980-81 of £834m, which we set last autumn as part of our financial strategy for the coal industry.

2. In broad outline, depressed markets have meant that NCB's success in raising output (now expected to be 4.5m tonnes higher in 1980-81 than last autumn's estimate) has led to extra stocks rather than extra sales. However the Board intend to offset the costs of the extra stocks by special measures to reduce their cash needs and increase efficiency, in particular by:

- a reduction in working capital, already largely achieved;

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- a drive on closures, which should take out 3m tonnes of capacity this year;
- measures to restrain current production, by a reduction in overtime working and a selective slowing of recruitment;
- reduction in expenditure on stores and equipment.

Assuming that CEGB still take 75m tonnes, I believe that NCB could be expected to keep within their EFL for this financial year. I shall, however, continue to press them to take timely and effective action to do so. The prospects for 1981-82 are however much more uncertain, partly because the main effect of a reduction in take by the steel industry would not be felt until then.

3. The CEGB will take 75m tonnes if they keep to their understanding with the NCB, to use best endeavours to take this amount provided that the price does not rise faster than the rate of inflation. I regard it as crucial to our policy for coal that this understanding should not be breached so long as this condition is maintained. It serves three objectives:

- First, it enables stocks to be built up in power stations against the danger of a miners' strike. My paper, E(80)76 discusses this aspect in more detail.
- Secondly, it brings further pressure to bear on the NCB to control their costs so as to keep price increases within the level permitted by this understanding. The NCB are faced with a fall in demand by the steel industry and their other customers and it is vital to them that the demand of the electricity industry, their biggest customer, should be maintained.

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- Thirdly, it brings pressure on the NUM to accept a moderate pay settlement that does not force the NCB to raise prices above the level permissible under the agreement.

4. Thus all our interests both in discouraging excessive pay claims, creating the best climate for a moderate settlement limiting coal price increases and being in the strongest position to withstand a strike would all seem to point in the same direction- namely, that in present circumstances we should take no action which would lead the CEGB to break the understanding, and that we accept the consequences for the electricity EFL, as recommended in para 13 of E(80)76.

I invite my colleagues to accept this conclusion.

Department of Energy

D A R H

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