



Treasury Chambers, Parliament Street, SW1P 3AG  
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PRIME MINISTER

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COAL

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I have seen a copy of David Howell's minute of 25 February in which he reports the outcome of the second Coal Industry tripartite. As David says in paragraph 6 of his minute, Sir Derek Ezra says that he expects his Board's cash requirements in 1981-82 to be some £450m-£500m in excess of the external financing limit of £886m already announced for the industry.

2. Additional public expenditure by the NCB of the amount envisaged by Ezra would clearly be a formidable addition to the very substantial problems which we already face. Quite clearly we must aim to keep the increase to the absolute minimum. I realise that this is delicate country. Certainly, we must try to avoid action which could provoke the miners into further industrial action. The Government cannot in principle escape the commitment to meet the irreducible bill for the two major commitments, on closures and on imports.

3. But we must ensure that Ezra does not exploit the opportunity to extract miscellaneous financial concessions from the Government, for instance on investment. David must make this absolutely clear to him. I shall, therefore, want to contest some of the constituents of the Board's figure of £450-£500m.

/4. I understand,





4. I understand, for instance, that the NCB have increased their assumption for the wage increase from 1 November 1981 to 13 per cent compared with a previous assumption of 6½ per cent. The cost here would be £70m. The Board are apparently assuming a coal price increase of 5 per cent or less in the winter of 1981; this we should also question - the CEEGB are apparently budgeting in their EFL forecast for a somewhat higher figure.

5. Nor should we accept what I understand to be a bid by the Board for higher capital investment of £90m on top of the investment programme of some £730m (1981-82 prices) they were previously forecasting. The passage in the negotiating brief which Leon Brittan agreed with David certainly did not commit the Government to any increase in investment above existing levels. Indeed, there is a good case for some reduction in investment in productive capacity in view of the Board's chronic surplus production.

6. There may be other items in the list which we will wish to challenge when officials have completed their consideration of the Board's estimates. I understand that David Howell intends to bring proposals to E <sup>his</sup> next week.

Flas B  
7. I have now seen David Howell's letter of 26 February seeking acceptance of the specific proposals for improving redundancy terms which the Board have already put to us. I note that these will cost an extra £18m (September 1980 prices) of public expenditure a year over the next three years in addition to the increase in the Board's EFL referred to above. Needless to say, this money will be difficult to find. I also have considerable sympathy with the views of Keith Joseph

/in his letter





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in his letter of 25 February. The redundancy proposals are extremely generous and as Keith says, their value would be undermined if the enhanced terms were conceded without any certainty of achieving the desired rate of closures.

8. However, I recognise in the light of what David says in his letter that the unions now expect some improvement in redundancy terms, and that it may be very difficult to achieve even 1½ tonnes of closures without offering some concessions. I reluctantly accept, therefore, that we shall have to concede some enhancement to get closures moving again. But we ought not to concede now the whole of the very generous package proposed by David. We should keep in reserve some further improvement, for use if and when this will enable the Board to return to a faster rate of closures than is now in prospect. I suggest therefore that David should put forward to us a more limited package for immediate use in the Tripartite regulations.

9. This approach would also help deal with any repercussions elsewhere in the public sector. These would add to public expenditure and would have to be resisted.

10. I am sending copies of this minute to the other members of Cabinet and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'G.H.' with a stylized flourish.

(G.H.)

2 March 1981