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PRIME MINISTER

23 September 1985

STRUCTURE OF THE COAL INDUSTRY - MEETING WITH PETER WALKER

The danger is that the NCB's new Plan for Coal will be presented and widely perceived as the complete blueprint for a viable UK coal industry. However, the signs are that, at best, it will represent only the first limited step on that road - albeit a necessary one. Ian MacGregor is now on record (interview with International Coal Report) that the new Plan for Coal will entail the closure of 30 mt pa of uneconomic deep-mined capacity over the next two years (net reduction 10 mt pa to 90 mt pa). Yet he recognises that the remaining capacity is still likely to be more than the market will bear.

We would see the objectives of your meeting with Peter Walker as two-fold:

- To impress on Peter Walker that the Government must set its sights, and systematically work towards, the goal of a diverse, privatised, and therefore market-responsive, coal industry working within a legislative framework akin to that for oil and gas. (The Chancellor's note of 2 September 1985 sets this out in some detail.)
  
- To agree with Peter Walker that, in pursuit of this goal, work should be commissioned from a restricted group of officials (eg, Department of Energy, Treasury and Policy Unit) to examine the options, the practicalities of

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implementing them, including the legislative implications, and the possible timing.

In outline, the remit for this exercise - which Peter Walker will no doubt want to treat as highly confidential - would be as follows:

1. The new coal licensing régime

Aim: Creation of a coal licensing regime and associated legislative framework akin to that for oil and gas. Transfer licensing authority from the NCB to the Government; likewise, responsibility for safety and the maintenance of good mining standards. Remove the NCB's monopoly over coal extraction. The Government's share of economic rent is collected through taxes and royalty.

Analysis needed: Assess the size and complexity of the legislative task, the possible timing, the staffing implications and policy issues such as the basis for awarding licences (eg, competitive auction bidding or discretionary allocation on the basis of work and investment commitments).

2. Privatisation programme

Aim: The free play of competitive commercial forces between a diversity of private sector participants. Begin by launching into the new licensing régime, the open cast coal sites - preferably with the licences awarded on the basis of

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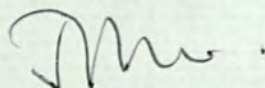
competitive auction bidding. Follow by reducing the NCB to a core of profitable deep-mining elements and privatising it like Britoil. In the process, spin off marginal deep-mining operations through employee buy-outs or sales to private sector companies.

Analysis needed: Having regard to the new coal licensing régime, consider the phasing and the financial implications of implementing the privatisation programme.

3. Structural changes within the existing legislative framework

Aim: To lay the foundations for the privatisation programme, encourage NCB initiatives to decentralise into viable, freestanding business units; likewise, encourage decentralised initiatives to conclude productivity schemes tailored to local circumstances. Thereby, counter NUM efforts to control a monolithic centralised NCB.

Analysis needed: What degree of decentralisation is possible within existing legislation? What form of decentralisation is suggested by normal business principles? What role would remain for Hobart House? What further steps would facilitate privatisation of the NCB's economic deep-mined capacity?



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