

C.(65) 89COPY NO. 5930th June, 1965CABINETFINANCIAL POSITION OF THE COAL INDUSTRYMemorandum by the Financial Secretary to the Treasury

I have some brief comments to make on the First Secretary of State's paper (C.(65) 87).

2. There is no difference between us over objectives, which are to relieve the Coal Board of interest charges on its capital which it cannot reasonably be expected to meet and to facilitate the early closure of uneconomic pits.

3. A write-off of £400 million means in present circumstances that the Chancellor has to find £40 million more in taxes in the first year. Furthermore, it would be difficult to defend to Parliament the writing-off now of £150 million in respect of assets which will only become of little or no value in the years to come. Nevertheless, the Chancellor prefers this to a waiver of interest and would agree if the Cabinet feel further relief to the Coal Board is essential.

4. The question of a subsidy linked to closures is quite different. In all the talks which officials have had with the Coal Board the latter have been emphatic that, while capital reconstruction is necessary, the payment of further money cannot affect the closure programme. The problems are managerial and social.

5. As the First Secretary of State states in paragraph 13(a) of his paper, the hope is that the addition would provide an incentive to the National Union of Mineworkers. But it is hard to see how it would be possible to get a sufficiently tight agreement to be effective. Moreover, the cost of this rather speculative possibility (a figure of £10-£15 million next year has been suggested, falling to nil after four years) would fall on Votes and would make more difficult the decisions shortly to be reached on public expenditure.

6. Moreover, subsidies might prove in practice to be an actual disincentive to closures. They would be a very dangerous road to start on. No-one can foresee the future demand for coal for sure and we would find it difficult to stop the subsidies while there were still uneconomic pits left once the subsidies had been started. There is also every possibility that we should be setting a precedent which could well be prayed in aid by other industries. This is too open-ended a commitment to shoulder in present circumstances.

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29th June, 1965







