

E(79)19

13 July 1979.

COPY NO 57

## CABINET

## MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

## STRATEGY FOR COAL:

## MEMORANDUM BY THE SECRETARY OF STATE FOR ENERGY.

At the meeting of E(EA) Committee on 10 July which gave initial consideration to the proposals in my paper E(EA)(79)22, I undertook to circulate a further paper dealing with some of the points raised in discussion. This note also comments on suggestions made in the Chief Secretary's minute to me of 10 July.

2. In discussion it was suggested that, in the interests of reducing public expenditure and of putting the industry on the road to viability, we should secure a faster phasing out of uneconomic capacity than the 3m tonnes a year which my paper envisaged (itself twice the rate foreseen by the NCB). The Chief Secretary's minute of 10 July proposed 6m tonnes a year. Such a rate is quite unrealistic. It could involve up to 24,000 job losses a year, many in areas of existing high unemployment. Given the NUM's very strong resistance to even the current rate of closures (as in the case of Deep Duffryn), it could lead to a national strike with very serious effects on the Board's finances and public expenditure, on the supply of coal (at a time when oil is likely to remain in short supply) and on our endeavour to build up a constructive relationship with the industry. We are all agreed on the long term objective of viability. But patience and sensitivity are needed if we are to make progress.

3. In his minute, the Chief Secretary suggested that the investment programme should be the subject of significant cuts. I fully accept that we should examine the scope for cost savings without impairing efficiency or the main lines of development. But significant

cuts are bound to affect the achievement of an efficient, modernised industry. It is true that there has been a rapid rise in investment over the past few years but we should bear in mind that during the 1960's major development declined drastically. The average age of today's pits is 80 years. Moreover, as in any extractive industry, a large proportion of the investment (50% at present) goes towards simply the maintenance of production.

4. My proposals included a much more generous approach by the Government to redundancy payments and transfer allowances in the coal industry. Colleagues suggested however that an even more radical approach might be needed to win the acquiescence of the NUM in an accelerated rate of closures: involving much better pay as well as generous redundancy payments; or possibly some form of co-operative venture. The question of pay is very much a matter for the Board itself as they can best judge the balance of advantage in terms of morale and productivity. But I fully agree that we should look at the other possibilities for improving worker involvement, taking account of our policy towards the nationalised industries more generally, though some of them are not of the kind which could be implemented at all swiftly. I understand that the NUM have been reluctant in the past to take any real responsibility on matters proper to management; while the other unions object to any strengthening of the NUM (eg. in pit committees) at the expense of management.

5. In discussion, the need for a substantial offsetting investment programme as one of the conditions for securing acceptance of an accelerated rate of closure of uneconomic pits was recognised. But it was questioned whether proposals for capital investment in the central coalfields would be sufficient to obtain agreement to the closure of pits in South Wales. Although the bulk of the NCB's investment will continue to be in the central coalfields, there will continue to be scope, and a need for, continuing investment in South Wales to improve efficiency and profitability and to replace exhausted capacity. The NCB's plans for improving the financial performance of the Coalfield include investment in the better pits being undertaken hand in hand with the closures of others.

6. There is in fact a direct link between closures and investment. It is obviously much less difficult to secure acceptance of closures if there is the prospect of alternative employment in long-life pits in the same part of the country. The next stage of closures in Scotland depend directly on the approval of investment to open up unworked reserves. The Board's plans for improving the financial results of the South Wales Coalfield rest on closure of the worst pits hand in hand with investment in the better pits to provide replacement capacity. Of nine pits identified by the Board for closure in South Wales as part of a programme for achieving viability, seven offered the prospect of alternative employment for all the men at conveniently situated long-life collieries. In 1978/79 the Board closed nine pits employing 3,460 men of whom just over half were re-employed in the industry.

7. Finally, it was suggested that the implications of the proposed strategy for regional policy needed to be clearly identified. I entirely accept this and believe that it will be helpful if the Ministers concerned are associated with discussions with the NCB on the implementation of the proposals I have outlined.

8. I hope that my colleagues will, taking account of these points, give broad endorsement to my proposals with a view to my pursuing them further with the Chairman of the National Coal Board, in consultation with the Chief Secretary on the financial aspects.

D.A.R.H.

Secretary of State for Energy,

13 July 1979.