

25 July 1980

Policy Unit

PRIME MINISTER

4 AUGUST

E COMMITTEE (~~28 JULY~~): CEGB WINTER FUEL STOCKS

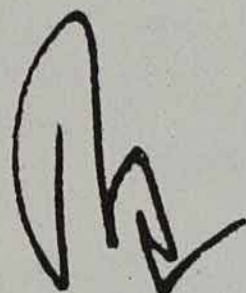
Original returned
to J. Hoskyns 19/8

1. E Committee is due to discuss coal stocks next week. The discussion on 16 July showed an uneasy feeling that big problems were looming in the coal industry over the next few years.
2. The Policy Unit has done some thinking about the crucial position occupied by the miners in the next and future pay rounds. Quite apart from the direct costs that excessive pay settlements for the miners can inflict on the community (bearing especially heavily on pensioners and the under-privileged), the miners' bargaining power can exert an unhealthy influence on the pay round (especially at the start). Their power makes responsible pay bargaining, elsewhere, less likely, as others either try to imitate them or feel aggrieved by their behaviour. In the end, society can't function properly if powerful groups are not inhibited by some countervailing forces.
3. For these reasons, the attached paper suggests that it is essential for the miners themselves and the public at large to see that irresponsible behaviour will not always be rewarded. We don't know if it would be possible to "win" a strike, but we do think that measures are available, and need to be taken, to deter one. Some of the obvious measures - on secondary picketing, secondary blacking, SB for strikers' families - have already been taken, although their effectiveness has yet to be tested.
4. We think that the key short-term factor in deterring a strike is the level of coal stocks on non-NCB premises. In the longer-term, other key factors will be the Electricity Industry's capacity to import coal, and perhaps the structure of the UK coal industry.
5. Although this paper is written in terms of the miners' power in pay bargaining, the arguments apply also to their power to insulate themselves from other market forces, notably the need to close uneconomic pits. Obviously it would be bad tactics to push the miners into a corner from which (like the steel workers) they felt they had to attack in order to defend themselves on both closures and pay at the same time. From the point of view of the repercussions on the

SECRET

rest of society, pay may be the more important of the two issues in the short-term. But any measures to deter strikes and strengthen our bargaining position should eventually be beneficial in both respects.

6. I am copying this minute and attachment to members of E Committee, Robin Ibbs, and to Sir Robert Armstrong.



JOHN HOSKHNS

SECRET

MINERS AND FUTURE PAY ROUNDS

1. INTRODUCTION

1.1 The next wages round is critical to our economic strategy. Miners' pay increases have been used before as a reference point by both the public and private sectors. We shall be trying hard to discourage this, but the tendency to compare is deep-rooted and will not disappear because we want it to. A moderate miners' settlement this year would bring dividends far beyond the savings to the NCB and the effect on the cost of coal (both important in themselves). Although it is likely that the settlement will be higher than average, there is no obvious rationale for this, since:

- improved productivity is reflected in pay through the incentive scheme;
- there is no shortage of new entrants;
- although oil prices are higher, the sterling value of imported coal has hardly increased at all since last year's settlement.

1.2 The sheer bargaining power of the NUM needs to be counterbalanced to ensure that the settlement is as low as the market will permit - not as high as NUM muscle can make it. This paper discusses what can be done to achieve this next time and in future years.

2. PERSONALITIES AND TIMING

2.1 This year's settlement was for a 10-month period ending 31 December. It has already been agreed that the next settlement will run for 10 months from 1 January to 31 October 1981, thus restoring the miners' pre-1971 bargaining date of 1 November.

2.2 Negotiations are likely to take place during September/October while Mr Gormley remains President. The behaviour of the NUM's National Executive will be affected by the succession in prospect

when Mr Gormley eventually retires. Last year, the moderates on the NEC took the lead in rejecting the Board's offer and calling for a ballot.

2.3 Sir Derek Ezra has already conceded that the settlement should be high enough to maintain coalminers' position at the top of the wage league table. But this could be done with a quite modest settlement. He says the Board will also be guided by the need to "safeguard the future of the industry" - ie keep prices within reasonable bounds.

2.4 The NUM Conference in July voted to pursue increases of 35% on basic pay (= 43% on an annual basis). However, the NEC will not formulate its claim - which may be different - until September.

3. AVERTING A STRIKE

3.1 Experience suggests that a long strike by this powerful group would end eventually in a high settlement with great economic damage to the country. Two elements of our strategy must therefore be to make sure that:

(1) the miners know that a strike would be costly to them as well as to the rest of us;

(2) the miners believe in our willingness to face a strike if necessary.

3.2 Although miners think they can "win" a strike in the end, they also know it will take time and cost something. Our most important weapon in deterring a strike is keeping that time long, expensive and uncomfortable. This involves a variety of measures:

(1) level and location of coal stocks;

(2) amount of non-coal generating capacity;

(3) level of oil stocks;

(4) timing of strike action;

(5) plan for rationing electricity;

- (6) cost to strikers (influenced by rules on supplementary benefit for strikers' families etc);
- (7) post-strike outlook for coal industry. (It must be made clear that this would be bleaker not better if a strike took place.)

3.3 The most important single factor would be the level and location of coal stocks (discussed at Section 4.2 below).

4. SOME NEW FACTORS

4.1 There are several new factors which should each work to make a strike less likely or more costly to the participants:

- (1) Overtime and the incentive scheme together provide over 30% of coalminers' earnings, compared with 15% in 1970. This should make an overtime ban, designed to reduce stocks before a strike, much less attractive than on previous occasions.
- (2) The Employment Act will restrict immunity for picketing by the NUM to NCB premises.
- (3) Non-coal power stations could produce about a third of average winter demand, given a supply of oil (about the same as 1974). The Employment Act withdraws immunity for tanker drivers refusing to deliver oil to power stations not supplied by pipeline.
- (4) More cheap coal is available on world markets than in previous years. The Employment Act withdraws immunity for dockers or the NUR refusing to supply imported coal to non-coastal stations.
- (5) Supplementary benefits for strikers' families will be £12 less per week. SB is not the main source of income to strikers, but its importance increases with the duration of a strike. In the 6½ week 1972 strike, 50% of miners claimed it - though the proportion was much lower in the shorter 1974 strike. If the NUM were to make up the £12 to everyone, it would cost over £2m per week.

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4.2 Decisions needed on stocks

4.2.1 Stock location. The proportion of coal stocks held by CEGB and the NCB has fluctuated over recent years. At present, 14.5 million tons are held by CEGB, while 13.3 million tons are held at pit-heads. NCB stocks can be picketed by the NUM, but there will be no immunity for picketing CEGB stocks in future. (Nor would picketing the Gas Board's Saltley coke depot have immunity.) If there was any need to move CEGB coal stocks or imports during a dispute (is there likely to be?) blacking action by ASLEF, NUR or TGWU would not retain immunity either - since the action would not be aimed at the employer in dispute. A coal strike would obviously put the effectiveness of the Employment Act changes to the test in a dramatic way. In principle, the changes in the law mean that as high a proportion of stocks as possible should be located on non-NCB premises.

4.2.2 Level and cost of stocks. Ministers have already decided (at E on 24 April) that the Electricity Council should not seek further savings by reducing their fuel stocks. The industry's normal objective is to meet 5-6 weeks' endurance during the winter peak. But should stocks be higher? If so, who should be seen to pay? What are the real costs involved in transferring some of the NCB's high stocks to the Electricity Industry? How would this show up in the accounts of the Coal and Electricity industries?

4.2.3 Extra CEGB stocks could be paid for by customers through higher prices or by taxpayers as a whole, through a grant. Pricing decisions have already been made, but a grant would still be possible. It would dramatise to the public the cost of an insurance against smash-and-grab tactics. At the same time, it would ensure maximum publicity for the Government's determination to make strike action long and expensive.

4.2.4 Such a policy might be described as provocative. But it seems very unlikely that the miners would respond by striking. Given the importance of incentive and overtime earnings, it also seems unlikely that miners would be prepared to respond to a build-up of stocks with an overtime ban.

2.5 Pithead stocks are already higher than average for July. With the prospect of overproduction, the NCB - and probably the NUM - would welcome a decision by the Electricity Industry to build up stocks.

5. IMPORTS AS A CHECK

5.1 We are destined to rely primarily on UK-produced coal for power generation for many years to come. In the timescale of a strike, or an overtime ban, extra imports of coal and extra oil could have a limited effect on the duration, provided that secondary blacking (no longer immune) was not widespread.

5.2 We suspect that a capacity to import around 10-20% of requirements could be very helpful in bringing some competitive pressure, at the margin, on the NCB. If the price gap between foreign and domestic coal is large enough to justify importing 10%, ie around 8 million tons per year, this would mean reduced UK coal output which would have a big impact on overtime and incentive earnings and the economics of the NCB. So a relatively small investment in importing capacity could pay big dividends in restraining the wage claims of the miners - not necessarily by deterring strikes, but by introducing an element of price responsiveness on the part of the customer, which would be normal for other markets. Of course, the miners would be fiercely opposed to this. But what would they do?

5.3 At present, there is an understanding whereby CEGB will use its best endeavours to take 75 million tons from NCB, provided NCB can keep their price increase no greater than the RPI.

5.4 The CEGB did have plans for a large new deep-water import facility at Killingholme on Humberside. This would have roughly doubled the present importing capacity from 8 million tons (including Thameside power stations currently using UK coal) to 16-18 million tons. It would also have allowed bulk delivery, at rather lower prices than are possible using present facilities.

5.5 We understand this facility would cost £11m and take 5 years to complete. (There are some other modest plans to increase importing capacity further - ^{to} /10 million tons.) The Electricity Council have cut out this expenditure in their economy drive to meet our EFL. We think the benefits of this facility should be looked at again.

The Electricity Industry may be relatively unconcerned about taking out an insurance policy against excessive wage demands by the miners; they can pass the costs on to the customer. From the Government's point of view, the position looks quite different. If a large and powerful group of public sector workers like the miners have a big influence on the whole pay round, any measure which subjects them to normal market forces has especially high returns.

6. MORE COMPETITION

6.1 Another element in the longer-term strategy to reduce the miners' monopoly power could be the introduction of a competitive structure to the supply of UK coal. A modest step in this direction could be achieved by raising the maximum size of the private sector mines, but it would take a very big increase to have a significant effect. (This is being considered by Energy - when might it happen?) More radically, would it be possible to break the NCB up into competing regional units? Obviously, it would be fiercely resisted by the NUM, who would do their best to maintain national pay bargaining.

No. they are all members of the NUM

6.2 While it might be difficult to break up the NCB, it might be worth moving further towards regionally differentiated pay. Already there is a modest gap between earnings in the most and least productive pits. Could we move closer to a position where pay reflected productivity - providing some further incentive to movement from low to high productivity pits, and eventually lowering resistance to the closure of uneconomic pits?

6.3 Whether or not pay is varied, would breaking down the single pricing policy offer a way forward to greater competition between pits or regions?

7. SUMMARY OF QUESTIONS

7.1 (1) Should we be aiming for more than 5-6 weeks' endurance this winter?

SECRET

- (2) If so, who should pay for it - consumers or taxpayers?
- (3) Could increased use of alternative fuels plus coal imports during an overtime ban provide longer endurance than previously - if the Employment Act makes some difference?
- (4) Should we draw the attention of the public and the miners to the cost of the insurance policy?
- (5) Should we explain to miners that a strike and overtime ban would cost them at least £1,500 each, or should we ensure it is more - eg £2,000?
- (6) Would the effectiveness of the deterrent be increased by letting it be known that the Government is quite prepared to face a strike - even though it would be a 'negative sum game'?
- (7) Would the ability to vary imports from zero to 20% be a restraining factor in miners' demands?
- (8) Should we re-examine the cost for a new import facility on Humberside? Are there other measures which could increase our capacity to import, sooner?
- (9) How much impact is raising the maximum size for private coal mines likely to have?
- (10) Could Energy examine the scope for a change in NCB's structure to force more internal competition? Perhaps a first step would be greater variation in wages or a differential pricing policy?