File on S/U 24/3

file

Mr A ~~Turnbull~~

CONFIDENTIAL

Ref. No: EN(84)3
Date: 23.3.84

BRIEF FOR DEBATE ON

THE REDUNDANT MINEWORKERS AND CONCESSIONARY COAL ORDER AND ON THE MINEWORKERS' PENSION SCHEME

TUESDAY 27TH March 1984

House of Commons

CONTENTS PAGE

Conservative Research Department,
32 Smith Square,
London SW1
Tel. 222 9000 x 2527

Enquiries on this brief to:

NIGEL HAWKINS

1. INTRODUCTION

During the 1960's and until 1973, the British coal industry in common with most other Western countries was in decline. This situation had arisen because of the industry's inability to compete with the cheap oil imports. Whereas in 1946 there were 980 collieries employing 696,700 miners, by 1973-4 there were 259 collieries and 242,500 miners. In fact between 1964 and 1970 there was a net reduction of over 250 collieries and more than 200,000 jobs were lost in the mining industry. The quadrupling of oil prices in 1973 gave a much needed impetus to a declining industry. As a result the Labour Government introduced - with the full blessing of the National Union of Mineworkers - the 'Plan for Coal', which mapped out future developments for the industry between 1975-1985. Central to the realisation of this Plan was substantial investment, the closure of hopelessly uneconomic pits and rising productivity. Though investment in the industry is at record levels, the continued existence of loss-making pits is seriously hampering the return of the National Coal Board to viability. Further, productivity increases since 1975 represent just a small proportion of what was projected under 'Plan for Coal'.

Despite receiving a wide range of grants, the National Coal Board reported a loss of £111 million in 1982-3 (after deficit and operating grants of £386 million). Clearly the performance of the coal industry is very adversely affected by the continued existence of some pits, whose production price per tonne is around twice the current selling price. The Government's commitment to the coal industry, however, remains unchanged. The key to the industry's future prosperity rests in its ability to become more productive and more competitive. The massive level of investment in the industry since 1979 provides testimony to the Government's determination to carry out its policy, which was stated by Mr Giles Shaw, Under-Secretary at the Department of Energy:

> 'We wish to see a strong and viable industry, which can give customers secure supplies of fuel at competitive prices and can give its workforce secure and prosperous employment. Within that overriding objective, we look...for the earliest feasible return to economic viability'. (Hansard, 11th July 1983, Col. 730).

2. FINANCE

Since 1979, the Conservative Government has set an annual External Financing Limit for each of the Nationalised Industries. Effectively this limit is equivalent to the charge on the Public Sector Borrowing Requirement. For 1984-5 the NCB's External Financing Limit is set at £1.103 billion, which is the highest for any nationalised industry. In fact it accounts for nearly 60 per cent of the net total of External Financing Limits.

Government grants make a major contribution to the NCB's overall profit/loss position. In recent years these have risen sharply. The original estimate for 1983-4 allowed for a deficit grant of £409 million, social grants of £122 million and a further £105 million for the Redundant Mineworkers' Payment Scheme. The Supplementary Estimate of February 1984 applied for a further £290 million, so that the revised total for 1983-4 is now £926 million.

The level of investment envisaged in 'Plan for Coal' has been substantially exceeded. In fact between April 1974-March 1979 over £1.47 billion was invested in the industry. Yet, between April 1979 and September 1983, the figure rose to £3.51 billion. This unprecedented support was described by the Secretary of State for Energy, Mr Peter Walker, as follows:

> 'Since 1979 this Tory Government has invested in the coal industry, in capital investment, not losses, £2 million per day' (Blackpool, 12th October 1983).

In physical terms, this level of investment is exemplified by the sophisticated, up-to-date extraction processes that are carried out at Selby, recognised as one of the leading pits in Europe. It was described by the Financial Times on 26th October 1983 as:

> 'a shop window for Britain's advanced technology in coalfield development and mining. From the task of sinking shafts and driving tunnels in difficult geological conditions to the extensive use of microcomputers and the most advanced mining and coal handling equipment, Selby is the most comprehensive collection of the best mining technology anywhere in the world'.

In January 1984, an investment of around £400 million was announced for development of the Asfordby coalfield in Leicestershire. This investment is estimated to bring about over 1000 jobs and by the early 1990's will be yielding around 2.2 million tonnes of coal for Midland power stations. Britain's level of investment in coal compares very favourably with our European counterparts. It is almost three times the West German level and 20 times the French level, although both these countries do receive higher revenue subsidies. In 1982 West Germany's coal mines produced 96 million tonnes, whilst France's coal industry mined just 17 million tonnes in 1982. Britain's output in 1982 represented about 46 per cent of Western Europe's total production.

3. PRODUCTION/PRODUCTIVITY

Output in the industry has declined since 1950, when around 220 million tonnes were mined to satisfy UK consumption of 206 million tonnes. By 1972-3 total output decreased to 140 million tonnes. Total output in 1982-3 was 121 million tonnes, of which 105 million tonnes were deep-mined.

During the last decade, productivity has risen, but at a far slower rate than was proposed under 'Plan for Coal'. In 1972-3 output per manshift (deep-mined coal only) was 2.33 tonnes, compared with the 1982-3 productivity figure of 2.44 tonnes. Higher productivity is essential if coal products are to become more competitive. Further the variation between pits of productivity levels highlights the vast difference between the most and least efficient pits.

The continued existence of these uneconomic pits causes not just financial problems, but has also contributed to the high levels of coal stocks. In 'Coal News' (November 1983) the National Coal Board confirmed; 'Present pithead stocks of 24 million tonnes cost more than £100 million in interest payments alone. Every extra million tonnes costs another £7 million in stocking costs and interest charges on top of the £40 million it costs to produce the coal'.

4. IMPORTS/EXPORTS

Despite the current low levels of world coal prices, Britain's coal exports are double the level of her imports. By the standards of other industries, Britain's overseas coal trade is minimal. In 1982-3 coal exports were 7.1 million tonnes, around 6 per cent of total output. Greater competitiveness, would, however, give the National Coal Board increased opportunities to export more coal.

Imports of coal are mainly specialised varieties, eg. special coking coal and anthracite, of which the UK does not have sufficient. In 1982 total imports amounted to just 4 million tonnes, around half of which came from the USA. Of the remainder, Australia supplies 28 per cent and is currently quoting low coal prices.

5. MINERS' PAY

Since November 1982 the weekly basic rates for mineworkers have been:

- Face and development worker (UI) £130.30

- Lowest grade underground worker (U7) £105.00

- Lowest paid surface worker (S6) £94.10

In addition to these basic rates, mineworkers earn incentive payments, overtime earnings and various allowances for special work. As a result the National Coal Board's Gross Earnings Survey shows that average weekly earnings were:

- Face and development worker (UI) £173.93

- Underground workers £168.45

- Surface miners £148.27

- All mineworkers £164.47

By applying these average weekly earnings figures, mineworkers' pay is higher than any other industrial group of a similar size. Further, miners have received a real increase in average earnings of 19 per cent since 1974.

In the last two years, miners received increases of an average 9.3 per cent in November 1981 and 8.2 per cent in November 1982. Last October the National Coal Board offered an increase of 5.2 per cent on basic rates. This would raise a face worker's basic rate by £6.80 per week.

If this proposed increase were accepted average miners would receive some £65 a week more than they were receiving when the Conservatives came into office in 1979. In 1983 miners' average earnings were 26 per cent above the average earnings in manufacturing industry. Throughout the period of the Conservative Government they have been between 23 per cent and 27 per cent above the earnings in manufacturing industry. During the period of the Labour Government, miners' earnings were at one point only 8 per cent and on average only 18 per cent above the earnings in manufacturing industry.

The Board Chairman, Mr Ian MacGregor, has confirmed that this award is final and that some pits may never re-open. In the November edition of 'Coal News', he justified the award in the following terms:

> 'Progress in the industry is good but we are still losing money heavily and are being supported by vast amounts of public money.
>
> Our offer was made to maintain the confidence of those who work in the industry and to try to make sure that productivity improvements continue. That means, of course, there are continuing opportunities to increase earnings under the productivity incentive scheme'.

6. OVERTIME BAN

The leaders of the National Union of Mineworkers did not accept this pay offer and they called an overtime ban, which started on 31st October 1983. The single issue of the 5.2 per cent pay offer has not been put forward to the National Union of Mineworkers' members for approval by ballot. Since the ban started, miners have denied themselves over £70 million in overtime or about £1000 per man for those affected - normally around 30 per cent of the workforce do substantial overtime. Those particularly affected are the surface working craftsmen, such as winding enginemen, who operate the lifts. Before the overtime ban they earned close to £195 per week, of which around £70 was for overtime work.

Conflicting statements have been issued regarding the level of coal stocks since the start of the overtime ban. However, the latest Coal Board figures indicated that undistributed stocks at pitheads are now 23 million tonnes. This is just 1.5 million tonnes below the level last October and 3 million tonnes above the figure for October 1982.

The Central Electricity Generating Board currently has 24.6 million tonnes, at its power stations which is 6 million tonnes below the level in October 1983. This latter figure is historically high, whilst present stocks at the power stations are about average.

7. PIT CLOSURES

In any extractive industry, pit closures are inevitable for geological reasons. This is particularly applicable to the British coal industry, where many of the pits are extremely old, less productive than in their heyday and as a consequence uneconomic.

Between October 1964 and June 1970 pits closed at a rate of 45 per year. Recent closures are now fewer. Under 'Plan for Coal', in 1974 it was proposed to phase out uneconomic capacity, amounting to around 3-4 million tonnes per year. This policy was endorsed bythe Interim Report of the Tripartite Working Party, comprising the Government, the National Coal Board and the National Union of Mineworkers. Yet closures since 1974 have taken place at around half the proposed level. Between 1974 and 1979 32 pits closed, whilst between March 1979 and March 1983 31 pit closures took place.

As a result, the industry has suffered from crippling financial burdens necessary to support these uneconomic pits. The National Coal Board has estimated that the worst 12 per cent of output brings about a revenue loss of £275 million per year. In 1982-3 the most efficient 20 pits had an average production cost per tonne of £28. The 20 least efficient pits incurred costs of £89 per tonne. Since the average value of the coal produced was £40 per tonne, the burden of 'carrying' these latter pits is self-evident.

On 6th March the National Coal Board Chairman, Mr Ian MacGregor, presented the National Union of Mineworkers with a 12 month plan beginning on April 1st. This plan envisages a production rundown of 4 million tonnes. This means that total deep-mined output in 1984-5 is budgeted to be 97.4 million tonnes, compared with the present annual production figure of 101.4 million tonnes (disregarding the effects of the overtime ban). Mr MacGregor agreed that this would entail manpower reductions not exceeding those during 1983-4. During this year the workforce has been reduced by 20,000 and 23 pits have been either closed or merged.

Since the announcement of the National Coal Board's 12 month plan, the National Union of Mineworkers' Executive has supported strike action but has not called for a national ballot. This has created serious disagreement amongst many miners, much of it brought about by the operation of 'flying pickets' - particularly from the Yorkshire Area. A number of the National Union of Mineworkers' Area Councils have held ballots to determine whether their own members wished to go on strike. In nearly all cases these miners have voted against strike action, most notably in the Nottinghamshire coalfield. Several of the major pits there - notably Ollerton and Harworth - have been invaded with flying pickets. However, a strong police presence both in Nottinghamshire and elsewhere has enabled many thousands of miners to get to work, despite the widespread picketing. In fact the numbers of miners crossing picket lines is quite unprecedented.

By last Thursday, more than 80 per cent of Britain's pits were at a standstill, so that 34 out of 175 pits were working normally, compared with 38 the previous day. Virtually all pits still open are located in the Midlands.

8. SELECT COMMITTEE REPORT

On Monday 5th March, the Select Committee published its Second Report on the Department of Energy's Supplementary Estimate of £289,952,000 in respect of the coal industry.

The Committee received written evidence from the National Coal Board and the Department of Energy and took oral evidence from the Secretary of State for Energy, Mr Peter Walker and from the National Coal Board Chairman, Mr Ian MacGregor. In particular the Committee examined the reasons for a Supplementary Estimate of this size.

9. SUPPLEMENTARY ESTIMATE

Most of the Supplementary Estimate of almost £290 million is accounted for by the following factors:

a) Deficit and Operational Grants (an increase of £192 million). There are three major reasons for this substantial increase. First a provision has to be made for the effects of the overtime ban. The National Coal Board has estimated that the ban, by the end of March 1984, will involve a gross cost of £266 million, on account of lost sales and reduced output. From this gross figure the Board has deducted £131 million - mainly the savings on wages. The net cost of the overtime ban is considered to amount to £135 million. However, the current Supplementary Estimate has made allowance for only £30 million of this expected loss.

Secondly the level of subsidence claims has risen markedly. The Supplementary Estimate has allowed for an increase of £60 million, over and above the original provision of £102 million. In addition the National Coal Board forecast that a further £68 million will be required for subsidence claims in the current financial year. Out of this total of £230 for subsidence claims, no less than £113 million is accounted for by the North Nottinghamshire area and in particular by the town of Mansfield. Between March 1982 and February 1984 the average subsidence claim rose from £4200 to £8700.

Thirdly, additional funds are required in view of the industry's underlying operating losses arising from its unfavourable cost structure and continued excess of capacity over demand.

Over and above this increased estimate of £192 million, the Select Committee concluded that 'it appears from the Board's evidence that at least a further £200 million will be required in respect of operating losses in 1983-4' (para 15).

b) The Redundant Mineworkers' Payments Scheme (an increase of £88 million). Payments under this scheme have virtually doubled, due to the fact that the number of redundancies provided for in 1983-4 has increased from 10,400 to 20,000. The Coal Industry Act 1983 lowered the age of eligibility from 55 to 50 and this has also had an effect.

c) Social Grants (an increase of £10 million). The number of social payments - associated with pit closures - has risen. This refers particularly to resettlement and transfer allowances and to other non-wage benefits.

10. COAL ORDERS

The two Orders put before Parliament in early March were:

- The Redundant Mineworkers and Concessionary Coal (Payments Scheme) Order 1984

- The Mineworkers' Pension Scheme (Limit on Contribution) Order 1984

The Redundant Mineworks' Payments Scheme. This enables miners to receive financial benefits, based on their length of service, when pit closures become necessary. In addition they receive statutory redundancy pay and other benefits through their pension schemes. For example, a married man made redundant at age 50 after a lifetime in the industry, and with pre-redundancy earnings of £160 per week, could receive lump sums totalling about £17,000 and about £79 per week (reviewed in the light of the cost of living), as long as he remains unemployed, up to age 65. If he were aged 55 at redundancy, his lump sum would be above £11,000 but his weekly benefit would be about £106 per week up to age 60, then about £79 per week on to age 65. Thus redundant miners do receive eminently fair compensation. Those who are redeployed receive transfer allowances to take account of relocation costs.

The present Order extends this scheme. First it includes improved benefits for miners made redundant between the ages of 21 and 50. Under the Order, it is proposed that these redundant miners would receive a lump sum equivalent to £1000 for each year of service. On account of the age factor of some pits and because of their geographical distribution, it may become necessary for some younger miners to leave the industry. A generous financial settlement will at least alleviate the problem of redundancy.

In the present Order, there are provisions to enable those receiving weekly benefit to take holidays overseas without losing their entitlement for the time they are abroad. Further the Order contains proposals for giving increased protection to those, whose incapacity may have already affected the level of their redundancy payments.

The Mineworkers' Pension Scheme. This Order is moved each year to carry out the policy stated in the National Coal Board (Finance) Act 1976. Under the provisions of this Act, the Government reimburses the costs involved in meeting the shortfall in the Mineworkers' Pension Scheme Fund. This has arisen because of the requirement to pay pensions to the substantial number of ex-employees who left the industry prior to the 1975-6 financial year.

11. CONCLUSION

Undoubtedly the finances of the National Coal Board are in a serious state. According to the Select Committee Report 'Mr MacGregor made it quite clear that in his view the industry's financial position had worsened' (para 7).

Yet the Government's committment to the future of Britain's coal industry is unquestioned. An investment level of £2 million per day provides undeniable evidence that the Conservative Government believes that coal has a very bright future in fulfilling the country's energy needs.

The National Coal Board's strategy was reaffirmed on March 6th in a press statement:

> 'We are determined to create and maintain a high volume, low-cost industry which will be able to supply all this country's needs for coal and compete

successfully for export business as well. In the process we shall aim to maximise employment prospects and continue to keep miners high in the industrial earnings league.

'We shall do this by continuing to follow the basic principles of Plan for Coal in a marketing situation very different from that envisaged when the Plan was agreed by the Government, unions and Board in 1974.

'We shall continued with a high rate of capital investment, building up output at long-life, low-cost pits and introducing completely new low-cost capacity to replace pits reaching the end of their useful lives. Only by a continuous process of renewal and increased efficiency can we hope to reduce costs and fight off the competition from other fuels and imported coal'.

APPENDIX 1

STATISTICS ON BRITAIN'S COAL INDUSTRY

FINANCE

Grants received by National Coal Board: £ Million

Year	1979-80	1980-1	1981-2	1982-3	1983-4 (original estimate)	1983-4 (revised* estimate)
Total Deficit & Operating Grants	189	175	455	386	409	601
Total Social Grants	62	80	121	134	227	325
Total All Grants	251	255	576	520	636	926
Result after Deficit Grant	NIL	58 LOSS	NIL	111 LOSS		

*After the proposed increases sought in the Supplementary Estimate

PRODUCTIVITY

(Deep-mined coal, calculated on Output per Manshift basis)

1972-3	-	2.33
1974-5	-	2.29
1978-9	-	2.24
1980-1	-	2.32
1981-2	-	2.40
1982-3	-	2.44

COAL STOCKS (at pithead and consumer)

March 1979	-	29 million tonnes
March 1981	-	38 million tonnes
March 1982	-	43 million tonnes
Sept 1983	-	58 million tonnes
Feb 1984	-	48 million tonnes

Conservative Research Dept
32 Smith Square LONDON SW1

NH/CR
23.3.84

APPENDIX II

TABLE 8.6 **Number of collieries and manpower since nationalisation**

		No of collieries	*Net† drop in no of collieries*	*No of men on colliery books ('000s)*	*Net drop in manpower (or incr) ('000s)*	*% drop in manpower (or incr)*	*Events*
End of year	1946	980	—	696·7	—	—	
	1947	958	22	722·5	(25·8)	(3·7)	Vesting day 1 January 1947
	1948	940	18	718·0	4·5	0·6	
	1949	912	28	701·2	16·8	2·3	
	1950	901	11	681·1	20·1	2·9	
	1951	896	5	691·1	(9·9)	(1·5)	
	1952	880	16	713·7	(22·6)	(3·3)	
	1953	875	5	704·0	9·7	1·4	
	1954	867	8	700·1	3·9	0·6	
	1955	850	17	694·5	5·6	0·8	
	1956	840	10	697·6	(3·1)	(0·1)	United Kingdom coal consumption peaks
	1957	822	18	703·7	(6·1)	(0·9)	
	1958	793	29	681·1	22·6	3·2	
	1959	737	56	634·0	47·1	6·9	
	1960	698	39	583·0	51·0	8·1	
	1961	669	29	561·1	21·8	3·7	
	1962	616	53	536·2	25·0	4·4	
	1963	580	36	510·6	25·6	4·8	
	1964	545	35	484·5	26·0	5·1	
	1965	504	41	446·8	37·7	7·8	Social grants introduced
	1966	442	62	414·4	32·4	7·3	
	1967	406	36	382·4	32·0	7·7	
	1968	330	76	324·5	57·8	15·1	Miners' redundancy scheme starts
	1969	304	26	299·6	24·9	7·7	
	1970	293	11	283·1	16·5	5·5	
End financial year	1970–71	292	7*	286·4	9·3*	3·1	
	1971–72	289	3	274·0	12·4	4·3	
	1972–73	281	8	263·8	10·2	3·7	Colliery Review Procedure introduced
	1973–74	259	22	242·5	21·3	8·1	
	1974–75	246	13	248·8	(6·3)	(2·6)	Plan for Coal
	1975–76	241	5	243·7	5·1	2·1	
	1976–77	238	3	242·1	1·6	0·6	
	1977–78	231	7	239·3	2·8	1·1	Voluntary early retirement scheme starts
	1978–79	223	8	232·4	6·9	2·9	
	1979–80	219	4	233·2	(0·8)	(0·3)	
	1980–81	211‡	8	224·8	8·3	3·7	Protest strikes over closures
	1981–82	200‡	11	212·8	12·0	5·3	

Source: MMC from NCB information.

* Compared with financial year 1969–70.
† Closures offset by new collieries.
‡ Includes two collieries which ceased production during the year.

173