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Coal file

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PRIME MINISTER

7 September 1984

THE COAL INDUSTRY

The coal industry is comprehensively bust. The activities of the NUM and the attitudes of many NCB managers have contrived to ruin a potentially profitable resource industry. Where nature has endowed our country generously, predatory unions have succeeded in turning a national asset into a national liability.

Last year to March 1984, the Government gave in grants and redundancy payments a total of £1.33 billion (NCB accounts). In addition, the Coal Board added £469 million to its total borrowings. The business now has £5.2 billion of outstanding loans, and has no reserves or equity capital at all.

The auditors pointed out that the Board's provisions for the restoration of land, and future claims for subsidence, may well be inadequate; the Government is committed to continuing payments under the redundancy scheme, and to contributing £65 million a year to top up the pension funds until the early 1990s.

Coal is not a natural monopoly. The sensible management units are the pit and the area. There are no economies of scale by extending the business nationwide. The NCB is a

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large sprawling holding company, which aggregates open-cast, deep mining, coal distribution, peripheral businesses, chemicals and coal products, and estates management. In planning the future of the coal industry, we need to consider both splitting it functionally and geographically.

The open-cast executive

Open-cast mining has been limited by the reluctance of a deep-mine oriented management and union to see the more successful open-cast activities expanded rapidly and by planning permission delays.

Last year, open-cast coal accounted for 14 mt out of the 104 mt of total strike disrupted production. Open-cast production could be expanded to above 20 mt, where it would represent almost 20 per cent of planned coal output. It would be profitable - the 14 mt made a £200 million profit last year. It can be done through private sector companies like Taylor Woodrow, and Burnett and Hallamshire, with private investment and TGWU labour.

? Plan m
Output
now?
Site - plan
permission

It would be worthwhile breaking the links between open-cast companies and the NCB for coal distribution; this would help free-up the distribution system. We should also step up production immediately. There are three stages:

- a. Moving to full shift working at all sites, and

- 2 -
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maximising use of machinery at existing sites.

[Mr Frank Gibb of Taylor Woodrow has told me that prior to the dispute, the NCB was using contract clauses to restrict output considerably.]

- b. Expanding existing sites and opening new sites already with planning permission. [NCB have signed no new contracts during the dispute.]
- c. Getting permission for new sites.

Deep mining

The worst 10 per cent of capacity in 1981/82 lost £263 million. The Coal Board tries to even out the misery, closing relatively bad pits around the country where miners can be redeployed and/or where it seems a good idea at the time. The worst three areas - Scotland, Barnsley and South Wales - lost £245 million last year, producing only 18 mt of output.

There are several steps which could be taken, of varying degrees of severity, for tackling the deep-mining activities.

Firstly, new deep-mine investment could be made by private sector companies. Companies like Shell, BP, RTZ, Charter Consolidated, etc, could well take up the opportunity to

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invest in new economic coal production. A start could be made with a joint venture investment. Government cash for investment could then be squeezed.

Secondly, the mines already split into areas for management purposes could be formed into free-standing taxpayer-owned operating groups. Their management, pay, closure and other negotiations could be entirely separate, so that a dispute in, say, Yorkshire would not jeopardise all the other coal fields. A sensible grouping might be North Derbyshire, North and South Nottinghamshire, the South Midlands and the Western area together in one large successful, relatively moderate grouping; the North-East with North Yorkshire, Doncaster and Barnsley; with the Scottish and South Wales areas as separate. Alternatively, the North-East and Western areas could also be separate.

Thirdly, experiments could be made with giving bad mines to miners, along with a substantial capital sum if they were prepared to try and make a go of it themselves. Whilst they would be unlikely to accept, it would have presentational advantages.

Finally, once the mines had been grouped into regions, the introduction of private capital could be considered.

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Coal Distribution

Last year, National Fuel Distributors handled 1.89 mt, and the Southern Depot Company Ltd, 0.47 mt. They made an operating profit of £12 million in competition with private sector distributors who buy from the NCB and from abroad. The Board also holds a 20 per cent stake in the Gwent Coal Distribution Centre, 66 per cent of the Liverpool Fuel Company, and 49 per cent of the British Fuel Company.

The best treatment for these investments in fuel distribution would be to sell the companies concerned either to trade buyers or on the Stock Exchange. They are profitable, there are private sector comparators to assist pricing, receipts would be received as a contribution to NCB losses, and a further modest step would have been taken to loosen the NCB's hold on the distribution network.

All coal should be moved from the pithead by private sector contractors, stockists and distributors, or sold direct under bulk contract to industry. This would reduce vulnerability of the supply system in the event of disruptions to production.

The peripheral businesses

NCB did make some progress last year, negotiating to sell their investment in Sankey the builders' merchants, and to

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sell 7 plants from the Scottish Brick Company. This year, they should be encouraged to sell EMS Thermpant Ltd, Horizon Exploration (Holdings) Ltd, to tidy up and give away their engineering business, which has been a heavy loss-maker, and to complete the disposal of Scottish Brick.

They could also contemplate the sale of NCB Coal Products Ltd, their loss-making smokeless fuel and chemicals activity. Again, there are private sector competitors and comparators (eg Coalite). The business is loss-making, but its plant and assets have a value and would probably be better operated under new management. Some of the present loss is created by artificially high transfer prices for NCB coal. None of these small businesses get the management attention they deserve, as senior NCB management is preoccupied with the deep mining activities.

Land and buildings

The Coal Board has an unstated estate of considerable magnitude. The report and accounts reveal that it owns 30,000 acres of non-operational land, and 32,000 miners' houses. Last year saw substantial disposals of both land and houses, but the pace should be quickened. Land reclamation and disposal involving private capital should be a profitable activity, and the Board should be set onerous targets in this area. Is all the land currently deemed to be operational needed for operational purposes?

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Conclusions

The first steps in tackling the NCB should be:

1. To encourage the sale of the peripherals.
2. To include in the disposal of the peripherals the sale of the coal processing and distribution businesses and, at the same time, detach them further from the NUM.
3. There should be a blitz on holdings of land and the restoration of derelict land. This is in itself an attractive policy, and could tackle some of the vexed issues of how the communities survive and how new life can be brought into them; whilst at the same time making environmental improvements.
4. Open-cast coal should be expanded, despite environmental opposition, and a target of at least 20 mt should be set for 3 years' time. Immediate action to step up output from existing sites is needed.

These basic measures are not too contentious. The following more contentious steps could also be considered:

1. Splitting the deep mine areas into free-standing, separate area companies, and disbanding the NCB national operation.

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2. Allowing private capital into the development of new mines, on the grounds that we wish to have as much capital as possible, but the enormous losses and cash consumption of the NCB make financing it all within the public sector difficult.
3. Offering the worst mines to miners along with a dowry, for presentational if for no other reason.
4. Abolishing the national average price of coal: this becomes easier if regional companies have been set up, and would allow the economic areas and successful areas to undercut the others, and thereby gain more of the market and create more jobs, whilst lowering the average cost of energy. Some industrialists already buy at advantageous prices compared to the average.

JOHN REDWOOD

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