

MR MOUNT

cc Mr Walters
Mr Scholar ✓

(This just to keep you in the picture as an issue still fraught with difficulty)

PIT CLOSURES

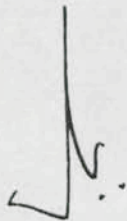
I attended a discussion in the Department of Energy on Friday about pit closures, in preparation for which the attached draft letter for Mr Lawson to send the Prime Minister had been circulated. (There are a number of annexes, which I have if you or others would like to see them: but we agreed that it would be too risky for Mr Lawson to circulate to his colleagues with what are in effect lists of pits to be closed.)

As I think you know, the position is that the Department of Energy have more or less rejected the NCB's first attempt at a discussion document on pit closures, and Mr Lawson therefore proposes that the Prime Minister's meeting on 25 January will consider only his own letter. This necessarily means that the approach that we would have preferred - starting with the Board's projections for demand and price, and the criteria established in the objectives letter - will not be possible. Instead, Ministers will be invited to take a tactical decision: what risk of a national strike are they prepared to take and when, and in the light of that how fast can they risk closing pits.

I have argued, with some support from Nigel Wicks, that Mr Lawson's paper must at least make some attempt to put the problem in a wider perspective of the present over-capacity of the NCB in deep mined coal. And the Treasury are insisting that the paper make it clear that the objective sought by the NCB (breakeven) is not a commercial objective at all: if the NCB were a commercial organisation, it would not tolerate any loss-making pits, and the resulting cross-subsidy from the profitable ones. The implementation of such a commercial criterion would result in closures on a truly enormous scale. Even the implementation of the Board's objective, which is roughly speaking option (c) would result in a pattern of closures highly likely to lead to a national strike (there would be, for instance, 6 pits closed in Yorkshire and 7 in the Midlands).

The judgement about the rate at which closures can take place without a national strike is of course a complex one. There are many intermediate courses of action between the Board's "reference case" and option (c). The NUM's perception of what is reasonable will change over time as a corpus of closures builds up. Non-coal factors will play a part, notably the election. But it was clear from the meeting that there is a consensus among the Department of Energy, the Treasury, Employment and the CPRS that the right course of action is to tell the Board to go for the closures implied by the reference case (which are mostly, but not all, in Scotland and Wales) until after the election. The Department of Employment placed particular emphasis, rightly I think, on the fact that many of the option (c) closures would involve compulsory redundancies (some 14,000 in all) which brings the closures issue into a different dimension of industrial relations.

Finally, the Department of Energy and the Treasury now acknowledge what John Hoskyns argued from the day he arrived here: that sooner or later the Government would have to face, and win, a major national coal strike. John thought it would probably have to be on pay, but our plans for deterring that proved successful. It does seem considerably less likely that we could bring the Coal Board anywhere near breakeven without winning a strike, and that of course carries the major risk that embarking upon and then losing a strike is the most expensive option of all.



17 January 1983

DRAFT

File No.

Addressed to:

PRIME MINISTER.
NO 10 DOWNING STREET
SW1.

SECRET

Copies to :

Originated by:
(Initials and date)

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DEPARTMENT OF Energy

NCB PIT CLOSURES

As foreshadowed in my minute of 10 December, I am writing to report on the NCB's considered proposals on closures and to set out my own recommendations on these proposals.

2. The Board have considered three options:
- (a) to maintain their present policy of closing some 2mt of capacity pa, largely consisting of pits nearing the exhaustion of their reserves;
 - (b) to reduce capacity through closures and mergers by some 3m-4mt on both 1983/84 and 1984/85 - their reference case; and
 - (c) to attempt to close 10mt of capacity in 1983-84 - their rapid case.

Option (a)

- 3. Norman Siddall told me the Board had rejected this option out of hand for two main reasons. First, if adopted, there would be no

Enc. 3

*Intro shd explain
against what
background the option
shd be judged.
- The objective
- Downside cost
projections
- ∴ Derived
capacity.*

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viability within the foreseeable future. Secondly, in the period immediately ahead the number of exhaustion closures or closures that were likely to be uncontroversial for other reasons would not amount to anything like a programme of 2mt pa.

Option (b) - Reference Case

4. This is the option recommended by Norman Siddall and his colleagues. Details of the pits, including their losses, manpower and productivity, which the NCB would propose to close and merge under this option are set out in Annex A, while the financial implications of this and other options are set out in Annex D. The emphasis would be on heavily loss-making pits, rather than on pits nearing exhaustion (many of which have closed over the last two years). Briefly, the Board would propose to close 6 pits in South Wales with a manpower of 3300, 2 or possibly 3 in Scotland (1400-1600 men) and 2 in the North East (2500 men). There would also be several partial closures and mergers which would eliminate loss-making capacity and reduce manpower. At the request of the Welsh NUM, discussions on two of the pits to be closed, TYMAWR and BLAENGWRACH, will start on 17 January and discussions on the closure of SORN, which may close during the current FY, will start soon after our meeting on 25 January. By concentrating on closing pits in the major loss-making areas in South Wales, Scotland and the North East the Board would expect to avoid a serious risk of a national strike in the Central coalfields, although there are likely to be strikes in the South Wales and/or Scottish areas. The Board would hope to achieve the great majority of their closures without compulsory redundancies, ~~although the option is based on a reduction of 14,000 men on colliery books in 1983/84.~~ Without the recent deterioration in the Board's market prospects (see para 7 below) the Board would expect to breakeven under this option in 1986/87.

Safety did they
consider it? It
was never an
option.

10 pits

6 1/2 k man

✓

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Option (c) - Rapid Case

5. Details of this option are set out in Annex B. Under this option the Board would close 38 pits in 1983/84 and reduce their manpower by 25,000 - 30,000. Widespread compulsory redundancies would be needed. Nine of the Board's 12 Areas would be affected. Leaving aside the recent deterioration in their market prospects, the Board claim they would also only break even under this option in 1986/87, although our own ~~statistics~~ ^{studies} suggest that they might break even by 1985/86. In cash terms there are considerable advantages over option (b) provided that a national strike fails. If a national strike succeeds, the costs would be very much greater than if the reference case is carried through successfully. (See Annex D).

Additional Option - Reference Case Plus

6. I asked Norman Siddall to consider an additional option between options (b) and (c), which would involve bringing forward some of the closures in the major loss-making areas planned for 1984/85 into 1983/84. We agreed that such an approach was consistent with his own clear view that option (b) should be the minimum strategy and that the Board should do everything in its power to accelerate the rate of closure and seize all opportunities which arose without, however, taking action that seemed likely to precipitate a national strike. Annex C illustrates what might be achieved in this way.

Recent deterioration in the NCB's Prospects

7. Since the NCB formulated their original options their prospects have worsened significantly. They have already lost 2mt of sales to the CEEB over the next year, and my Department's short-term forecasts suggest that a further loss of sales of around 2mt pa ~~suggest that a further loss of sales of around 2mt pa~~ over the next three years is possible. There is also no sign yet of an increase

38 pits

25k man

limit

How likely is a
Nat. Strike?(Include North
Midland & Yorkshire)(para 11
annex D)Try to make
this compatible
with the others.

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in real coal prices, to which the NCB look for a substantial contribution to their return to viability. Productivity is also lagging. So far this year OMS has increased by only 1.2% instead of the 3.4% expected. Increased productivity and reduced costs are crucial to NCB's plans. If all these adverse trends are confirmed, NCB's 1986/87 EFR might be some £600m greater at 1982/83 prices than forecast in the Development Plan. Such a deterioration would mean that the distance to be covered - and the closures required - to return to viability will be substantially greater than NCB have so far forecast.

Consideration of the Options

8. I believe we should accept the Board's view that option (a) is unacceptable and needs no further consideration.

Financial

9. As is clear from Annex D and paragraph 7 above the Board face very serious financial problems. Unless there is an early and marked ^dupturn in the economy, there can be no prospect of the Board breaking even after social grants within 5 years on the basis of present policy, let alone of their making a positive return on the vast sums of capital which the nation has invested in this industry. Maintenance of the present policy, ie option (a), would leave the Board requiring an EFL of ~~at least~~ ^{over} ~~£1100m~~ ⁷⁰⁰ in 1987/88 before taking account of the deterioration referred to in paragraph 7 above.

10. Although the financial consequences of option (b) depend to a large extent on whether or not it results in strike action, it is assumed that a strike is avoided. If so, the option will cost at least £900m less over 5 years than option (a) and is obviously preferable to it. The cash costs of option (b) can be reduced by a further £300m if the

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"Reference Case Plus" is implemented. Either version of this option costs more than a successful option (c), but a lot less than an unsuccessful one.

11. The financial consequences of option (c) depend crucially on the outcome of a national strike which will almost certainly occur if this option is adopted. If, but only if, the programme is carried through either without a strike or with a strike that the Board clearly wins, this option has clear financial attractions compared with option (b) - the saving to the PSBR could be some £900m over the 5 year period. The recent deterioration in the Board's prospects strengthens the case for taking early and radical action. On the other hand, the clear lesson of February 1981 is that if the Board do not win a strike and are again forced to agree a moratorium on closing anything other than on exhaustion grounds, the financial prospects of the industry would become catastrophic. The financial consequences of such an outcome are likely to be some £1250 worse than option (b) and are indeed considerably worse than that for option (a), as in addition to very few closures the Board's ability to shed manpower without closures is likely to be greatly restricted and the Board's ability to keep down costs, notably wage costs, would be greatly reduced.

A further £900m?

|| * ✓

Strike Action

12. If we adopt any option other than option (a) we must be prepared to face a national strike and to give Norman Siddall and his colleagues our whole-hearted support in winning it. The closure of pits, notably in areas of high unemployment and in closed mining communities, affects men's basic interests much more fundamentally than pay. Whatever steps are taken to mitigate the immediate effects of a particular closure, we can never be certain that it will not spark off a national strike, which Arthur Scargill will do everything in his power to encourage.

X no. not for (b)

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Had Scargill not foolishly linked the pay issue with the closures issue, he would have been well-placed in the months ahead to have won a national ballot on closures. However the risks of a national strike and the Board's chances of winning one differ considerably depending on which option is adopted.

13. Norman Siddall believes the risks of a national strike arising from option (b) are 40/60 against. Some acceleration should be possible without these risks rising above 50%. On the other hand Norman Siddall believes there is well over a 50% risk of local strikes in the South Wales, Scottish and Kent coalfields, which might result in limited sympathetic strike action in a few pits in the central coalfields. Given the heavy losses made in these three areas such an outcome would positively benefit the NCB's finances.

14. Norman Siddall is confident of being able to deal with any regional strike action arising out of option (b). Even if this develops into a national strike the Board will be well placed vis-à-vis both the miners and public opinion. The Board could plausibly argue that (unlike in 1981) the prospects of the central coalfields are assured. The limited surgery, but not butchery, being undertaken in the high loss-making peripheral coalfields is not likely to attract ~~much~~ ^{great} sympathy from miners in the central coalfields. Following the Select Committee report and other publicity, public opinion is likely to support the Board and the Government if the Board adopt this option.

15. The main reason why Norman Siddall advises against the rapid case is that he is far from confident that the Board would win such a strike (particularly in a year during which the NUM think there might be a General Election). In view of the number of closures involved in the rapid case, it

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committed to a major closure programme. The fact that 9 of the Board's areas would be affected and there would be widespread compulsory redundancies would lead to entrenched opposition by the workforce. The Board also believe that the adoption of such a strategy in the near future would immediately re-establish Arthur Scargill's standing and credibility, which they have successfully undermined, as he would be able to claim that his repeated warnings were now shown to be fully justified. ~~While~~ The Board are well aware that the stocks at power stations enable us to hold out for a long period, they believe the miners would also be prepared for a very long strike, particularly if the Board were unwilling to give satisfactory undertakings on future closure policy in order to settle a strike. While the Board are currently thinking a national strike would last for 2 months, I believe it could well be longer. We would certainly need to be prepared for it to be longer.

Employment Consequences

16. Under option (b) the Board would expect to reduce manpower in industrial grades on colliery books by some 14,000 in 1983/84 compared with reductions of about 8,000 in 1980/1, 12,000 in 1981/82 and 9-10,000 in 1982/83. Of this total rather more than 10,000 job losses would be at the collieries which would close wholly or partially in 1983/84. About 4,000 would be in South Wales, 2,500 in the North East, and 1,400 in Scotland. The other reductions would be achieved by increased efficiency at continuing collieries. There would be additional job losses, perhaps another 2-3,000 in all, of ancillary industrial and non-industrial staff. Some 70% of the job losses would be accounted for by voluntary redundancies, either at the pits being closed or at nearby pits which would be taking in men from the closed pits. At the moment the Board only envisage compulsory redundancies at one of the

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pits to be closed in South Wales.

17. If option (c) were implemented the manpower reduction at collieries in 1983/84 would be between 25,000 and 30,000 with some actual closures probably spilling over into 1984/5. The number of redundancies would be nearly as great, with very limited re-deployment. --- of the redundancies would be compulsory. There would be nearly 8000 job losses in South Wales and around 5000 in both the North East and Scotland, the remainder being in the central coalfields.

Conclusion

18. Taking all these considerations into account I believe that on balance the right approach initially is to back Norman Siddall's judgment and urge him to launch option (b), while doing everything possible to bring forward additional closures without, however, at this stage courting more than a 50/50 risk of a national strike. The accelerated version of option (b) would mean a significant increase in the tempo of closures compared with recent experience, notably non-exhaustion closures, and is likely to attract widespread public support and be accepted by the majority of miners themselves. Success with this option will further undermine Scargill's position and make it easier to increase the pace of closures at a later stage.

19. Whilst the financial attractions of the rapid case are obvious if the outcome of the strike is successful, I think it would be imprudent to adopt it immediately. But once the higher level of closures postulated by option (b) has been successfully established, I think we should look again at whether the Board could not move to a still higher gear immediately after we have been re-elected. Furthermore we should keep under review the possibility of increasing the tempo at an earlier date, notably if

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ie the "Reference
Case"

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a national strike develops. If Scargill succeeds in bringing about such a strike we must do everything in our power to defeat him, including ensuring that the strike results in widespread closures.

20. A note on the present power station endurance position is at Annex E.

21. I am sending copies of this letter to the recipients of my minute of 10 December.