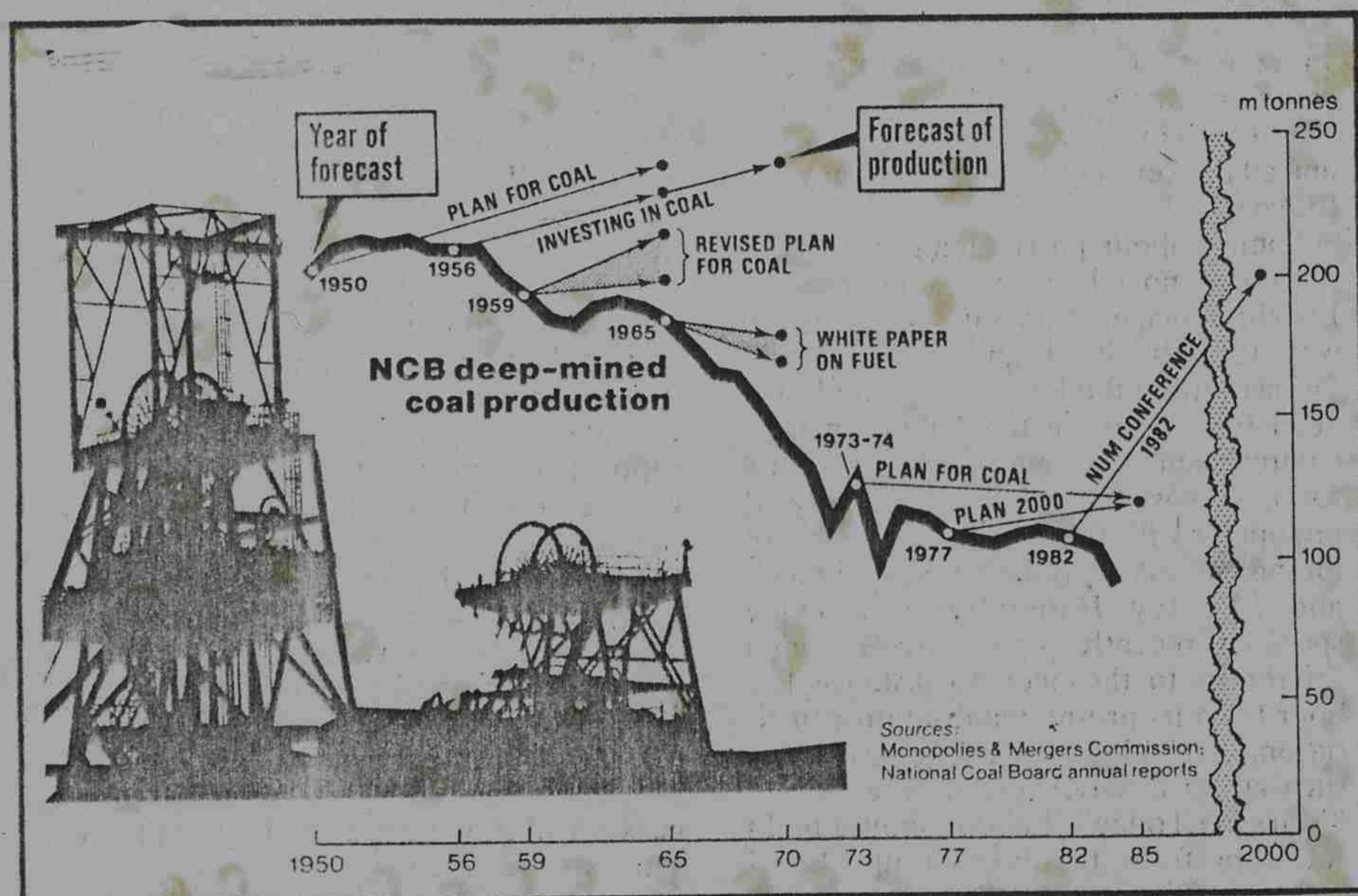


PRIME MINISTER

22 February 1985

"PLAN FOR COAL" - THE DANGERS OF WISFUL THINKING

Every long-term plan for the UK coal industry formulated since the last War has been flawed by wishful thinking.



Such ill-founded optimism carries the seeds of its own destruction - excess capacity, marginal cost exceeding marginal revenue, resources diverted not into productive investment but into subsidising uneconomic surplus capacity.

The NCB's latest proposal to prepare a new Plan for Coal within 6 months, "with a view to establishing a developing and expanding coal industry, equipped to meet future energy requirements", bears the same fatal hallmarks of long-term target-setting based on wishful thinking. The annex to the NCB proposal is revealing.

The downward trend is reversible, but only by abandoning the traditional NCB/NUM approach to planning. The very idea of a "Plan for Coal" is ill-conceived in assuming that there is a set of production targets which, if met from the most productive sources, will satisfy the demand for coal at prices which will yield a profit.

Energy markets are too complex, dynamic and uncertain to permit this type of long-term planning. We don't know whether coal demand in the mid-1990s will be 60 million tonnes per annum or 110 mt pa. We can be pretty sure that if the NCB aims at the high end of the range, without first closing down uneconomic capacity, their coal will be so dear demand will be much lower.

The "MacGregor Miracle" is only possible with a new style of coal industry, resilient to the uncertainties ahead. Present deep-mined capacity may have to be reduced by 30 mt pa entailing total redundancies from the industry approaching perhaps 100,000. The considerable further scope for increased productivity will have to be realised. For example, the restrictive practices currently in force in the UK coal industry, require that one shift cannot go underground until the other has come up. There is no three-shift working. In consequence, the utilisation of expensive plant and equipment is half that of comparable deep mines in, say, Germany.

The formula for a profitable, expanding coal industry is:

- cheap coal from the most economic deep mines, and double the open-cast capacity, chasing new business; and
- generating profits for the development of new superpits operated at maximum productivity.

No doubt the NCB envisage an eventual return to work followed by what is described in their latest proposal as "a period of conciliation and reconstruction", the formulation and agreement of a new Plan for Coal (in the old mould) and, thereafter, resumption of the closure programme. They would contest the idea of a take-it-or-leave-it chance for striking miners to return once the 50% milestone is reached. They would see this as leaving them with insufficient manpower resources to rebuild a viable industry structure.

On the contrary, it should facilitate the all-important metamorphosis to a lean and competitive industry. That is the only Plan for Coal worth the paper on which it is written.

*JW*

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