B

PRIME MINISTER

30 March 1990

COLLIERY CLOSURES

For the first time in its existence the Coal Board is having to confront market reality. The supply contracts to the generators specify a reducing tonnage over the next three years at declining real prices. From April 1993 even this protection will disappear and BCC will have to do the best it can in a truly free market place. Current prices of over £40 per tonne will inevitably fall by at least a quarter in line with imported prices of below £30 from Rotterdam. Tonnages to generators will fall from current levels of over 70MTPA to below 60MTPA by mid-90s.

Furthermore, the new contracts specify which groups of collieries will supply specific power stations. Previously British Coal had been able to jiggle its sources of coal with generators having little influence on where their coal was sourced. The new contracts specify pithead prices with subsequent transport paid for by the generators. It is this rigorously specified pattern of coal flow, coupled with the overall fall in volumes mentioned above, which have led to the present colliery closure proposals.

British Coal believe that some eight collieries, at least four in Yorkshire, perhaps two in the North West, one in South Wales, and one UDM pit in Nottinghamshire will have to be shut in response to the new market circumstances. The individual collieries within this have not yet been specified so that, technically, there is no 'hit list'!

BCC argue that this phase of closures is not related to individual colliery performance and is inappropriate for local management review in conjunction with the Independent Review Body. This procedure was set up during the coal strike specifically to assure NACODS as well as the NUM, that every chance would be given to a specific pit to see whether its performance could be improved in order to render it sufficiently productive to remain open. Both Bob Haslam and John Northard, the highly experienced and pragmatic Deputy Chairman who actually deals with local management and unions and has personally attended every single IRB review, assure me that to use this procedure in the present case would be seen as farcical by all concerned and reflect badly on the Coal Board and the Government's good faith.

For this reason BCC's preferred course would be to explain the problem to the unions, emphasising that it is the consequence of market reality not the shortcomings of any individual pits, and offer the kind of generous redundancy terms which have enabled them to achieve forty closures since 1986 without a single IRB hearing. For instance, a miner in his thirties who has been in the industry all his life would get £25,000, while one in his fifties would receive £35,000. However, if despite these inducements, the unions still wished to argue for the pits to stay open, Haslam and Northard's preference would be to have no IRB and simply announce that the closures are going to take place.

It is here that the Department of Energy and the Coal Board diverge. Initially John Wakeham argued that each and every pit should be subject to an IRB if the unions so chose. He now recognises that this would give a marvellous stage for Scargill to preach against capitalism, privatisation and the perceived inequities of the present administration, on an extended run! Wakeham no longer favours this course. He does, however, argue that the unions should have the right to go to a single IRB to discuss this phase of closures en bloc. Haslam and Northard will comply if that is what the Government decides. However, they both made it clear to me separately that this is still an intellectually dishonest way of using the IRB procedure if we have decided a priori that these eight pits have to close anyway.

CONCLUSION AND RECOMMENDATION

The pits have to be closed and the sooner the better. How to achieve this with the minimum disruption and the maximum commitment to past undertakings is what Monday's meeting and the subsequent one with Haslam is about. It is pointless to get into the question of whether the pits have to be closed because the figures speak for themselves. You should listen carefully to Peter Walker's view because, apart from yourself, he was the only Minister involved when the IRB procedure was established.

However, Haslam and Northard have made a good case to me that the present issue is not the kind of problem for which the IRB was established. It would therefore be a misuse to apply it to collieries which have to be closed because of their location. I spent 20 years in the mining industry worldwide and the most painful and costly mine closures were always those where management procrastinated hoping to buy time.

GEORGE GUISE

Appendix: Recent Performance of British Coal

British Coal Corporation and subsidiaries

~~Schedule 3~~
APPENDIX

Summary of results 1980 to 1989

	1980	1981	1982	1983	1984	1985	1986	1987	1988	**1989**	90	91(E)
Saleable output: Coal mining (m tonnes)*	121·6	124·9	122·5	119·0	104·0	41·2	101·9	100·5	96·9	101·3		
Output per manshift at collieries (tonnes)*	2·31	2·32	2·40	2·44	2·43	2·08	2·72	3·29	3·62	4·14	4.31	4.7
Operating profit/(loss) £ per tonne	(0·10)	0·40	(0·56)	(1·05)	(3·69)	(37·22)	5·65	2·84	1·91	3·99		

*see note 2 to Schedule 2.

See below

	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Turnover	3,740	4,186	4,727	4,948	4,660	2,018	5,340	4,515	4,388	4,295
Results										
Deep mines	(122)	(107)	(226)	(317)	(595)	(1,333)	(108)	41	(67)	132
Provision for strike recovery costs	—	—	—	—	—	(340)	340#	—	—	—
Opencast	110	157	157	192	211	142	343	244	252	272
Other mining activities	6	12	21	23	27	9	27	26	12	4
Total–mining activities	(6)	62	(48)	(102)	(357)	(1,522)	602#	311	197	408
Non-mining activities	24	20	3	(1)	(4)	(46)	(2)	13	13	6
Related companies and partnership	2	(3)	2	4	3	5	4	1	1	2
British Coal Enterprise Ltd[1]	—	—	—	—	—	—	(3)	(8)	—	—
Profit on sales of fixed assets	25	19	20	20	22	18	24	52	50	82
Operating profit/(loss)	45	98	(23)	(79)	(336)	(1,545)	625#	369	261	498
Interest	(184)	(256)	(344)	(364)	(467)	(520)	(437)	(386)	(368)	(432)
(Loss)/profit on ordinary activities after interest	(139)	(158)	(367)	(443)	(803)	(2,065)	188#	(17)	(107)	66
Exceptional restructuring costs:										
Social costs, less restructuring grants	(17)	(29)	(61)	(49)	(74)	(78)	(170)	(197)	(146)	(97)
Terminal depreciation	—	—	—	—	—	(79)	(66)	(62)	(241)	(172)
(Loss) on ordinary activities	(156)	(187)	(428)	(492)	(877)	(2,222)	(48)#	(276)	(494)	(203)
Taxation, minorities and extraordinary items	(3)	(20)	—	7	2	(3)	(2)	(12)	(1)	—
(Loss) before deficit grant	(159)	(207)	(428)	(485)	(875)	(2,225)	(50)#	(288)	(495)	(203)
Deficit grant	159	149	428	374	875	2,225	50	288	200	—
Note: Operating results include operating grants:	30	26	27	12	—	—	—	—	—	—
Assets employed										
Fixed assets	1,862	2,450	2,981	3,507	3,845	3,874	4,055	4,229	4,203	4,157
Net current assets	488	461	892	910	1,339	2,080	1,364	1,498	1,112	1,035
Deferred liabilities	(234)	(280)	(362)	—	—	—	—	—	—	—
Total	2,116	2,631	3,511	4,417	5,184	5,954	5,419	5,727	5,315	5,192
Financed by										
Creditors–amounts falling due after more than one year	—	—	—	230	369	538	774	1,101	1,027	866
Provisions for liabilities and charges	—	—	—	505	667	1,106	813	689	1,174	1,085
Loans under the Coal Industry Acts	1,972	2,544	3,428	3,710	4,179	4,343	3,868	3,973	3,988	4,318
Reserves	136	79	79	(29)	(31)	(33)	(36)	(36)	(874)	(1,077)
Minority interests	8	8	4	1	—	—	—	—	—	—
Total	2,116	2,631	3,511	4,417	5,184	5,954	5,419	5,727	5,315	5,192
Ratios	%	%	%	%	%	%	%	%	%	%
RETURN ON AVERAGE CAPITAL EMPLOYED										
Mining activities	—	2·9	—	—	—	—	11·1	5·8	3·7	8·0
Non-mining activities	10·1	7·6	1·2	—	—	—	—	8·1	9.2	4·8
Related companies and partnership	8·9	—	5·8	7·4	4·9	7·9	6·4	1·2	3·7	6·2
Total	1·1	3·3	—	—	—	—	10.6	5·8	3·8	7·9
MARGIN ON TURNOVER										
Mining activities	—	1·5	—	—	—	—	11·7	7·2	4·6	9·4
Non-mining activities	3·9	3·1	0·4	—	—	—	—	2·6	3·3	2·3
Total	0·6	1·9	—	—	—	—	10·5	6·7	4·4	8·9

\# The 1986 results include the benefit of the release of the provision for strike recovery costs raised in 1985.

Notes:
1 The results of British Coal Enterprise Ltd are included in exceptional restructuring costs from 1988.
2 The vertical lines denote items subject to a definition change after 1982 (arising from the Companies Act 1981), after 1984 (arising from SSAP 21, a revised definition of social costs and the introduction of terminal depreciation as a separate item), and after 1987 arising from a change in accounting policy in respect of noise induced hearing loss.
3 The accounts for 1980 to 1985 were audited by a firm other than Ernst & Whinney.

Note Financial information is not very meaningful because of because of write offs and special grants. 1990 will be bad because of low volumes and high costs including closures. However productivity is rising well. Note high profitability of opencast