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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

COAL TRIPARTITE DISCUSSIONS

Memorandum by the Secretary of State for Energy

1. When I saw the National Coal Board (NCB) and the mining unions in the Tripartite on 18 February I said that:

a. the Government believed in the future of the coal industry, wished to see it become a thriving, competitive industry and stood by Plan for Coal;

b. coal imports would in any case fall from 7½m tonnes in 1980 to 5½m tonnes in 1981. The Government would be prepared to look, with a view to movement, at what could be done to reduce this figure towards its irreducible minimum (ie those qualities of coal not produced domestically);

c. the unions had argued that Government financial constraints were a burden which the industry could not sustain. The Board and unions should therefore stand back from these in order to discuss a pattern of proposals for colliery closures consistent with Plan for Coal and the severe economic realities. The Government was prepared to discuss the financial implications with an open mind and also with a view to movement.

2. In the light of my statement, and in response to the unions' requests the NCB said that they would withdraw their accelerated closure programme and re-examine the position in consultation with the unions.

Colliery Closures

We must expect the unions to insist that colliery closures (the need for which they recognise in principle but will wish to argue individually save where the coal reserves are exhausted) shall continue to be handled through the long-established Colliery Review Procedure, and that there shall be no reversion to an accelerated closure programme. Even though NCB may try to negotiate an increased rate of closures, it is likely that most of the pits the NCB wanted to close early will have to be kept open longer, and we must accept that the cost will be very substantial. This is both because these pits make heavy losses and because their output will contribute to the current coal surplus. Depending on the number of pits the Board succeeds in closing their extra cash requirements in 1981/2 on this account alone could be of the order of £150-200m, and substantially more in later years. No firm assessment of the extra costs is feasible, but we must accept that substantial additions to the NCB's External Finance Limits will be needed.

The Board's revenue account

4. Keeping open the pits the Board had intended to close will have a severe effect on their profit and loss account, since these pits are all heavy losers. There are also long-standing complaints in the industry about the size of the interest burden they have to bear. We shall have to take steps to give the Board a reasonable prospect of breaking even on their revenue account, and I shall bring forward proposals for achieving this.

Imports

5. Imports are a highly emotive issue for the mining unions. The offer to consider ways of reducing them towards the irreducible minimum was essential if we were to have had any chance of avoiding a national strike. On present plans, imports in 1981/2 will be as follows:

	m tonnes
BSC	3.5 - 4.0
CEGB and SSEB	1.5 - 2.0
Anthracite	0.5
TOTAL	5.5 - 6.5

There are some constraints on replacing these imports by NCB coal. Certain qualities of coking coal cannot be supplied by the NCB - perhaps 1 - 1.5m tonnes - although discussions with BSC will be needed to determine the exact figure. The importers will have contractual commitments. Anthracite has to be imported because home production is insufficient to meet demand. Nevertheless, substantial replacement of imports will be possible, by discounting the NCB price to match the import price, with the Board's External Finance Limits adjusted to allow for the cost of the discount. In 1981/2 this might be of the order of £60m on preliminary estimates. But I believe that we should aim for the maximum practical displacement by this means both because of the effect on the mining unions and because such discounted sales involve a lower cost for public expenditure than stocking the coal.

Captial investment

6. The proposals for capital investment which the NCB put to us in their Policy Review in January provided for a cut of about £50m a year in their capital investment as compared with the proposals in the 1980 Medium Term Development Plan.

7. Capital investment in the industry is important to the mining unions; it also raises efficiency. Maintaining it at a high level will help to convince them that the industry has a secure future and so make it easier for them to accept closures. I believe that if the industry press this point, we must be prepared to accept the restoration of the £50m cut, and to adjust the Board's External Finance Limit accordingly. This would also provide considerable help to the private sector manufacturers of mining machinery, who have been hard hit by the Board's investment cuts.

Redundancy and transfer terms

It remains vital for the Board to achieve as many closures as it can without confrontation. The figures in paragraph 3 show the financial benefits. We must however be under no illusions about the difficulty of the task. Recent events will have made the issue even more sensitive and encouraged the militants to resist closures individually and seek to delay them. As a counter to this, I believe it is essential for us to accept the Board's proposals for the improvements in redundancy and transfer terms set out in the Annex with an indication of their public expenditure cost.

Oil substitution programme

I have proposed in a different context that we should support the conversion of industrial boilers from oil to coal-firing by a scheme of grants cositng £25 - 35m over the next two years. There is abundant evidence that private sector companies are holding back from many worthwhile schemes in present conditions of capital rationing. The main aim of such a scheme was to reduce our long-term dependence on oil and to help the boilermaking industries. But it would also have the considerable advantage of increasing coal demand by perhaps 1m tonnes a year. This would give further reassurance to the coal industry and further reduce the public expenditure cost of the withdrawal of the accelerated closure programme, since it would reduce the NCB's cash needs by £30m a year. I believe that I should tell the Tripartite next Wednesday of our intention to introduce such a scheme.

Research, Development and Demonstration (RD&D)

The unions also attach importance to RD&D projects aimed at promoting new and wider applications of coal use, eg by establishing fluidised bed and coal conversion technologies. I believe that we must be prepared to earmark funds for these purposes where we are satisfied that the projects are well-conceived and likely to promote the introduction of profitable technologies, and shall be framing proposals to this end.

Summary and conclusions

I invite my colleagues:

a. To note that substantial increases to the NCB's EFL will be needed to cover the cost of withdrawing the accelerated closure programme. This cost might total £150-£200 million in 1981/2 and more in later years, though we can only determine the actual figures when we have the industry's detailed proposals.

b. To note that action will also be needed to give the Board a reasonable prospect of breaking even on revenue account. I shall bring forward proposals.

c. To agree that we should aim at maximum possible displacement of coal imports, by providing funds for the NCB to discount their own prices. This might cost £60m in 1981/2. I should like to tell the Tripartite on Wednesday that we are prepared to do this.

d. To agree that if the industry press the point we should be prepared to make extra funds available to the NCB to allow them to restore the cut of £50m a year they have already made in their investment programme.

e. To agree that we should devise a scheme to promote the substitution of oil by coal in industrial boilers, at a cost of £25-35m over the next two years. I should like to announce this also in the Tripartite on Wednesday.

f. To agree the proposals for improved redundancy payments for mineworkers set out in the Annex. If 1½m tons of closures a year were achieved the cost would be around £20m pa. I should like to announce this also at the Tripartite on Wednesday.

g. To note that I amy also propose some funding of RD&D projects designed to demonstrate new technologies of coal use.

D A R H

DEPARTMENT OF ENERGY

20 February 1981

COMPARISON OF EXISTING AND PROPOSED REDUNDANCY TERMS FOR MINEWORKERS

AGE AT REDUNDANCY (assumed service from age 20)	PRESENT BENEFIT	PROPOSED BENEFIT IMPROVEMENT
UP TO AGE 49	1) RMPS LUMP SUM equal (roughly) to ½ week's wage for year of service up to age 35, 1 week age 35 to 45, 1½ weeks age over 45. 2) Lump sum payment under Employment Protection (Consolidation) Act 1978	EXTRA LUMP SUM £1000 (age to 39) £1500 (age 40 and over)
AGE 50 TO 54	1) RMPS LUMP SUM equal to 1½ weeks wage per year of service 2) EP (C) Act lump sum.	1) EXTRA LUMP SUM equal to twice EP(C) Act lump sum. 2) MPS PENSION (increased by the purchase of 5 additional years) payable immediately at present this would be about £17 per week, payable to age 65)
AGE 55 AND OVER	1) RMPS WEEKLY BENEFIT approximately two-thirds of pay at redundancy for 3 years (or to age 65), followed by 2) UNEMPLOYMENT BENEFIT EQUIVALENT (UBE) to age 65 (present rate £20.65/£33.40 per week) and 3) MPS PENSION AND LUMP SUM (minimum £8.92 p.w.) payable with (2) above	1) RMPS WEEKLY BENEFIT extended from three years to five (or to age 65 if earlier) 2) UBE then to age 65 3) MPS PENSION then enhanced by number of years between redundancy and ago 60 (at present the aveage would be about £12 per week)

2.

4) EP(C) Act lump sum.	4) ADDITIONAL LUMP SUM - 200% of EP(C) Act payment at age 55, 150% at age 56, 100% at age 57, 75% at age 58, 50% at age 59, nothing at 60 or over

Class IV Vote 3: Social Grants to NCB (including RMPS)

£m September 1980 prices

	1981-82	1982-83	1983-84
A White Paper Provision (assumes 1.5 mtpa closures)	113	115	116
B Increase over A required for closures of 4 mtpa average on existing terms	25	34	61
C Cost of Improvements	48	49	51

Line C assumes that the whole cost of improvements is borne on Votes. The allocation between NCB and Votes is for consideration.

Lines B and C assume an average closure rate of 4 mtpa. The actual rate will be considerably less. If so the extra costs would be reduced roughly in proportion, so that if for example the Board achieved the pre-strategy target rate of 1½m tonnes a year the cost would be about £20m a year.