Briefing for PM's Questions : 3 May 1984

NUM Industrial Dispute

"Today" Programme

1. Pit closures as result of the dispute?

A. All pits not working normally are subject to geological pressures and problems which could affect their future operation. The risk of deterioration is one reason for the NCB's concern about the continuing dispute.

BRIEFING FOR PRIME MINISTER'S QUESTIONS: 3 MAY 1984

"TODAY" PROGRAMME: INTERVIEW WITH IAN MACGREGOR

PIT CLOSURES

In an interview this morning Mr MacGregor was asked whether any pits would close as a result of the strike. His answer was that one, Bogside, had already closed.

Bogside is part of the Longannet complex of 3 pits in Scotland. Mining operations ceased there on 3 February, during the overtime ban before the strike began.

The Scottish area director (Mr Wheeler) announced on Friday 3 February that Bogside would have to close because of flooding and gas problems. The Board later ratified his decision at national level. The NUM accepted that men should transfer to other pits from 6 February, and reserved the right to look again at the future of the pit after a period of 2 to 3 months.

A meeting between area management and local unions was to have been held in March, but the strike led to a postponement. One of the topics to have been discussed at that meeting was the possibility of accessing Bogside reserves from elsewhere in the Longannet complex.

The NUM have claimed that the flooding of the pit resulted from Mr Wheeler's decision to refuse emergency cover when it was offered, but according to NCB Scottish area the cover was offered too late. An internal investigation was held by the Board and the resulting official line was that the cause of the flooding was the withdrawal of safety cover by unions (except NACODS) from 4pm on Friday 27 January until noon on 28 January.

All men (c850) employed at Bogside were offered alternative jobs locally, with some 150 men staying on salvage work.

<u>Other closures</u>

There has been one other closure since the strike began. The closure of Bear Park in the North East area was agreed with the unions locally some time ago and went ahead normally last month.

Briefing for PM's Questions : 3 May 1984

NUM Industrial Dispute

Article in Financial Guardian on 3 May

Line to take

1. Financial Support

The Guardian today shows the massive level of financial support to the coal industry. Total support from the taxpayer to the coal industry in 1983/84 was about £1 bn.

Total investment in the coal industry since 1979 has been £3.8 bn. This is £4.4 bn at September 1983 prices, compared with £2.8 bn in the preceding 5 years of Labour Government.

2. Interest charges/Capital Write-off

Deficit grant, paid to cover most or all of NCB's revenue loss:

- more than covers NCB's annual interest payments
- relieves NCB of the need to borrow even more money to fund revenue losses.

NCB therefore enjoys what amounts to a continuing capital write-off every year.

Like any commercial organisation, NCB must expect to pay interest on money it borrows.

3. UK and EEC Levels of Support to Coal.

Coal production benefits from both capital investment financed by Governments and from direct subsidies. European Commission figures for subsidies and investment in 1982 show:

	£m
UK	1088
FRG	682
France	347
Belguim	138

4. <u>Relative costs of keeping pits open or closure</u>.

The Guardian article was right to stress the inaccuracy of the figures used by the NUM and the special pleading inherent in their claims.

The NCB and the Government have explained these inaccuracies on many occasions, for example in debates on the Coal Industry Act 1983 and in comments to the House of Lords sub-Committee F's inquiry last year.

5. <u>Pits closed since 1979 and in 1968</u>.

In the five years since this government came to power, 46 pits have closed, fewer than in one year, 1968, of a Labour government when 55 pits closed.

BACKGROUND

1 An article (attached) in the Financial Guardian on 3 May refuted NUM arguments on several questions:-

- the growing scale of financial support to the coal industry
- NCB's interest payments
- relative levels of UK and other EEC member states' support to coal
- the relative costs of keeping pits open or closing them
- numbers of pits closed under Labour and Conservative.

2 Financial Support

The Guardian have used figures for grants paid and external finance requirements from annual Public Expenditure White Papers. Their deflators are not recognisable but seem broadly accurate.

We have inserted the cash figures into the copy of the article below.

Investment in coal has also been at very high levels. A separate brief was provided on 27 April.

NCB's interest payments are more than met by deficit grant, providing an annual capital write-off. Previous capital write-off were:-

	£m
1966	415
1972/73	449.6

3 UK and EEC Support

The line to take is self-explanatory.

4 Relative costs of keeping pits open or closing them

The NUM's estimate of the cost of maintaining uneconomic pits appears too low, and their estimate of redundancy costs too high.

The Department of Energy commented to the House of Lords Select Committee on the inaccuracy of the NUM's figures. A copy of the evidence is attached.

5 Numbers of Pits closed since 1979 and in 1968

From April 1979 to March 1984 there have been 46 pit closures. In 1968/69 there were 55 pits closed.

3 May 1984

NOTE BY THE NUM TO THE HOUSE OF LORDS SUB-COMMITTEE F: THE UNEMPLOYMENT COSTS OF COLLIERY CLOSURES

DEPARTMENT OF ENERGY COMMENTS

Introduction

1 The Sub-Committee has requested quick comments by the Department of Energy on the above Note by the NUM, which was forwarded to the Department on 22 November 1983.

2 The Note by the NUM suggests that the costs and benefits of re-structuring the coal industry should be evaluated in terms of overall cost to the nation, rather than purely in terms of NCB's finances. The Note then seeks to identify additional expenditures, or losses of revenue, which would be incurred if colliery closures were to lead to increases in the level of unemployment.

3 The Department has a number of comments on the framework of analysis proposed by the NUM. The Department also has comments on the detailed figures put forward by the NUM.

The Framework

4 The Department agrees that a change affecting the use of resources may have impacts beyond those measured by the financial effects. If these are to be evaluated, it is necessary to distinguish total net resource effects, on the one hand, from total net effects upon the Exchequer, on the other. The Exchequer may bear increases in expenditure which, in part, represent transfers of resources rather than losses or gains in net national welfare. The Department agrees that the scale and direction of both net resource and net Exchequer effects are relevant to UK coal policy. However, the estimation of these effects is a difficult task which involves a great many assumptions.

5 There can be no assumption that a given level of redundancies amongst mineworkers would have a corresponding effect on the national level of unemployment. The effect depends in the first place upon the extent to which redundant mineworkers

/find other

find other jobs and the extent to which those who find jobs 'displace' other job seekers who would otherwise fill these jobs. However, the effect also depends upon the use to which the Government subsidies saved by pit closures are put and the effect of their use upon unemployment. In particular, changes in the levels of subsidised employment may affect the UK's international competitiveness and the economics of new employment creation.

6 Any estimates of these effects must involve considerable uncertainty. However, it is clear that the maintenance of mineworkers' employment by the subsidisation of high uneconomic capacity whose output contributes to stocks is highly unlikely to be a cost-effective means of job preservation. We would expect that a considerable net saving, both in resource and in net Exchequer terms, would be achieved by the reduction in such subsidies.

The Figures

7 The Department does not accept the detailed figures proposed by the NUM. In particular the NUM has chosen assumptions which are not representative of current and prospective experience, and do not distinguish clearly between once and for all and continuing expenditure.

8 Part one of the NUM Note is an analysis of sums payable under the Employment Protection (Consolidation) Act and the Redundant Mineworkers Payments Scheme. The individual calculations in this section are of the right order of magnitude, but the assumptions made about the hypothetical redundant mineworker are not at all representative of the persons now entering the Redundant Mineworkers Payments Scheme. The NUM refer, as their source, to the NCB 1982/3 Report and Accounts. Yet, while this does show the average age of the mineworker to be 38.7 years in December 1982, it also shows that over 95% of those made redundant in 1982/3 were aged 55 or over. Thus although the NUM finds that, on their assumptions, the cost for one redundant for <u>one year</u> is £11,545, this represents only the

/first year

first year cost in an unrepresentative case. We are satisfied with our own estimate that the total cost of redundancy payments of all kinds to those now entering the scheme is likely to be about £30,000 to £35,000 at present day prices over a ten year period (as set out in our Note to the Sub-Committee of 9 November 1983).

9 Part Two of the NUM Note provides an entirely different estimate of the cost of redundancy and is a summary of material presented by the NUM to the Select Committee on Energy and set out on pages 116 and 117 of the volume containing the NUM's Evidence to that Committee, given on 25 November 1982. The calculations made use of figures by the Department of Employment which relate to only the first two years of redundancy. It is incorrect to extrapolate these figures for ten years, for which the estimate provided in our note of 9 November is a more reliable number. Moreover, the assumed job losses of 70,000, 100,000 and 140,000, set out in the table to the NUM Note, are quite disproportionate to the operational losses considered in the Note. We would expect the worst 12% of NCB capacity, reported by the Board as incurring losses of £275m, to employ some 40,000 men on colliery books. Even if it were possible to continue operations at these pits over a ten year period without further deterioration in results and to sell the coal produced, there would be a cumulative loss of well over £60,000 per man.

10 Part Three of the NUM Note produces figures relating to various collieries and coke-works. We cannot comment in detail on these, but would point out that the NUM has given no estimates of the savings anticipated by NCB by such closures. These savings should be set against any costs of closure.

11 Finally, we do not understand how the NUM's Note relates to the statement, made by Mr Scargill to the Sub-Committee, that the cost of closing pits over the next ten years could amount to £4,300 million.

Department of Energy
28 November 1983

BRIEFING FOR PM'S QUESTION: 3 MAY 1984

NUM INDUSTRIAL DISPUTE

LINE TO TAKE AND SUPPLEMENTARY QUESTIONS

1. Coal supplies to Ravenscraig

A. Miners should think hard about whether it is in their long-term interests to jeopardise production and jobs in one of their main customer industries.

BRIEFING FOR PRIME MINISTER'S QUESTIONS: 3 MAY 1984

COAL INDUSTRY DISPUTE

Additional Background

There are 43 pits working normally this morning; 6 turning some coal; 5 with some men working and 121 idle.

The deterioration in the first category is the result of the increasing effectiveness of picketing in Lancashire. Yesterday heavy picketing at Bickershaw prevented coaling on the afternoon shift. Two other pits in the area, Golborne and Parsonage, share winding shafts with Bickershaw and were therefore also unable to produce. The position is the same this morning, with around 1000 pickets at Golborne.

In Nottinghamshire all pits are working normally. There are between 100 and 200 pickets at 4 pits. After the mass picket of Harworth pit by 8,000, mainly Yorkshire pickets, yesterday afternoon the NCB in the area believe that there will be similar mass pickets in the future.

Following the Scottish Triple Alliance meeting yesterday, BSC decided to use road transport to move coal into Ravenscraig and two convoys went into the plant last night. This morning there are around 300 pickets at Ravenscraig, including Mick McGahey, and 40 at Hunterston. Police are understood to be turning back pickets at the Forth Bridge.

3 May 1984

BRIEFING FOR THE PRIME MINSTER: 3 MAY 1984

NCB CONTRACT TO SELL COKE TO USA

Line to Take

The future size and prosperity of the mining industry depends on the NCB winning business and being able to deliver. An American contract has just been negotiated which would require the delivery of 400,000 tonnes of coal from Durham this year, and probably 600,000 tonnes next year. (This coal will be converted into 175,000 tonnes of coke this year and 250,000 tonnes next year). The ICI coal conversion scheme at Wilton, which has been deferred because of the miners dispute would in addition require 450,000 tonnes of coal annually from Durham.

Mr Scargill's action is therefore endangering orders for about one million tonnes of Durham coal per year.

Background

NCB have concluded a firm contract for 1984 to supply 175,000 t of coke to Inland Steel of Chicago, with a letter of intent to supply a further 250-280,000 t in 1985, and revolving arrangements for future years subject to price. The contract was won after 2 years' negotiations and in the face of Japanese competition. The deal reflects an upturn in the US steel industry which can no longer meet coke requirements from US coking capacity.

Deliveries of coke from NCB must start at the end of May and be completed by November before the St Lawrence seaway freezes. Small vessels of 10,000 t, at the rate of one per week, would deliver coke directly from the Tyne to the Great Lakes steelworks without the need to trans-ship.

The NCB has large stocks of unsold coke at their ovens, and surplus coking capacity. Malcolm Edwards (NCB Marketing Director General) said ~~today~~ (2 May) that the deal is equivalent to the output of one coke oven and 400,000 t of coal, and should secure 1,000 jobs.

An appeal has been made to the NUM to lift their blockade on coke movements and to allow shipments to begin on time if the dispute is not settled by then. Mr Scargill has said that movements can begin when the NCB withdraw their closure proposals.

C O N F I D E N T I A L

The most likely source of the coke is Monkton, and of the coal, Wearmouth colliery.

NCB and HMG abandonning Plan for Coal (as Scargill suggested)?

A. Not at all. The Government's policy for the coal industry is directed towards the basic objectives of Plan for Coal: an efficient, competitive coal industry with a secure long-term future.

Investment provided by successive Governments - over £7500m at current prices since 1974 - has exceeded that envisaged in Plan for Coal. But the expected productivity improvement of 4% p.a. has not been achieved, nor has the restructuring of capacity proceeded at the pace envisaged.

Background

Plan for Coal (1974) assumed increased demand for coal as the era of cheap oil ended. The cornerstone of PFC was a massive investment programme which has been more than achieved. But certain assumptions of PFC (about coal industry performance, demand for coal and the economy) have not been realised:-

Demand. PFC estimated UK demand for coal to be about 135 mt in 1984/85, but it has been falling since 1972/73 and was only 110 mt in 1982/83. Total UK energy demand in 1982/83 was 310 mtce compared with over 400 mtce estimated.

Productivity. PFC envisaged 4% pa improvement. In fact, productivity was static for several years and has only begun to increase in the past 3 years.

Closures. Only 1-2 mt pa compared with 3-4 mt pa envisaged. Coupled with low demand, this led to very high coal stocks.

Investment. Investment provided by successive governments, over £7500m at current prices, has already exceeded that envisaged in PFC.

COAL

Conservative and Labour Records

On Investment

Total investment in the coal industry since this Government took office has been £3.8 billion. At September 1983 prices this is worth £4.4 billion. Compare that with £2.8 billion on the same price basis under the Labour Government. That is a 56 per cent increase.

Mr Kinnock's figures. I am glad that the Rt Hon Gentleman accepts this Government's record on investment is better than the one he supported, even if he does not concede by how much.

On Closures

During the last eleven years of Government there have been over 300 pit closures. In the last nine years of Conservative Government there have been 92. If the Opposition believe that there should never be any more pit closures, do they disown the records of their own Government.

On Pay

Miners are getting a better deal from this Government than Labour. In April 1983 miners' average earnings were 26 per cent above the industrial average - better than at any time under Labour.

On Redundancy

This Government's redundancy payment scheme is far more generous than anything offered under Labour.

1 May 1984

IMPACT OF MINERS' INDUSTRIAL ACTION

The miners' industrial action has so far had two stages: an overtime ban starting on October 31 and a strike starting on March 12. The overtime ban probably had reduced the level of industrial production by about 1 per cent by February. It is too early for the effects of the strike itself to be visible in published figures: estimates for industrial production in March will not be published until 17 May.

2. Output in March and subsequent months will be affected in two ways:

(i) The direct effect of the action on output in the coal and coke industry. If the entire industry were to close down, it would reduce the level of industrial production by about 4 per cent, worth about $1\frac{1}{3}$ per cent on GDP. To the extent that many mines are still working in the public sector and there is some private sector output, the current impact is probably rather less than this (perhaps $2\frac{1}{2}$ per cent on industrial production in April - NOT FOR USE).

(ii) The indirect effect on other industries. The most likely immediate impact is on the steel industry. However, steel output in March was in total quite good. There is no information as yet on April.

3. Estimates for GDP in the first quarter of 1984 will not be published until 21 May. On the basis of current assessments of the effects of the overtime ban on coal production in January and February and the figure above for the impact of the ban and strike in March, we would expect the level of GDP to be $\frac{1}{4}$ - $\frac{1}{2}$ per cent (NOT FOR USE) lower than otherwise.

BRIEFING FOR THE PRIME MINISTER: 3 MAY 1984

NCB CONTRACT TO SELL COKE TO USA

LINE TO TAKE

The future size and prosperity of the mining industry depends on the NCB winning business and being able to deliver. This contract - NCB's first with the USA for 10 years - would safeguard 1000 jobs in the North East. It is a great pity that the NUM have not so far seemed to recognise this.

BACKGROUND

NCB have concluded a firm contract for 1984 to supply 175,000 t of coke to Inland Steel of Chicago, with a letter of intent to supply a further 250-280,000 t in 1985, and revolving arrangements for future years subject to price. The contract was won after 2 years' negotiations and in the face of Japanese competition. The deal reflects an upturn in the US steel industry which can no longer meet coke requirements from US coking capacity.

Deliveries of coke from NCB must start at the end of May and be completed by November before the St Lawrence seaway freezes. Small vessels of 10,000 t, at the rate of 1 per week, would deliver coke directly from the Tyne to the Great Lakes steelworks without the need to trans-ship

The NCB has large stocks of unsold coke at their ovens, and surplus coking capacity. Malcolm Edwards (NCB Marketing Director General) said today (1 May) that the deal is equivalent to the output of I coke oven and 400,000 t of coal, and should secure 1000 jobs.

An appeal has been made to the NUM to lift their blockade on coke movements and to allow shipments to begin on time if the dispute is not settled by then. Mr Scargill has said that movements can begin when the NCB withdraw their closure proposals.

C O N F I D E N T I A L

The most likely source of the coke is Monckton, and of the coal, Wearmouth colliery.

COAL DIVISION
2 MAY 1984