

C.(65) 87COPY NO. 5929th June, 1965CABINETFINANCIAL POSITION OF THE COAL INDUSTRYMemorandum by the First Secretary of State and
Secretary of State for Economic Affairs

The Economic Development Committee at its meeting on 28th June, 1965 discussed proposals by the Minister of Power for improving the financial position of the Coal Board; and in particular proposals for a capital reorganisation. It was generally agreed that action was needed; and that in view of the atmosphere in the coal industry it would be desirable for an announcement to be made of Government action before the Conference of the National Union of Mineworkers (N. U. M.) on 6th July. There was however some differences of view about the details of the action to be taken. In view of this and of the importance of the subject I was asked to report on the problem to Cabinet.

The coal industry's difficulties

2. Over the last few years the market for coal has contracted from 220 million to about 190 million tons a year and there is no doubt it is going to fall further. If it goes down to (say) 175 million tons in 1970, about 240 pits will have to be closed. This will involve a run down in the labour force of about 28,000 a year, nearly as fast as in recent years. There has been no general price increase for three years and the National Coal Board are now operating at a loss: their budget for 1965-66 is now showing a probable deficit in the region of £50 million. It is therefore essential to get the coal industry's financial position on a satisfactory long-term basis.

The need for a capital reorganisation

3. The Coal Board have liabilities to the Exchequer of some £900 million on which they are expected to pay interest charges of over £40 million a year.

4. Of this about £90 million represents accumulated losses arising mainly as a result of decisions in past years not to put up prices as much as was necessary to cover costs. Of the remaining £800 million £150 million or so represents colliery and coke oven assets which are today of little or no economic value (i. e. which are actually making cash losses or are expected to do so very soon). A further £150 million represents assets which are of very doubtful value and are expected to become valueless in the next few years.

5. The plain fact is that after the war the Coal Board was encouraged to invest large sums in order to expand output to 220 million tons a year or more. The decline in the market has left them with excess capacity and with many high cost pits which were thought to be needed to get the tonnages required.

Proposals for capital reorganisation

6. Everybody is agreed that the coal industry cannot be expected any longer to meet the capital charges on the present capital structure.

7. The Economic Development Committee agreed unanimously that the £90 odd million of accumulated deficits and the £150 odd million representing assets which are already worthless (say £250 million in total) ought to be written off immediately, at a cost to the Exchequer of about £25 million a year.

8. The general view of the Committee (the Treasury reserving their position) was that a further £150 million, representing assets which everyone recognises will in a few years be of little or no value, should also be written off immediately, at a cost to the Exchequer of about another £15 million a year.

9. The Coal Board would be content to write off the £150 million not immediately but over the next few years provided they were relieved of interest charges on the £150 million at once (at an immediate cost to the Exchequer of £7½ million). The Committee felt that to relieve the Coal Board of interest charges on some of their capital would be an unfortunate precedent. Since it seems inevitable that the further writing off will have to be made over the next few years, there would be a lot to be said for writing the full amount off at once and getting the maximum immediate effect on relations with the N. U. M.

10. The Treasury, on the other hand, are concerned about the additional cost to the Exchequer of writing off the additional £150 million immediately. If, however, it is agreed that something more should be done they prefer writing off to waiving the interest payments.

Effect on prices

11. The Minister of Power told the Economic Development Committee that even if the whole £400 million were written off immediately it would still be necessary for the Coal Board to make some price increases this autumn. But the size of the increases would obviously be less. Thereafter smaller price increases would be needed from time to time.

Subsidies and closures

12. The Economic Development Committee also discussed the possibility of giving some specific subsidy to the Coal Board for a limited period on the condition that the Board and the N. U. M. committed themselves to a definite programme of speeding up the necessary closures. The subsidy might start at £10-15 million and taper off to nothing by 1970. The Committee was divided on the merits of this approach.

13. The arguments in favour are as follows -

- (a) It is going to be hard to get the Board and (particularly) the National Union of Mineworkers to press ahead as fast as is necessary with the closure programme. Some additional incentive is needed to get them committed.
- (b) The subsidy could be presented as a contribution to the costs of phasing the closure programme on social grounds as against immediate closure, which would be the reaction of privately owned industry to uneconomic pits.
- (c) Such a subsidy would still further reduce the need for immediate price increases.

14. The arguments against such a scheme were -

- (a) It would be difficult in practice to run down the subsidies and they would indeed tend to encourage the mineworkers to press for keeping uneconomic pits open. If this happened it would increase the Coal Board losses, and intensify pressure on the Government to continue and increase subsidies.
- (b) The Coal Board are strongly opposed to subsidies; and would be content with the capital reorganisation scheme.
- (c) Losses themselves are a powerful incentive to closures which are delayed not on social grounds but because the Board has to consider the effect on relations with its workers.

15. The majority of the Committee thought nonetheless that it would be worth while exploring with the Coal Board the possibility of a scheme designed to commit the Board and the National Union of Mineworkers to an accelerated closure programme.

Summary

16. I ask my colleagues -

- (1) To agree that a capital reorganisation of the Coal Board should be undertaken. (The necessary legislation could be included in a Bill which will in any case be needed in relation to the Board's borrowing powers.)
- (2) To agree that the amount to be written off should be £400 million immediately.
- (3) To authorise exploration with the Coal Board and the N. U. M. of a scheme under which tapering subsidies would be given related to the losses of uneconomic pits and tied to a definite scheme for speeding up closures of these pits.
- (4) To agree that we should seek to keep to the minimum the increase in coal prices this autumn.

G. B.

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