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CABINET

FUEL POLICY AND PROBLEMS

MEMORANDUM BY THE MINISTER OF POWER

For the information of the Cabinet, I attach a paper which summarises a recent discussion in the Economic Policy Committee on the subject of fuel policy and problems.

2. The phrase "a national fuel policy" has become a slogan of the miners' leaders. What they mean is a fuel policy to protect the coal industry.

3. In regard to our fuel needs, we are pursuing a course which I believe is necessitated by the present conditions.

4. It can be summed up as follows:—

- (a) Freedom of choice for the consumer and equal opportunity for the producers of alternative fuels—solid fuels (coal, coke, &c.) oil, electricity and gas (paragraph 1 of the Annex).
- (b) This has the advantage of permitting free competition and maximum efficiency, but under it oil has secured, and is increasing, a vital hold on the economy. As the Arab States of the Middle East supply 60 per cent. of our oil they could in combination be a serious menace (paragraph 2 of the Annex).
- (c) In view of any possible interruption to our Middle East supplies, we are taking the following steps—
 - (i) Intensifying the search for oil in countries other than the Middle East (paragraph 3 of the Annex).
 - (ii) Making arrangements in an emergency for supplies from the western hemisphere and inquiries into the currency questions involved (paragraph 4 of the Annex).
 - (iii) Stock-piling oil supplies at home (paragraph 4 of the Annex).
 - (iv) Conducting research into the production of oil from coal (paragraph 5 of the Annex).
 - (v) Examining the possibilities of substituting coal for oil in certain cases and in an emergency, *e.g.*, by the installation of alternative coal-burning equipment in oil-fired power stations or industrial establishments (paragraph 6 of the Annex).
- (d) Bringing coal supply and production into balance, with due regard to—
 - (i) The necessity for maintaining productive capacity to match any rise in requirement brought about by future industrial expansion (paragraph 8 of the Annex).

SECRET

SECRET

- 82
- (ii) The problems of unemployment in mining areas and the need to keep such unemployment to the minimum (paragraphs 9 and 10 of the Annex).
 - (iii) The problems of wage demands (paragraphs 11 and 12 of the Annex).
 - (iv) The need for a flexible price policy for coal and a brake on price increases so as to keep coal competitive (paragraph 13 of the Annex).
 - (v) The avoidance of too great a dependence on deep-mined coal (paragraph 14 of the Annex).
 - (vi) The need to devote capital expenditure to the maintenance of the mines on an efficient basis (paragraph 14 of the Annex).

M.

*Ministry of Power, S.W. 1,
18th December, 1958.*

SECRET

3

ANNEX

Our present fuel policy is broadly based on freedom of choice for the consumer and equality of opportunity for the producer. The free competition between the fuels which this policy permits has the great advantage of promoting increased efficiency in the production and use of fuel and in consequence lower manufacturing costs in industry, but it has resulted in a marked increase in the use of oil and a relative decline in the demand for coal. An increasing dependence of the economy on an imported fuel which is largely outside our control, especially when it is in some measure at the expense of our primary indigenous fuel, sets serious problems which have recently been examined in some detail by the Economic Policy Committee, who had before them the following statistics:—

National Expansion in 1957 as Compared with 1938

	<i>Per Cent.</i>		<i>Per Cent.</i>
Gross domestic product ...	+40	Electricity supply ...	+270
Industrial production ...	+56	Gas supply ...	+ 73
Manufacturing production ...	+66	Coal production ...	- 1
Total fuel consumption ...	+30	Oil imports ...	+233

2. Oil provided only 7 per cent. of our total fuel needs in 1938; by 1957 its share had grown to 15 per cent. and by 1965 it may be 24 per cent. Oil dominates transport, is essential to agriculture and is of growing importance in vital industries like iron and steel, and engineering. No less than 60 per cent. of our oil comes from the Arab States of the Middle East (Iran provides a further 10 per cent.), and it is plain that a hostile combination of these States could be a serious menace to our economic well-being. Western Europe as a whole is similarly placed. At the same time we enjoy a valuable and growing international trade in oil (largely of Middle East origin), which now earns us over £400 millions a year.

3. Our problem on oil is the security of our supplies from the Middle East. Satisfactory alternatives to the Middle East as sources of supply are severely limited by political and financial conditions, but clearly we should do all we can to find and encourage them. Latin America and Canada are possibilities. Nevertheless we must face it that the Middle East is likely to remain our main source of supply and security here turns on a satisfactory political settlement of the whole area.

4. Meanwhile we must take out what insurances we can. We have already a good understanding with the oil industry and with the United States administration for the rapid reorganisation of world supplies, and in particular Western Hemisphere supplies, in an emergency. We have accumulated substantial stocks of oil in this country and have measures in hand to increase them and when these are complete we should be able to weather all but the most severe crisis. But the cost is substantial and, if an emergency arises, the dollar drain will be heavy. The possibility of making special financial arrangements with the United States and Canada to mitigate this dollar problem is being considered.

5. At home resources of natural oil are negligible, but we have plenty of coal and if we could discover an economic method of extracting oil from it, we should be greatly helped. A determined research effort to this end seems justified.

6. We must also consider whether coal may be utilised to help us in an oil emergency, e.g., by installing alternative coal-burning equipment in oil-fired power stations or industrial establishments. To substitute coal for oil in normal conditions would mean an abandonment of our basic fuel policy, and the taxation of oil. Moreover it could at best be only a partial solution of our oil problems as even if we drove coal production to the limit it could replace no more than 25 per cent. of our normal oil usage. Nuclear power is not a solution, for so long as its main industrial outlet is the generation of electricity it is not oil but coal that it will displace.

SECRET

7. Coal, too, has its problems. Only three years ago we were short of it and the National Coal Board were planning to raise production from 220 million tons a year to 240 millions by 1965. In fact, however, demand for coal has fallen from a peak of 223 million tons in 1956 to less than 220 million tons this year, and is not likely to exceed 200 million tons in 1959. This fall resulted in an embarrassing over-production which has been countered in 1958, only in part, by a substantial reduction in manpower and by the maximum practicable reduction in working time (eliminating Saturday shifts and overtime). A substantial surplus remained to be added to unsold stocks.

8. With demand still declining there was a prospect of over-production in 1959 of the order of 9 million tons. With stock-building reaching its limits alternatives possible were cutting opencast production, and further cuts in manpower by closing uneconomic pits. The first would have the advantage of being a publicly popular move but the disadvantage of weakening the National Coal Board's already precarious finances. The second would assist the Board financially but would raise social and unemployment problems. In either case an over-riding consideration was the need to preserve the productive capacity of the coal industry. Recent falls in demand for coal have been due in part to the slackening off in industrial progress (and only in part to the encroachments of oil) and the industry must be prepared to meet the rising demand which will accompany an upsurge in the economy without resort to imports. In the event a reasonable solution was found in cutting opencast by 25 per cent. or 3 million tons (which is just about all that could be done without breaking contracts), closing 36 uneconomic pits equivalent to about 3 million tons annual production and planning to stock the balance of about 3 million tons. The redundancy problem created by the closure of pits may be limited to about 4,000 men.

9. One of the main causes of a pit becoming uneconomic is the deterioration of working conditions due to partial exhaustion or to worsening geological conditions. The high cost pits are situated chiefly in Scotland and Wales and special unemployment problems are created by the closure of pits owing to the fact that mining is carried on in close-knit communities. These questions are under examination between the National Coal Board and the National Union of Mineworkers with due reference to the Government departments concerned.

10. The production of deep-mined coal was formerly regulated by the introduction of short-time working. This is now prevented by an agreement providing for a guaranteed week in the industry: nevertheless short-time working may prove to be the only practical alternative to further closures unless conditions alter.

11. Some 60 per cent. of the cost of coal is represented by wages. General wage advances have generally been matched or exceeded by local piecework revisions. In the event of disagreement in regard to wages provision for arbitration is provided. The latest reference to arbitration resulted in a straight wage advance and rejected a proposal to limit for a period changes in piecework prices.

12. It is apparent that any general advance in prices would increase the competitive power of oil and yet the coal industry is not free to control its greatest element of cost—wages. The problem of wage policy cannot be considered in isolation from the national situation.

13. While any general increase in prices would not be advantageous at the present time there is room for greater flexibility in price arrangements and this problem is being studied by the National Coal Board.

14. In the long term I am sure we should avoid becoming once again dependent upon the last ton of coal from the deep mines with all that has meant in the past in rising costs and unbalanced labour/employer relations. But this means continued freedom for oil to compete, substantial investment in coal to increase efficiency rather than output, and a continued contribution from opencast working.

18th December, 1958.