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MCS Seen 15/1/82.

SECRETARY OF STATE FOR ENERGY
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Michael Scholar Esq
Private Secretary
10 Downing Street
London SW1

15 January 1982

Dear Michael,

Cabinet yesterday decided that my Secretary of State's recent speech to the Coal Industry Society should be circulated to Ministers; I enclose a copy. He has also asked me to circulate copies of the special edition of 'Coal News' and of Mr Gormley's article in the 13 January edition of the Daily Express; I attach copies of both.

I am copying this letter to the Private Secretaries to all members of the Cabinet.

Yours sincerely,

Janet

JANET CHADWICK
Private Secretary

SPEECH BY MR NIGEL LAWSON, SECRETARY OF STATE FOR ENERGY, TO COAL INDUSTRY SOCIETY JANUARY 11, 1982

"You asked me to tell you how I see the coal industry, and I shall do my best to respond.

"To be precise, you originally asked my predecessor, since this invitation is of course of considerably longer standing than the four months that I have been in this job.

"But in practice I very much doubt if my view of the industry is in any way different from that of David Howell. Certainly I fully stand by the commitments he made to continuing Government support for the industry. These are not mere words.

"They represent, and are backed by, payments of hard cash on a massive scale.

"The Government subsidy to the coal industry during the current year - that is to say, the total of social grants, operating grants and deficit grants - will come out at some £550 million.

"This is ten times as much as only five years ago, under the previous government.

"It is the equivalent of a subsidy of about £5 for every tonne of deep-mined coal. Looked at another way, it works out at more than £35 a week for every member of the Coal Board's work force.

"These grants, in turn, account for only half of the Board's total external financing limit which, at more than £1,000 million for the year, is easily the highest for any nationalised industry.

"This support has been pitched at a level which will enable the Coal Board to sustain a vast programme of capital investment. Selby alone, which should be producing 10 million tonnes of low-cost coal a year before this decade is out, represents an investment of £1,000 million.

"There can surely be no dispute that these figures represent a massive commitment by the Government, and by the taxpayer, to the coal industry. Indeed, so great are the sums that I shall before long be needing to introduce new legislation to increase the statutory limits of the financial support - both in terms of grants and of loans - which the Board is permitted to receive.

"There is only one conceivable justification for financial support on this scale, when there are strict limits to what the nation can afford and when competing claims on resources are many and clamant.

"And that is the prospect of a coal industry playing a central role in the vitally important energy scene of tomorrow, extending existing markets and winning new ones, and standing on its own two feet to do so.

"Indefinite dependence on Government subsidies would be debilitating and ultimately unsustainable.

"The first task of all those who work in the industry must be to put it in a sound financial position where Government subsidies are no longer needed. A genuinely competitive coal industry, producing efficiently, at competitive prices, and with the assurance of secure supply, is what British industry and the British economy need. It is also the only basis for a strong and prosperous coal industry - for coal has no natural monopoly: it has to compete in the market place against other fuels.

"I believe that all those who work in the coal industry are increasingly coming to recognise, in particular, that the greatest service they can perform for industry, for employment, for the economy and ultimately for themselves is the provision of energy at the lowest possible cost.

"The prospect I have sketched out, the prospect of a strong, prosperous and genuinely competitive coal industry, is well within the industry's grasp to achieve. But there is still a long way to go.

"One measure of this is the fact that, even though we generate 80 per cent of our electricity from coal (compared with 66 per cent five years ago), and even though coal imports are now running at an irreducible minimum, despite this coal stocks in December reached some 43 million tonnes, the highest level since the late '60s.

"Another measure is the scale of subsidy currently required to meet the industry's financial losses.

"To return the British Coal industry to viability will require continuing investment in new low-cost capacity to replace elderly, worn-out and high-cost capacity. It also requires improved efficiency and continued downward pressure on costs generally.

"Above all, the confidence of the customers must be maintained. If this is lost, a great deal of effort put into the industry in the recent past will be thrown away.

"Recent improvements in the industry's productivity are most encouraging, particularly since they follow a rather poor performance in the mid-seventies. It is essential that this is no flash in the pan but the start of a new and more hopeful trend.

"As for the relationship between investment in coal and the cost of coal, this works both ways. I have already mentioned the role of investment in reducing costs. But equally, if costs are not kept under firm control, coal will not win from oil and gas the share it is capable of winning of the industrial energy market of the future, which represents the major growth prospect for the industry over the next ten years. And if this should happen, the justification for capital expenditure in new capacity to meet that potential new demand must inevitably be called into question.

"In a few days from now the members of the National Union of Mineworkers will be voting on the pay offer the Coal Board has made to them. The pay negotiations which preceded this ballot have been entirely between the Board and the Union. But the relevance of the outcome to the future of the industry in the context in which I have been discussing it is surely clear.

"Nearly half the coal industry's operating costs are made up of wages, salaries and other labour costs.

"The level of these costs thus has a substantial and direct effect on the Board's ability to win new customers and to retain those it already has.

"In effect, the membership of the NUM will be voting about the kind of industry they wish to work in. They will have to consider whether they wish to work in an industry which is steadily building up its economic strength, expanding its markets and offering more job opportunities in the future.

"Or whether they wish to work in a stagnant or even declining industry, which is steadily pricing itself out of markets altogether, with all that that implies for the future of employment in the industry.

"It is my firm belief that the British coal industry has a golden future within its grasp. But it is not Government that will decide whether that challenge is met and that opportunity seized.

"Only those in the industry itself, working together, can assure their industry's future, their jobs, the investment to improve their facilities, and their prosperity in the long term. Nor is it simply their future which is at issue; for coal plays a vital role, either directly or through its impact on the price of electricity, in the competitiveness of British industry as a whole, and thus in the job security and well-being of everyone.

"There are few industries in Britain today with the potential and scope for improvement of the coal industry. What greater folly could there be than to put all this in jeopardy?"

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A CRUCIAL PLEA ON THE EVE OF THE PIT BALLOT

MY MESSAGE TO THE MINERS

Think – before you destroy what we have built up

OVER the last few years there has been a transformation in the mining industry.

We have brought coal out of the dark days of the 'sixties when too many people were ready and willing to consign the pits and miners to the industrial scrap-heap.

Now the members of my union are to vote this week on whether they are willing to strike to get a bigger pay offer—and I want to advise them to think very carefully before they cast their votes.

Far be it from me to urge them to go against the recommendation of the executive committee that they should turn down the offer on the table and authorise the industry first stoppage since 1974.

But I am bound to say that I would have voted to accept the offer if I'd had a vote and about a quarter of the executive committee did, in fact, do so.

Even though they were rightly furious at the mini-budget which will inevitably make life harder for miners and their families.

They had no doubts that rejection could lead to a bitter battle with a Government which has shown no sympathy for the workers or understanding of their worsening plight.

I am bound to say that I don't think the lads should have any illusions about where a vote for a strike could take them.

The Left-wingers are claiming that a big, clear majority will show the feeling in the coalfields and that, by demonstrating that we mean business, we will push the Coal Board and the Government into producing more money.

That has been their consistent line ever since the special conference in London last month which endorsed rejection of the offer.

They could be right. Nobody can be wrong all the time.

But I'm afraid I do not share their optimism.

I don't believe the Board has any more cash and I have no false hopes that Maggie Thatcher will cough up for us.

Let there be no mistake, if the lads want a strike, I shall lead them

And nobody should be in any doubt that we would fight to win.

I don't think somehow that my members would be too bothered about coming into conflict with Jim Prior's laws about picketing.

PICTURE: JOHN DOWNING

By JOE GORMLEY

But I hope the lads will realise that even a victory would only produce a compromise at the end of the day.

There is no way that we are going to get the full amount we are claiming in one jump, however long we stay out and however justified we are in insisting that a £100-a-week minimum wage is reasonable.

So what would we settle for? I have not the faintest idea.

I have tried and tried to get my colleagues to tell me, but nobody has. I have never known a situation like it.

There's not much likelihood of a strike producing more than a few more quid in my judgment.

And I'm not too sure that a lot of miners will be too willing to give up earnings well in excess of £100 a week to strike for that little improvement.

As in our past exercises, there would be no strike pay, remember.

They should also remember that though they are now enshrined in the history of the Labour Movement for great victories in 1972 and 1974, they were achieved at a price that was paid by them and not some of those egging them into the front-line once more.

That price was great hardship for many miners' wives.

They were given a lift then by the fact that they had the public behind them and the whole trade union movement.

But they must ask themselves whether the same would be true now. I don't believe we could count on it.

There are not a lot of workers who have been offered as much as we have turned down this winter.

It's all very well people talking as if miners are all-powerful and that the Prime Minister will let us be an exception, but I have yet to see any evidence of it.

We should certainly not allow ourselves to get big-headed on the strength of the past.

Nor should we let ourselves be used by anybody as political shock troops to bring down the Government. Governments should be changed by the ballot box and not by industrial muscle.

The inevitable result of using strikes for political ends would be to weaken the trade union movement and turn the people of Britain against us.

It must not happen.

Nor, I believe, should we do anything which might jeopardise all the good we have done to build up the coal industry; not just for our own people and the mining communities but for the nation.

And I have to say that, by forcing the Coal Board to pay out money which it cannot afford, we would be doing just that.

Inevitably, the cash we force out of them would have to come from money earmarked for developing new areas, modernising existing pits, keeping prices competitive and protecting jobs.

Nobody should ignore the fact that we have been hit less hard anybody by the recession. But it will not last if we cannot sell our product in the market place.

We should also always have in mind the impact that increased prices for coal and energy have on the sick, the injured and the pensioners. And the effect on other people's jobs.

I have to admit that there is not a union in Britain that has done better since Maggie moved into Downing Street.

If the present offer was accepted it would mean that the pay of mineworkers would have been increased by more than 40-odd per cent in only 20 months.

The offer we are now voting on would give up to 10·5 per cent increase back-dated to November 1 —10 months after our last rise.

And that, in turn, came only 10 months after the previous increase.

As I said at the outset, we have fought these past few years to create a mining industry that is regarded as credible and necessary by the public.

It is for all these reasons that I am asking all miners and members of the NUM to think hard and make sure they do not destroy what we have built.

It is for them to decide — but I know how I would vote.

COAL NEWS
JANUARY 1982

WAGES SPECIAL

A letter to NCB mineworkers from the Chairman

THE FUTURE IS IN YOUR HANDS

IN a few days you will have the chance to vote on an issue of the greatest importance to you personally and to the future of our industry. Your Union, in proper democratic tradition, will be holding a ballot on the wage offer we have put to the National Executive Committee after many weeks of negotiations.

Full details of the offer appeared in a special issue of Coal News distributed before Christmas. They are repeated in the next two pages of this issue. The NUM are also trying to make sure that you are in possession of this information before you come to mark your cross on the ballot paper.

There are a few points I should like to put to you. I hope you will spare the time to think about them.

Soon, I shall be retiring from the Board after spending the whole of my working life in the industry, apart from war service. Before I became Chairman ten years ago I was involved in selling the industry's output.

I have spent 35 years fighting for coal. I have argued its case with governments, politicians and customers — overseas as well as in this country. That does not make me unique, of course. The coal industry depends on a fine team of people from the coalface to Hobart House.

Our skill as a mining enterprise is now recognised the world over. But, in the sixties most people wrote us off — they thought cheap oil would last for ever. We knew better.

When the price of oil quadrupled in 1973/74, we were ready. We quickly agreed our Plan for Coal with Government. We have kept to it ever since. We are steadily rebuilding the industry. We have planned further progress up to the year 2000 — and beyond.

The present recession might have weakened our position — as in so many other industries. But we fought back. We secured our markets at home, doubled them abroad; increased our productivity; held our costs. A remarkable achievement, in which all have shared.

We have worked hard for our success. The industry has invested money, skill and effort to improve its efficiency. We are now getting the pay-off.

All this could be jeopardised if we were to allow anything to interrupt our progress.

And that brings me back to wages. Because the industry's performance has continued to be good, we improved our offer during negotiations by including money that will come into the books from still further productivity rises in the next 12 months.

We have gone to the limit of what the industry can afford — and a bit beyond, banking on our ability to keep going ahead.

Let me explain what I mean when I say the industry cannot afford more. There is no more to be got from our customers. Our November price increases were below the level of inflation for the very good reason that to have charged more would have forced some of our customers out of business, while others would have gone elsewhere for their needs. In either case, we would have undone our marketing achievements, which in turn would have meant fewer jobs in coalmining.

The industry has to safeguard its future by investing large sums in sinking new mines and modernising existing pits. We have to set aside money for this every year, otherwise the industry would rapidly run downhill. Again, jobs would be at risk.

So our wage offer had to recognise these facts. Remember that we, as the Board, are responsible for the industry as a whole. We must see that present progress is maintained and future prospects secured — as well as ensuring that fair wages are paid.

I believe our offer is a fair one. It compares well with any in the present round of negotiations — especially as it is being made only ten months after the last increase. Above all, its acceptance will enable us to move forward in strength — holding our markets and building for the future.

Yours sincerely,

Derek Ezra

Derek Ezra

INSIDE Tables setting out grade rates offered to mineworkers, surfaceworkers and young miners — plus back pay and average weekly earnings

MINEWORKERS' GRADE RATES

		What you get today PRESENT WEEKLY GRADE RATE	What you will get from November 1 1981* INCREASE	NEW WEEKLY GRADE RATE
UNDERGROUND		£	£	£
Grade	U1	111.95	9.60	121.55
	U2	101.80	8.70	110.50
	U3	98.00	8.40	106.40
	U4	94.80	8.25	103.05
	U5	93.35	7.95	101.30
	U6	91.75	7.85	99.60
	U7	90.20	7.75	97.95
Face Craftsmen				
	1	111.95	9.60	121.55
	2	98.00	8.40	106.40
	3	94.80	8.25	103.05
Elsewhere Underground Craftsmen				
	1	103.45	8.85	112.30
	2	96.35	8.50	104.85
	3	93.35	7.95	101.30
SURFACE				
Grade	S1	95.30	8.15	103.45
	S2	87.15	7.55	94.70
	S3	85.55	7.35	92.90
	S4	84.00	7.15	91.15
	S5	82.35	7.10	89.45
	S6	80.85	6.95	87.80
Craftsmen				
	1	94.10	8.05	102.15
	2	87.15	7.55	94.70
	3	84.00	7.15	91.15
Inspector Quality Control		95.30	8.15	103.45

Payable from the beginning of the week in which November 2, 1981 falls

NCB offer to NUM

YOUNG MINERS' GRADE RATES

Age	INCREASE FROM NOVEMBER 1, 1981		NEW WEEKLY GRADE RATE FROM NOVEMBER 1, 1981*	
	Underground	Surface	Underground	Surface
17½	£5.70	£5.70	£68.55	£61.45
17	£5.30	£5.05	£65.35	£58.55
16½	£4.75	£4.45	£62.70	£56.20
16	£4.35	£3.90	£60.25	£54.00

Young cokeworkers' new grade rates same as surface rates above

COKEWORKERS' GRADE RATES

		PRESENT WEEKLY GRADE RATE	INCREASE FROM NOVEMBER 1 1981	NEW WEEKLY GRADE RATE FROM NOV 1 1981 *
		£	£	£
Craftsmen	1A	94.10	8.05	102.15
	1B	87.15	7.55	94.70
	2	84.00	7.15	91.15
Grade	1	87.15	7.55	94.70
	2	85.55	7.35	92.90
	3	84.00	7.15	91.15
	4	82.35	7.10	89.45
	5	80.85	6.95	87.80

Supplementary grade rates covered by the Schedule of Supplementary Job Descriptions

Craftsmen				
	1A/1A	95.30	8.05	103.35
	1B/1B	88.35	7.55	95.90
	2/2	85.20	7.15	92.35
Grade	1/1	88.35	7.55	95.90
	2/2	86.75	7.35	94.10
	3/3	85.20	7.15	92.35
	4/4	83.55	7.10	90.65
	5/5	82.05	6.95	89.00

* *Payable from the beginning of the week in which November 2, 1981 falls.*

EXAMPLES OF BACK PAY

IF the Board's offer is accepted in this month's ballot, arrangements will be made to pay out 12 weeks back pay — amounts varying between £103 and £185 — in February.

These amounts, back-dated to the new settlement date of November 1, vary by grade and length of service. They will be higher for those who work overtime.

The table gives examples of back pay (for the period up to January 22 1982) for those on the coalface and lowest underground and surface grades for different lengths of service, assuming all normal shifts are worked.

Board's offer	U1 grade £	U7 grade £	S6 grade £
Grade rate increase	115.20	93.00	83.40
Extra for:			
Over 2 years' service	20.00	20.00	20.00
Total	135.20	113.00	103.40
Over 5 years' service	30.00	30.00	30.00
Total	145.20	123.00	113.40
Over 15 years' service	50.00	50.00	50.00
Total	165.20	143.00	133.40
Over 25 years' service	70.00	70.00	70.00
Total	185.20	163.00	153.40

INCREASES IN AVERAGE WEEKLY EARNINGS

	U1 £	U7 £	S6 £	Yearly cost £m
Grade rate increase	9.60	7.75	6.95	93.86
Percentage increase	8.6%	8.6%	8.6%	
Service-related bonus				8.29
Extra for:				
*Over 2 years' service £20	0.44	0.44	0.44	
Total increase	10.04	8.19	7.39	
Percentage increase	9.0%	9.1%	9.1%	
*Over 5 years' service £30	0.67	0.67	0.67	
Total increase	10.27	8.42	7.62	
Percentage increase	9.2%	9.3%	9.4%	
*Over 15 years' service £50	1.11	1.11	1.11	
Total increase	10.71	8.86	8.06	
Percentage increase	9.6%	9.8%	10.0%	
*Over 25 years' service £70	1.56	1.56	1.56	
Total increase	11.16	9.31	8.51	
Percentage increase	10.0%	10.3%	10.5%	
			Total cost	102.15

**The lump-sum bonus divided by the normal number of working weeks*

IMPROVED OFFER IS BEST FOR ALL

ACCEPTANCE of the improved pay offer would achieve the National Coal Board's aim of continuing to pay good wages and to safeguard the future of the industry, says Board member for industrial relations Jimmy Cowan.

Meeting the increases offered would present the industry with great financial difficulty, said Mr Cowan, who led the Board's negotiating team. He stressed that no more money could be made available without damaging job prospects and the industry's future.

"During long negotiations we have been repeatedly urged to improve the offer and the Board have done this," said Mr Cowan. "I am convinced that it is a very fair offer and it is certainly the most the industry can afford. We have done our very best in negotiations and I hope the offer gets the full support it deserves in the ballot."

The Board's offer to mineworkers, totalling £102.15 million in a year — and coming only 10 months after the last increase — is based on estimates of income from the November 1 coal price increase already announced, and on past and future productivity increases, he said.

Taking into account wages charges and consequential improvements in pay and conditions for all other groups of employees, the cost for a full year would be over £171 million.

During negotiations the Board had studied again the scope for action on three ways of finding more money, said Mr Cowan. They looked at:

● PRICE INCREASES. Coal prices were recently increased by less than the rate of inflation in order to sell coal during the recession. The Board could not possibly get more money from price increases because any further rise now would reduce the size of markets and yield no more cash — possibly even less because it would put some customers out of business.

● COST REDUCTIONS. Cost-cutting could not be done at the expense of efficiency and safety. The substantial contribution from reduced manpower and higher productivity had already been taken into account. Without it the Board would have been able to offer virtually no pay increase at all, because of high investment for the future, rising costs and lower proceeds from coal sales because of price competition.

But they decided that, assuming recent productivity trends continued, they could add to their original wage offer. The extra £40 million which had been made available in this way had still to be achieved and would require the combined efforts and cooperation of everyone in the industry.

● INVESTMENT. The Board had already had to hold back some investment and any further cut-back would seriously impair the industry's ability to achieve the aims of Plan for Coal, jointly agreed by the Board and the trade unions, and lose jobs. The cuts already made had led to suppliers introducing short-time working and substantial redundancies at their factories.

Said Mr Cowan: "We have taken every possible account of the benefits of increased prices and savings from reduced manpower and rising productivity in calculating the sum which can be made available.

"We have also taken into account the effects of the recession. The vigilance of our purchasing staff has enabled price increases on our bought-in materials and supplies to be contained at about three per cent below general inflation.

"We have already taken into account all the potentially favourable factors and we still have about £11 million to find."

Mr Cowan said the industry's total costs were divided roughly equally between manpower and other costs, so about half of the benefit of the coal price increase would normally be expected to go to meet increases in wages and the other half for other increased costs. In fact the offer meant that over 65 per cent of the income from the November price increase was going to raise pay.

Overall the offer was equivalent to 9.33 per cent on grade rates and with the service-related holiday bonus spread over the normal number of working weeks it gave even higher increases for long service men — up to 10¼ per cent.

He ended: "The Board have accepted the joint principles of paying good wages and safguarding the future of the industry. They believe that the increases offered would achieve those aims; but I would like to re-emphasise that meeting these increases will present the industry with very great difficulty. All these facts need to be taken seriously into account by everyone voting on this offer."

Price increase 'danger for sales'

MAJOR customers have warned of the danger to coal sales to them if prices rise further.

The biggest buyer is the Central Electricity Generating Board who have an understanding with the NCB to take a minimum of 75 million tonnes a year providing prices rise no higher than inflation.

Said a spokesman: "The CEGB believes that the joint understanding has operated greatly to the advantage of both industries. It has proved of assistance to the Coal Board in guaranteeing a market for coal from the CEGB well above what it would otherwise have been, given the way the demand for electricity has fallen.

"It has also proved of advantage to the CEGB through putting a ceiling on coal prices. The CEGB would be sorry to see the understanding overturned, but anything which serves to push up the price of coal beyond the level of the understanding would be bound to lead to its collapse.

"The Generating Board would then be forced to react by significantly reducing its take of coal from the NCB, with no doubt adverse consequences for the industry."

British Steel Corporation managing director, supplies and transport, Frank Holloway, said: "Coal is a significant element in the cost of making iron and steel, and the steel market — particularly in Europe — remains intensely competitive.

"Pressure on the costs of mining British coking coal, with its frequent difficult quality disadvantage, can only make it much more difficult for the NCB to compete against overseas supplies."

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