Coal: a privatisation postponed?

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Behind the news

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Apart from their manifesto, the Conservatives have published no overall plan for privatisation. The first indication that a nationalised industry is under threat usually comes when one or other senior party ideologue floats a proposal. In this article, Dexter Whitfield documents the indications that the National Coal Board, or its more profitable parts, is amongst the industries that the government plans to privatise – but only if the power of the National Union of Mineworkers can be broken.

PRIVATISATION has been on a hidden agenda throughout the miners strike. 'Private funds may be sought for NCB expansion' (**The Times** 5 May 1984) and 'Coal mines for the miner' (**Financial Times** 17 September 1984) are two recent headlines concerning the threat of privatisation of the National Coal Board (NCB). However, there has been very little public comment by either the National Union of Mineworkers (NUM), the NCB, or the government on plans to privatise the pits, nor has there been much media discussion. This lack of discussion could later have catastrophic results both for the miners and other public sector workers. It also disguises the fact that 15% of coal production is already privately owned (opencast sites and licenced private pits) and that under the NCB's current programme of asset sales several subsidiaries, land and property have been sold.

State secrets

In May 1984 **The Times** reported that a Cabinet subcommittee had agreed to allow the NCB to seek private capital to develop a new generation of highly profitable pits. 'It is felt that the part privatisation policy could well aggravate the pit strike and stiffen the miners resolve. But it must also be a prerequisite of the plan that the political power of Mr Arthur Scargill and the National Union of Mineworkers should be broken. It is unlikely that private investment could be attracted if Mr Scargill were able to stop the current programme of pit closures. If he won that battle, he could prevent privatisation'. (**The Times** 5 May 1984). Strenuous efforts were apparently made to keep this from being reported more widely. The information reportedly came for John Moore, Financial Secretary to the Treasury and responsible for coordinating the government's privatisation programme. In autumn 1983 he had declared 'No state monopoly is sacrosanct' to a gathering of stockbrokers. He specifically mentioned coal, gas, electricity, bus transport, telecommunications, sewerage treatment and disposal. Moore was previously at the Department of Industry and responsible for the coal industry. Replying to rumours in 1981 about the imminent sale of opencast sites he said the government thought of opencast mining 'as more akin to quarrying, a privately-owned industry, than to deep mining'. He refused to confirm or deny the rumours, leaving the distinct impression that the matter was under consideration but no detailed plans had been drawn up.

Shortly after the miners strike started Norman Tebbitt, Secretary of State for Trade and Industry, hinted that privatisation of the pits was on the government's agenda. Addressing a House of Commons press luncheon he said 'I just wonder whether we could have a coal mining dispute if we had denationalised the coal industry 10 or 20 years ago. I fancy we would probably have cheaper coal, cheaper electricity, better paid miners and a more efficient economy today. Its a thought is it not, for the future'.

Ian MacGregor, NCB chairperson, is clearly in favour of privatisation. Speaking on the future of the coal industry immediately after his appointment he said he hoped that miners would eventually be able to become shareholders in the pits and stated 'Any time you can tap private capital you have some kind of understanding that pretty savvy people are interested. That indicates the industry has a future'. (**Financial Times**, 30 March 1984) MacGregor built his ruthless business reputation in the USA as chairperson, chief executive and shareholder of Amax, a multinational mining conglomerate. It was MacGregor who steered the company into coal mining becoming one of the largest US coal producers acquiring mid-west mining companies and launching numerous anti-union activities against the United Mine Workers of America. In December 1984 MacGregor again raised the possibility of privatising the mines claiming that it would be 'wonderful' to sell the 'uneconomic' pits to miners. He stated that 'over the long term, there is no question about it, opportunities like this will arise as they have done in other industries'. The NCB has already attempted to set up a futures market for coal. In May 1982 the board announced that merchant bankers S G Warburg had been appointed to examine different options. The NCB were concerned at the escalating costs of maintaining coal stocks, estimated at £125m annually for stocks then standing at 24m tonnes. A futures market would have

Table 1

Up for Sale: The Multi-Billion Transfer List

	Estimated Potential Market Value £ millions
British Airways	1000
British Gas	7800
British Airports Authority	300
Royal Ordnance Factories	350
British Shipbuilders –	
warship yards	200
repair yards	200
National Bus Company	350
Post Office	1200
National Girobank	200
British Leyland inc Land Rover and Unipart	1150
British Rail assets incl. Property Board	735
British Nuclear Fuels	250
English Water Authorities	750
Rolls Royce Ltd	350
Electricity	4500
British Steel subsidiaries	?
National Coal Board	?
British Technology Group shareholdings	50
Government shareholdings	
British Aerospace	480
BP	2300
Britoil	505
Cable and Wireless	300
Total	£22,970 million

Source: Stockbrokers reports, etc.
The sale of British Airways, British Shipbuilders warship yards, and the Royal Ordnance Factories is already underway. Stockbrokers have 'valued' many of these services but none has yet put a figure on the potential 'market value' of the NCB.

guaranteed the advance sale of most of these stocks. The board considered setting up a separate coal trading company with private shareholders which would have made deals with banks to finance an agreed level of coal stocks. The scheme foundered on Treasury opposition to the NCB using a backdoor method of increasing borrowing without government sanction.

Sale lists

The full or partial privatisation of the NCB is usually included in lists drawn up by the financial institutions of nationalised industry and public services being considered or prepared for sale (see Table 1).

NUM tactics

The NUMs tactics have been to keep the strike centred on pit closures. During the first nine months of the strike there was no serious attempt to nationally and publicly counter the government's or the NCB's apparent privatisation plans. Yet the NUM were not unaware of the threat of privatisation. The second of a series of briefing booklets 'Hands off the pits – no privatisation of coal' issued by the union as part of its Campaign for Coal succinctly explained why the government was imposing privatisation and its effects on workers and users. 'There is already disturbing talk of the peripheral coal fields being allowed to go to the wall with private capital invited for stakes in the lucrative central coalfield. It is not at all inconceivable that Selby, paid for and developed at tremendous cost to the taxpayer, could be sold off at a knockdown price to private buyers'.

The not so reticent right

The privatisation of coal mining is on the political agenda of a number of right wing organisations. They are advocating acceleration of the government's asset sales together with statutory contracting out of local government services and parts of the National Health Service. The Adam Smith Institute's (ASI) Energy Policy report produced as part of its Omega Project to 'create and develop new policy initiatives' calls for the NCB's area management units to be formed into separate business units. If these proved to be profitable the equity would be sold to the workforce and new investors. All new pits would be sold individually or in groups to private operators. The ASI's solution to 'uneconomic pits' is to lower the costs of coal extraction. 'For example, a mine that is judged to be uneconomic under present practices might still be a viable proposition for a number of years if managed by a new private company or a co-operative of existing workers: by extending the life of the pit, the new methods and new management would provide some breathing-space for the community to adjust.' The humane touch – wage cuts now would presumably ease temporarily the otherwise abrupt redundancy and dependency of low employment benefits. The ASI also calls for changes in regulations under the Coal Industry Nationalisation Act 1946 to permit private opencast contractors to sell their coal directly on the market instead of delivering it to the NCB. Restrictions limiting private deep mines to not more than thirty workers undeground would also be lifted. Coal would be imported freely.

The editorial in Economic Affairs, journal of the Institute for Economic Affairs recently argued that the government should sell the coal mines to 'other owners'. It claims that the 'flaw of nationalisation' has created conflict between running the industry 'in the public interest' and the government's first priority – a 'defence of the realm against external enemies and defence of the innocent citizen against internal law-breakers'.[1]

The theme of selling 'coal mines to the miner' through buy-outs and share ownership, the closure of 'unprofitable' and 'uneconomic' pits, splitting the NCB into smaller competing private coal supply companies, and lifting all restrictions on coal imports has been emphasized by many other right wing economists.[2]

A paper on the coal industry at an 'Incentives for Minerals Development' conference held by the Royal Institute of Chartered Surveyors in June 1984 called for contract mining in Britain's deep mines on a similar basis to the present system of open cast mining by private contractors.[3]

Opencast mining would be fully privatised. A new national coal authority, 'supported' by the government, would also encourage consortia of mining equipment manufacturers, contractors, consulting engineers and surveyors, and bankers to invest directly in coal production. It would also directly build new coal fired power stations near to larger coal reserves and sell electricity as well as developing new oil and gas production plants from coal.

The Monopolies and Mergers Commission (MMC) investigation into the coal industry in 1983 recommended that NCB area management units should be operated as 'separate business units' with more 'value-for-money' audits. The MMC also called for the present statutory limit on individual opencast licences should be raised from 25,000 tonnes to 100,000 tonnes. The NCB responded by commissioning multinational management consultants McKinsey and Co. to undertake a major organisational review.

What has already been privatised

The discussion on the threat of privatisation tends to obscure the scale of existing private production of coal and the current sale of assets by the NCB. Firstly, private coal production accounted for 14.4 per cent of the total 105.3m tonne output in 1983/84. All 55 opencast sites in Britain, producing 14.1m tonnes last year, are owned by the NCB but are operated by private contractors. There are already 155 licenced private pits which produced 1.4m tonnes in 1983/84. The annual production of opencast and private pits has not significantly changed since 1947. Opencast production declined in the mid-1960s to about half its current output but has remained relatively constant since 1977/78. Private pit production has varied between 0.9m and 2.3m tonnes since nationalisation. Output has increased 55% in the last six years. The significant change has been NCB annual colliery output which has more than halved from over two hundred million

Table 2

NCB Subsidiaries, shareholdings and turnover 1984

NCB (Coal Products) Ltd
- *Subsidiaries*
  - National Smokeless Fuels – fuel manufacture
  - Thomas Ness Ltd – chemical processing
- *Shareholdings*
  - Pitch Polymer Products Ltd (50%)
  - Staveley Chemicals Ltd (45%) – benzole and chemical refining
  - Coal Processing Consultants Ltd (50%) – consultancy services

NCB (Ancilliaries) Ltd
- *Subsidiaries*
  - Southern Depot Co Ltd – solid fuel distribution
  - National Fuel Distributors Ltd – solid fuel distribution
  - Compower Ltd – computer services
  - Tredowen Engineering Ltd – engineering
  - Coal Industry Estates Ltd – estates management
- *Partnerships and shareholdings*
  - British Fuel Co (49%), Gwent Coal Distribution Centre (20%), Liverpool Fuel Co (60%) – solid fuel distribution
  - British Mining Consultants Ltd (50%)
  - Scottish Brick Corporation Ltd (50%) – brick manufacture
  - Horizon Exploration (Holdings) Ltd – seismic surveying
  - EMS Thermoplant Ltd (50%) – industrial boiler design and operation

Other subsidiaries
- Coal Developments (Queensland) Ltd (89%) – joint venture in Capricorn Coal Development Australia
- Heather Minerals Ltd

Turnover 1984

	£ m
Mining activities	4,551
Mining related activities	
Manufacture of coke and smokeless fuels	239
Chemicals and secondary by products	30
Distribution of solid fuel	209
Distribution of heating appliances	113
Estates and Land	2
Engineering	12
Computer services	28
Total of mining related activities	633

Source: NCB Annual Report 1983/84.

tonnes in the 1950s to 90.1m tonnes in 1983/84. In 1955 private coal output was only 6.2 percent of total production. Private pits are relatively small operations often exploiting pits and faces closed by the NCB. The pits are licenced by the NCB and the board purchases their coal output.

Secondly, the NCB is selling profitable subsidiary companies and shareholdings in other firms. These are controlled by two holding companies, NCB (Coal Products) Ltd and NCB (Ancilliaries) Ltd (see Table 2). Subsidiary companies have a combined book value of £118m in 1983/84 and shareholdings in other firms were valued at £58.7m. Turnover in the NCB's mining-related activities was £633m in 1983/84 – 13.6 per cent of total turnover. In November 1983 the NCB sold its 30% stake in Associated Heat Services (AHS) which designs, installs and operates boiler and air-conditioning plant for £7.5m. The NCB was one of the founders of the firm in 1966. AHS had pre-tax profits of £3.3m on turnover of £35m in 1983. J H Sankey Ltd, an NCB heating equipment and building material supplier was sold in 1984.

The government has demanded that the NCB raise £10m in 1984/85 from the sale of activities 'unrelated to the Board's mainstream activities' and in addition to its normal planned sale of land, buildings and vehicles. More subsidiary companies and shareholdings are likely to be sold.

Thirdly, the NCB sold a further 4,000 houses in 1983/84 bringing total sales to 51,000 since 1976. Two thirds of these houses have been sold to sitting tenants, the remainder to local authorities, housing associations or on the open market. The remaining stock of 32,000 houses will continue to be sold-off.

Fourthly, the NCB spent £328m on mining and civil engineering contract work in 1983/84 and a further £63m on plant hire – 7.2 per cent of expenditure. It is not possible to identify further contract work in the NCB's accounts. However, the NCB employes 16,500 workers in colliery workshops and other services such as cleaning and catering. These services, as in other parts of the public sector, are under threat of being contracted out. Initial Ltd already have a large NCB workwear laundry contract as well as NHS laundry and school cleaning contracts.

Finally, the government could restrict the NCB to concentrate solely on coal mining leaving the processing of coal, for example, washing plant and other activities to private firms. Contractors have already made inroads into coke production.

Privatising the profits

Despite deep mining operational losses which rose from £26m in 1979 to £595m in 1983/84 other NCB activities are highly profitable. The Board made £211m profit on opencast operations with £577m turnover last year – a 117.5 per cent rise in six years. Computer services, distribution of solid fuel and heating appliances are profitable mining-related activities. NCB subsidiaries and shareholdings had operating profits of about £20m up to 1981 although small losses have occurred in the past two years. It is the opencast and profitable mining-related activities which are under immediate threat of privatisation.

Multinational control

Attempting to convert miners into worker shareholders and/or encouraging buy-outs or co-operatives to take over 'unprofitable' pits is more connected to political objectives than economic ones. The stark reality is that large multinational companies control most of the opencast contractors together with other mining interests in Britain and overseas. The NCB is an integral part of British Coal International which co-ordinates and promotes the overseas interests of the mining industry. Exports of mining equipment were valued at £175m in 1983/84 together with £15m in consultancy services and £224m of coal, coke and coal product exports. Mining is big business. These companies can readily finance new private coal mining ventures in Britain and will ensure that they reap the benefits of privatisation.

Table 3 identifies the parent companies of the main opencast contractors in Britain at April 1984.

Seven companies operate half the opencast sites with 71.4% of total site production. At least two new opencast contracts have been let since April. Derek Crouch Plc have started a new site with 2.9m tonnes of coal in South West Scotland. Northern Strip Mining (Burnett Hallamshire Holdings Plc) started work on a large Northern Ireland site with 450m reserves. Opencast sites continued to operate during the miners strike. The NCB paid for the coal mined although it did not leave the sites.

Amec Plc is a civil engineering and buiding contractor with interests in the energy and process industries. It was formed by the recent merger of Fairclough Construction Group and William Press. Turnover was £715.3m in 1983.

Charter Consolidated is a diversified group in which the mining of coal, tin, potash and wolfram in Britain, Portugal, USA, and Africa represents only 11% of its £614m turnover in 1984. Pretax profits were £38.2m. Its subsidiaries also manufacture building products (Cape Industries), railway track components, heating, refridgeration and catering products. It owns important mining equipment firms Anderson Strathclyde (whose takeover was investigated by the Monopolies and Mergers Commission) and Perard Torque Tension. Charter Consolidated own a third of the shareholding in the troubled Johnson Matthey Plc metal refining and general financial and investment services. It has a 29.9% shareholding in stockbrokers Rowe and Pitman, now part of the new Mercury Securities financial group. The Minerals and Resources Corporation Ltd, part of Harry Oppenheimer's South African mineral empire has a 35.7% stake in Charter Consolidated. The rapidly expanding Hanson Trust has recently acquired 3%

Table 3

The Main Opencast Contractors

Firm	No of sites	Total tonnes at sites (million)	Parent
French Kier Construction	2	6.13m	Amec Plc
Fairclough Parkinson Mining	3	7.08	Amec Plc
Northern Strip Mining	1	2.70	Burnett Hallamshire Holdings Plc
McErlain Plant Ltd	2	2.96	Burnett Hallamshire Holdings Plc
Taylor Woodrow Construction	2	13.61	Taylor Woodrow
Wimpey Construction Ltd	6	6.74	George Wimpey Plc
Lehane, MacKenzie & Shand Ltd	4	12.03	Charter Consolidated Plc
Derek Crouch (contractors) Ltd	5	12.47	Derek Crouch Plc
Murphy Brothers Ltd	3	6.45	BET Group
W.J. Simms, Sons & Cooke Ltd	2	0.90	Trafalgar House
ARC Ltd	1	0.75	Consolidated Gold Fields Plc
Lomount Construction	2	2.01	SGB Group Plc
A.F. Budge (Contractors) Ltd	5	7.86	(parent)
James Miller & Partners Ltd	5	10.74	(parent)

of Charter shares.

Mining represents less than half the 1984 turnover of £232.2m for Sheffield-based Burnett Hallamshire Holdings. It was however quite profitable producing £7.8m pretax on £98.1m mining turnover. Its subsidiaries include civil engineering and property development companies and the Mineral Investment Corporation which finances the mining, trading and processing of coal and other minerals. Burnett Hallamshire also owns mining companies in South Africa, Chile, Belgium and the USA.

The diversified BET Group (£1,269m turnover in 1984) not only own Murphy Brothers which has three opencast contracts in Britain and one in America, but also the laundry and cleaning firm Initial Ltd noted earlier. BET's full bid for Initial is now being investigated by the Monopolies and Mergers Commission.

Other parent companies identified in Table 3 have wide ranging construction and civil engineering interests, eg. Taylor Woodrow, George Wimpey, Trafalgar House. Several have expanding subsidiaries in finance and investment, transport and other energy developments.

Many mining contractors operate opencast sites or strip mines in Appalachia, Indiana, Kentucky and other sites in America. These include Derek Crouch (Power Inc), Charter Consolidated (Alexander Shand Holdings and the mining equipment firm National Mine Service), Burnett Hallamshire (three US mining companies). The civil engineering and construction group, Richard Costain, have several coalmining operations in Australia.

The NCB's £26m stake in the vast Capricorn Coal Development Joint Venture in Queensland, Australia indicates the international scale of operations. The NCB's joint shareholders in this project are the Commercial Union Assurance Company, Inter-Continental Fuels, Austen and Butta – an Australian mining firm, and Rhurkohle – West Germany's largest coal producer which also operates mines in West Virginia and Kentucky. American mine companies like Amax, MacGregors previous company, and the large expanding private utility companies with extensive mining, energy, and telecommunications interests could be tempted by the privatisation of Britain's mining assets. However, much depends on the outcome of the miners strike and the strength of the NUM. New business links may be forged within Britain. Taylor Woodrow has already investigated, and rejected at least temporarily, the possibility of taking over two power stations to generate electricty. The next step would be to own nearby mines to supply coal.

Coal has a future

Britain has coal reserves estimated at 4,223m tonnes, enough for over 300 years at the present rate of mining. Most are good quality bitumonous coals with high carbon, low volatiles and little ash. Unlike the USA where 60 per cent of reserves can be strip mined most of Britain's coal extraction requires deep mining. Despite the use of more nuclear power, coal will remain the main fuel used for electricity generation at least for several decades. With full implementation of the Plan for Coal and the development of new markets coal output could be greatly expanded. The future for coal is bright. 'Coal will have new uses. The most obvious is as the raw material for synthetic natural gas (SNG). British Gas and the National Coal Board are already developing the technology to turn coal into SNG to replace North Sea gas. Further ahead, coal will take over oil's role as the main raw material for the petrochemicals industry, and (after liquefaction) as a fuel for transport'.[4]

Asset Stripping

The NCB's coal mining assets are likely to be treated by the government in the same way as other public services and assets have been dealt with. Nationalised industries and publicly owned firms have been sold at knockdown prices. The sale of shares in Amersham International, Cable & Wireless, BP, Britoil, Associated British Ports, British Aerospace, Enterprise Oil and Jaguar Cars totalled £2870.8m, less nearly £100m fees. Assuming a market valuation and based on the highest 1984 share price the eleven public asset sales have been sold at a £1,235m discount – an average 43 per cent reduction. The partly paid British Telecom shares were trading at double their initial price within weeks of the £3.9billion sale. Public investment has been written off – £215m in British Aerospace and Associated British Ports alone. The pre-sale preparations at British Airways not only involved mass redundancies but it seems inevitable that the government will inject new equity to reduce BA's 'unattractive' £770m debt burden.

It is forseeable that the £1,500m public investment in the new Selby, Yorkshire and Ashfordby, Leceistershire mines could be partially written-off and sold at knockdown prices. The more profitable pits in other coalfields could treated in a similar manner, leaving the 'uneconomic' pits to be sold to the miners.

Tactics

The threat of further privatisation of coal mining is an immediate and important political issue for the labour movement. Some form of privatisation is likely to proceed irrespective of the outcome of the miners strike. It is highly unlikely that the NCB will be sold off as a whole like British Telecom. Instead the profitable sections will be parcelled up separately for sale. The remainder will be run even more rigidly along business lines with stringent financial controls and increasing use of contracting out work.

For many people the idea of reviving private coal companies raises immediate fears of a return to ruthless exploitation, mining accidents, poor working conditions and constant health and safety dangers. Many people identify privatising coal with the perils of returning to a private health 'service'. There is probably more support for publicly controlled coal mining than there is for other nationalised industries which people use and experience daily. However, one of the fundamental lessons learnt from the privatisation of other public services is that to wait to take action until there are specific proposals is often too late.

Alternative Strategy

In September last year, seven months into the miners strike, Roy Hattersley, Shadow Chancellor of the Exchequer and Deputy Leader of the Labour Party, called for a re-examination of public ownership and a new drive for social ownership. Wider share ownership, worker buy-outs, co-operatives and further investment in firms by local authorities 'to extend power by distributing it more widely'. In another initiative, the TUC have recently issued a discussion paper on the future of the nationalised industries.[5] Five years into the Tories' privatisation drive the TUC want to 'institute a thorough review of the kind of public ownership programme that unions and the TUC want a future Government to implement'. The paper recognises many of the problems of the nationalised industries – and poses a number of questions for debate and discussion prior to a report and debate at the TUC Congress 1985.

Both these initiatives will be grasped by right wing factions in the trade union movement and the Labour Party to try to water down existing public ownership policies. Alternative strategies to develop new forms of workers and users *control* in an expanding public sector will be given short shrift. 'Mines for the Miners' and similar slogans will only further obscure the fundamental issues. What is needed is to develop effective alternative strategies to improve and expand the public sector. For the current struggle in the mines is not just about pit closures, its about the future of the *National* Union of Mineworkers, the future of the mining industry, and ultimately about whether the labour movement is able to defend public ownership against the ideological and economic attacks of current Tory policy.

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