Problems for the Coal Industry

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The price of coal in Britain is increasing because supplies are inadequate. Should an annual price review be instituted?

THIS year for the first time for fifteen years the National Coal Board can sell every ton of coal mined. Problems of costs and prices remain, however, as the report of the National Board for Prices and Incomes has shown[1]. How has this situation arisen?

The short answer is that the promised emergence in Britain of a four-fuel economy has not worked out as expected. The White Paper on Fuel Policy[2], published in 1967, stated that "on any tenable view on the long term pattern of energy supplies and costs, the demand for coal will continue to decline. This is not the result of Government policy, it reflects a continuing trend in consumer preference". Britain's energy needs are still met by coal and oil with natural gas and nuclear energy making only a small contribution. With natural gas there have been difficulties in the massive conversion programme which has been undertaken.

The result of these changes is a seller's market for coal. Beside the Government's objective of checking price increases, this creates various problems, Broadly, there are three ways of dealing with a seller's market. The first would be to produce more coal at home so that supplies were adequate to meet demand. The National Coal Board is trying to do this by keeping open pits previously considered uneconomic, and by using technically advanced mining methods.

The second possibility would be to bring in supplies from abroad. This would mean dropping the ban on imports and allowing coal to come in from the United States, Poland, the European Economic Community and anywhere else where supplies were available.

The third solution would be to increase supplies of other fuels. In the long term the solution to the energy problem will clearly come from developments of this kind. The National Coal Board supplies about 76 million tons of coal, about half its annual production, to the Central Electricity Generating Board and a further 27 million tons to coke ovens, with 50 million tons equally divided between industrial and domestic consumers, including some export tonnage. The biggest savings could obviously be made by introducing other fuels into the power stations and the steel industry. Conversion to oil is the best option for the power stations but this takes time and involves additional capital expenditure. The use of natural gas for crude heating purposes instead of the premium uses for which it is best suited is wasteful and can only be regarded as an emergency measure. The nuclear power station programme cannot be expanded rapidly, and in any case the serious technical problems which have emerged recently are a sufficient reason for proceeding with caution. The steel industry has so far not perfected a process for the reduction of iron ore without coke.

The sometimes conflicting economic, commercial, technical and political objectives of fuel policy must be reconciled within the context of the present fuel situation. The Prices and Incomes Board review of coal prices singled out the failure to maintain rising productivity as the chief reason why the National Coal Board has had to increase prices twice in the past year and wishes to do so again. This ignores the impact of inflation, which has hit the coal industry through its purchases of materials and equipment, and high wages. The board's chief proposal for the solution of the problem is to introduce changes in the top management structure in the industry in order to strengthen the amount of control exercised from the centre over operations in the field. In other words, the board believes that the commercial problem can be solved by improved operating efficiency, forecasting and planning by managerial changes. It is at least questionable whether closer day to day control from the centre in an industry as large as coal would have positive results, and would not instead lead to a stultification of local initiative. At any rate the National Coal Board considers that its best chances of success lie in giving effective powers and responsibility to its seventeen area directors, subject to overall policy control and accountability.

In deciding what to do it is important to realize that the present strong market for coal could last for the next four or five years, and that the strength of the coking coal market will stretch beyond that. One question which should be asked is whether the price of coal could in this situation be determined by the market. This would, however, mean that rising costs incurred would be reflected in higher prices. In a free market situation, which would involve the removal of protective arrangements, prices would rise to a level which consumers were prepared to pay. In other words a free market would not only determine prices but also the size of the coal industry. With an industry as complicated as coal there are many factors to be taken into consideration before taking so radical a step as this. Any contraction of the industry would have to continue in a way that would safeguard the position of the workers concerned. Clearly the emphasis in such a situation should be on marketing, and the problem should be considered in commercial terms. While a free market system might be going too far a modification of this could provide a solution to the problem. Coal prices affect industrial costs generally and particularly those of the steel and engineering industries. Instead of the present arrangement under which the National Coal Board has to come forward and ask for a price increase whenever conditions change, an annual confrontation with its customers could provide the means of securing greater stability. An annual price review in which the National Coal Board discussed problems of costs, prices, materials and supplies with its principal customers would produce a situation in which the known factors were discounted and the number of unknown ones considerably reduced.

Such an approach would make it possible for the National Coal Board to operate within the commercial realities of the situation. Questions of conversion of power stations to oil would be discussed as factors affecting the total supply position rather than as an attack on the future of the industry. If the nationalized industries which supply products and services used by industry and the general public are to operate effectively they must be able to adapt to changing economic circumstances without being the focus of political attention. If the particular kind of mixed economy which has developed in Britain in the past twenty-five years is to operate effectively, the similarities rather than the differences between public and private sector industries must be emphasized.

Any move towards an application of market principles to the nationalized industries is likely to be a step in the right direction.

1 *Coal Prices*, Report No. 153, Command 4455 (HMSO, 1970).
2 Command 3438 (HMSO, 1967).