

The U.K. Coal Industry since Privatisation in 1995

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ABSTRACT: The United Kingdom coal industry was privatised on 1st January 1995 when the production assets of the British Coal Corporation passed into private ownership. The majority of deep coal mines were sold to one major operator and to ease the transition from public to private ownership, privatisation was preceded in some instances by a short period during which independent operators were allowed to take over coal mines under 'lease and licence' arrangements. For the first 3 years of privatisation, most of the mine operators were supplying coal at a price determined before privatisation. This paper details the UK. mine operators, the effect of the electricity-producing companies and their influence on the price of coal for new contracts, and the significance of competition from gas power generation.

1 INTRODUCTION

The deep coal mines -that were formerly under the ownership of the British Coal Corporation passed into private hands on 1st January 1995. In the past 6 years of private ownership, the mining industry has faced several challenges which have largely been overcome because of willingness, ingenuity and the determination to adapt to market forces, and the successful lobbying of the U.K. government.

The U.K. is now a small player in terms of coal production on a global scale. Table 1 details world coal production from major suppliers in 1999.

PR China	1,029 Mt
USA	914 Mt
India	290 Mt
Australia	225 Mt
South Africa	224 Mt
Russia	163 Mt
Poland	112Mt
Ukraine	81 Mt
Indonesia	74 Mt
Kazakhstan	56 Mt

Table 2 lists current operating deep coal mines in the U.K. and their 1999 production figures, while

Table 3 illustrates total U.K coal production since 1989. The latest production figures published by the Department of Trade and Industry indicated that deep coal production in the U.K. in 1999 was 20.9 Mt (U.K Energy in Brief, 2000)¹²¹.

2. CURRENT DEEP COAL PRODUCERS IN THE U.K.

2.1 RJB Mining PLC

The major coal-producing company in the U.K. is RJB Mining PLC¹¹, which currently produces 17 million tonnes from its deep mines and over 4 million tonnes from surface mines. In December 1994, the company successfully completed the purchase of the core mining activities of the English coalfields previously managed by British Coal at a cost of £814 million. At this time, RJB reopened four collieries closed by British Coal. Rossington, Clipstone and Calverton (ceased production in April 1999) were reopened under lease and licence and Ellington was reopened in the spring of 1995. In its first full year of operation, RJB invested heavily and spent £300m on underground mining developments, including the drivage of over 160 kilometres of underground roadway, £55m on new plant and equipment and £11m on modernising general colliery infrastructure.

Table 2. Current Deep Mine Coal Producers in the U.K. (1999 figures)¹

RJB Mines	Location	Manpower	Annual Output (Mt)
Clipstone	Nr. Mansfield, Nottinghamshire	222	0.5
Thoresby	Edwinstowe, Nottinghamshire	533	1.7
Welbeck	Nr. Mansfield, Nottinghamshire	521	1.2
Daw Mill	Nr. Coventry	657	1.4
Ellington	Nr. Morpeth, Northumbria	433	0.8
Harworth	Nr. Doncaster, South Yorkshire	623	1.6
Rossington	Nr. Doncaster, South Yorkshire	369	0.9
Maltby	Nr. Rotherham, South Yorkshire	532	1.3
Prince of Wales	Pontefract, West Yorkshire	580	1.3
Kellingley	Knottingley, West Yorkshire	558	1.4
Riccall	Selby, North Yorkshire	418	1.7
Stillingfleet	Selby, North Yorkshire	882	2.0
Wistow	Selby, North Yorkshire	570	1.5
Non-RJB Mines			
Longannet	Edinburgh, Scotland	738	1.0
Hatfield	Doncaster, South Yorkshire	200	0.4
Tower	Aberdare, Mid Glamorgan	350	0.4
Betws	Ammanford, Dyfed	100	0.1
Others		-	1.7
Totals		8286	20.9

Table 3. U.K. Coal Production Since 1989.¹⁴

Years →	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Deep-mined	79.6	72.9	73.4	65.8	50.5	31.8	35.1	32.2	30.3	25.1	20.9
Opencast	18.7	18.1	18.6	18.2	17.0	16.8	16.4	16.3	16.7	14.8	15.3
Other Sources	1.5	1.8	2.2	0.5	0.7	0.4	1.5	1.7	1.5	1.4	0.9
Total	99.8	92.8	94.2	84.5	68.2	49.0	53.0	50.2	48.5	41.3	37.1

Proven and probable coal reserves were increased by 138 million tonnes to 488 million. In 1996 further investment was made and by the end of 1997, £1000m had been spent in three years on capital projects at RJB sites.

RJB identified 450 million tonnes of reserves in Nottinghamshire and Lincolnshire, and in September 1996, lodged an application with the Coal Authority for a licence to further develop proposals covering a 200 square kilometre area bounded by the towns of Newark, East Retford, Tuxford and the City of Lincoln. Code-named the Witham Prospect, RJB envisage the development of a new mine, employing about 500 people and producing up to three million tonnes of coal a year in an area with excellent links to several of Britain's large coal-burning power stations. However, the scheme has not proceeded due to the collapse in world coal prices.

Early in 1997, RJB, together with Texaco, announced plans for a joint study to explore the feasibility of developing Britain's first large-scale state-of-the-art "clean coal" power station on a site adjacent to RJB's Kellingley Colliery in West Yorkshire. Shortly afterwards, the U.K.'s biggest electricity generator, National Power, teamed up

with RJB and Texaco, stating that if the Kellingley project was successful, they had other suitable sites for the development of further clean-coal plants. Taking about two years to construct, the new 400MW Kellingley station would incorporate clean coal technology with a proven track record for efficiency and emission reduction performance, and generate enough power to supply a large city.

In 1995, RJB made a pre-tax profit of £173m on a turnover of £1,461m, repaid £313m of bank debt, produced 37 million tonnes of coal and sold 41.9 million tonnes. In 1996, RJB made a pre-tax profit of £189m on a turnover of £1,308m, paid off the final £160m of bank acquisition debt, produced 34.9 million tonnes of coal and sold 37.6 million tonnes. In 1997, RJB made a pre-tax profit of £172.5m on a turnover of £1,124m, produced 31.8 million tonnes of coal and sold 31.2 million tonnes. The contracts RJB acquired on the privatisation of British Coal for the supply of coal to electricity generators National Power, Powergen and Eastern, expired in March 1998. This meant that for the first three years of operation, RJB had a relatively 'easy' time. Replacement contracts were subsequently agreed for the supply of up to 109 million tonnes by 2003.

However, the contracts were for lower tonnages and with tighter margins. As a result, in 1998, RJB reported a profit of £50m, a turnover of £822.5 million, and sales of 25.9 million tonnes. In 1999, the company reported a profit of £11 million on a turnover of £700 million, but in the first six months of 2000, made a loss of £10.2 million on a turnover of £381.7 million.

RJB Mining is considering plans to revive the Thome colliery near Doncaster with the creation of hundreds of jobs, and has also identified 450m tonnes of coal reserves at Witham on the Nottinghamshire border.

2.2 Mining (Scotland) Ltd.

Longannet mine is located in Fife in Scotland. It is the only operating deep coal mine in Scotland and is known to suffer from very difficult mining conditions. The mine currently employs around 730 people and its sole market is the nearby Longannet power station owned by Scottish Power Pic. Mining (Scotland) Ltd signed a 6-year contract with Scottish Power, which came into force on 1st April 1998. The pit ran into major difficulties in March 2000 when new reserves¹⁸¹, mostly under the River Forth, ran into severe geological problems that needed seismic investigation. Without the injection of £1 million of funds by a minority shareholder who subsequently became the new chairman, the mine may have had to close.

In April 2000¹⁸², the U.K.'s Trade and Industry Secretary Stephen Byers announced that £100 million was being made available to aid Britain's 17 remaining coal mines. It was hoped the funding would help combat the massive subsidies foreign pits receive and make the U.K.'s coal mines more competitive. The U.K. government, which also announced that it was to end the policy of opposing new gas-fired power stations (implemented in late 1997), insisted that the funding was a temporary measure to help the industry adapt to changes in the electricity market. The aid package¹⁸³ was approved by the European Commission in November 2000 and in December 2000 it was announced that Longannet was to receive £17.5 million in aid¹⁸⁴.

The Longannet aid application was the first to receive approval under the U.K. Coal Operating Scheme, whereby the EC has to approve each subsidy payment on an individual basis. The aim of the U.K. Coal Operating Scheme is to ensure the survival of the industry in the short-term; aid will only be given to those companies which can demonstrate that they will be able to compete in the international marketplace in the long-term.

2.3 Tower Colliery

Tower Colliery is currently the U.K.'s only employee-owned coal mine and is situated in Hirwaun in the Cynon Valley in South Wales. In late 1994, workers at the mine who wished to be included in the buy-out were asked to pay £2000 each into a "deposit" fund in order to prove to the government that this was a serious attempt to purchase the colliery. On 3rd January 1995, with a procession of men accompanied by their families, a brass band and the union banner in the lead, Tower Colliery reopened. Of the 320 men employed at Tower before closure, 200 became shareholders in the new company¹⁸⁰¹.

During 1995, Tower produced 450,000 tonnes from a single working coal face. In 1995, the mine made a pre-tax profit of £4 million and production has been steady over the past 4 years. In October 1999, however, the colliery suffered a minor earthquake¹⁸¹ that initially caused minor underground damage but subsequently more serious problems developed and cracks caused by the tremor caused methane gas to flood into the mine. Some £500,000 was spent on tackling the problem, including the provision of a methane drainage system, and production was halted for 9 weeks¹⁸².

2.4 Betws Colliery

Betws Colliery, in Ammanford, Carmarthenshire, Wales is considered to be one of the most modern mines in Europe¹⁸³. Opened in 1978 and privatised in 1994, it produces and processes premium-quality anthracite mined from a single coal seam, ensuring a consistent top-quality product. A purpose-built drying and sizing plant was recently completed to enable the mine to produce exceptional quality filter media for use by the water treatment industry.

2.5 Other Mines

Other mines that have closed since 1995 include Hem Heath, Coventry, Markham Main (Coal Investments), Silverdale and Annesley/Bentnck (Midland Mining) in England and Monktonhall in Scotland.

3 THE INFLUENCE OF THE ELECTRICITY GENERATORS

The main or perhaps the ultimate purpose of a business is to produce a profit for its shareholders. In doing so it may offer a service, manufacture goods or produce a commodity. At the same time, the business employs people and so will hopefully benefit the community at large. In the case of coal,

the principal use in the U.K. is for electrical power generation and since none of the mining companies own large power stations (with the exception of Combined Heat and Power - CHP - initiatives), they are reliant upon selling coal to the electricity producers. This inevitably puts them at a disadvantage since in a free market the power generation companies are able to purchase coal from whoever they wish. There is no moral obligation for them to support the U.K. coal industry unless they have an ethical policy in place to deal with UK-based suppliers, even at a possible reduction in profit. This obviously can create bad feelings between the coal producers and coal buyers, especially since mining in the U.K. has long had, and continues to have, a strong trade union presence and sense of comradeship.

The ability of the mining companies to stay in business depends on the price they can command for their coal, and there are numerous factors that determine this. In the early days of electricity privatisation, the U.K. saw a move towards gas as the preferred fuel for power generation. The '*Dash for Gas*', as it was called, was seen to be the answer to several problems, largely concerned with the environment and the U.K.'s commitments to reducing the emission of greenhouse gases.

Since none of the U.K. coal operators produce electricity, it follows that the power generation companies have a great deal of influence over the price of coal. For example, in November 1997^[1] the electricity generator Powergen announced it would stop purchasing coal from RJB unless it reduced its price by 15%. At the time, Powergen said that it could meet most of its coal needs through imports and from smaller suppliers in the U.K. This coincided with a DTI report to the European Commission which warned of large-scale job losses if the coal industry contracted.

Soon afterwards, miners lobbied the U.K. Parliament^[15] to try to persuade the government to prevent large-scale pit closures since fears were abound that the coal industry was facing a massive, and perhaps final, run-down. Mining unions, Members of Parliament (MPs) and coal producers joined forces to fight the threatened shutdowns. The Coalfield Communities Campaign recommended that the government establish an energy policy that ensured there was a market for coal, otherwise deep mining could become extinct by the year 2005. In November 1997, the Energy Minister, John Battle, commented that the government was pursuing a number of initiatives to support the continuation of markets for coal, and the Department for Trade and Industry also stressed that the government did not close pits, as it did not own them. Politics, therefore, have played a major role in the fortunes of the U.K. privatised coal industry and the current Labour

government reminded the press that it was a previous Conservative government which privatised the coal industry, power stations, grid system and electricity-purchasing system.

Whether the U.K. has an energy policy is a matter for strenuous debate, and it is not within the scope of this paper to discuss this topic. However, it is worthwhile considering in brief the implications that the privatisation of the electricity-generating capacity in the U.K. has had on the coal industry. The U.K. has three distinct elements of electricity supply. First, there are the generators using coal, oil, gas and nuclear power. Then there are the supply companies, some of which own power generation capability, but who generally contract to buy power from the generators via a complex contract system. Finally, the National Grid is a separate company whose function is to distribute the electricity. At the time of power generation privatisation in 1990, it wasn't feasible for British Coal, a state-owned and state-operated industry, to purchase an interest in power generation. However, mining union involvement is an interesting, if possibly contentious, question. The privatised coal industry today may well have been radically different if controlling interests in power generation were controlled by mining-friendly organisations.

The end of 1997^[16] was marked by hundreds of miners making representations to Parliament, and the government announced an action plan for protecting the industry, which aimed to level the playing field between coal and other forms of electricity generation such as gas and nuclear power. Essentially, the coal contracts whose prices had been negotiated before the privatisation of British Coal were due for renewal, and at this time natural gas was seen as a more environmentally friendly and cheaper fuel than coal. The move towards electricity produced by gas resulted in what has become known as the '*Dash for Gas*'.

3.1 *The Dash for Gas*

The '*Dash for Gas*', namely, the building of gas-fuelled power stations, had been proceeding at a rapid rate since 1990, and could be considered as a major threat to the livelihood of the U.K. coal industry. In December 1997, the government finally announced that it was putting a hold on new gas-fired power stations in a bid to save the coal industry, and that it would review its policy on approving new power station developments^[17]. The Confederation of U.K. Coal Producers was of the opinion that past approvals for gas-fired power stations were to blame for the current problems in the negotiation of new contracts for coal. However, it quickly became apparent that the future of the U.K. coal industry was still at risk, despite the

government's decision to freeze the development of new gas-fired power stations¹¹. Coal mining companies considered that the government's ban on new gas stations was a step in the right direction, but that it might prove to be too little too late and argued that subsidies should be offered to mining industries to avoid pit closures.

Concern was subsequently expressed in June 1998 on the logic behind the moratorium on planning permission for gas-fuelled power stations even though the ban was intended to protect the coal industry until the government completed its energy review¹¹⁷. Further argument ensued when the developers of one of the biggest industrial sites in Britain criticised a government minister for trying to persuade them to switch from gas to coal as their source of power¹¹⁸. A scheme at the Bağlan Energy Park, near Swansea, Wales, was intended to create several thousand jobs in an area of high unemployment, and local councils and businesses had started to attract industry with the promise of cheap energy from a gas-fired power station. Critics claimed that the government was protecting miners' jobs at the expense of employment elsewhere in the economy.

It took until October 1998 for the government to unveil major reforms of the energy market that marked the end of the *Dash for Cos*¹². The review outlined plans to restrict the growth of new gas-fired power stations and cut wholesale electricity prices, and concluded that the comparative costs of new gas-fired stations as against the existing coal-fired power stations could not justify the scale and speed of the *Dash for Gas*. Since then 15 new gas-fired power stations have been refused the go-ahead.

The major review of U.K. energy policy was due to be completed in October 2000 when changes to the electricity market were to be proposed to allow new entrants into the market and enable new power station developments to go-ahead¹¹⁹. In response to claims that France, Germany and Spain paid £3 billion a year in subsidies to their coal industries, the government announced an aid programme for the U.K. coal operators, which was subsequently approved by the European Commission.

4 THE FUTURE OF THE U.K. COAL INDUSTRY - CONCLUSIONS

Now that the U.K. government appears to be developing a coherent plan for energy production, it is likely that the U.K. coal operators will remain competitive. The recent subsidies allocated to the operators are only intended to be short-term in nature and it is unlikely that long-term state subsidies are politically viable in the U.K. However, the cost to the U.K. taxpayer of £100 million pounds

in subsidies so far could represent exceptional value for money compared to the subsidies that other EU countries provide for their coal industries. Concerns over world oil prices, how many years of North Sea gas reserves will be available, the true cost of nuclear power and the contribution to power generation from renewable sources are all factors in whether coal will continue to be mined in the U.K. During 6 years of privatisation, (the coal industry has adapted and operators are expanding on a global scene, all of which is an indication of the likelihood that coal will be mined in the U.K. at a profit for several more years to come.

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