

Political Economy

Welcome back King Coal?

The announcement of the first deep mine to open in South Wales since 1974 has concentrated attention on the prospect of a new lease of life for this old industry. But Wales should think carefully about what such a rebirth means for its economy and environment in the long term.

At its height in the 1920s, coal mining in Wales employed almost 300,000 people. It was the *raison d'être* for many of the Valleys communities, and it provided high paid, highly skilled and in some ways extremely rewarding work for thousands, up until the closures of the 1980s. It is perhaps unsurprising therefore that AMs, MPs and local media have rushed to celebrate the announcement that Unity Mines of Australia is to resume production at the Cwmgrach pit in the Neath Valley, hoping to extract a million tons per annum. The news has been welcomed as it coincides with the imminent closure of Tower colliery, its seam exhausted.

Coal mining in South Wales now appears economic largely due to the relatively high price of gas – a relative change which saw coal supply half of the UK's fuel needs in 2005-6, up from a third previously. Additionally, new and cleaner coal-fired stations promise a level of atmospheric emissions on a par with gas, and the longer-term potential for carbon capture answers criticisms related to environmental impact and climate change.

The high gas prices of 2006 proved temporary, with a warmer winter increasing UK stocks. However, in the longer term, resource limitations in terms of oil, plus the possibility of supply interruptions from far-flung suppliers due to political machinations or security concerns (with these remaining despite the construction of the Milford Haven LNG terminal) means that coal remains an attractive option; estimates by Tower Colliery suggest around 250m tons of coal remain in Wales, and this would comprise half UK identified reserves. There is the prospect of Energy Build Holdings (mostly owned by Cambrian Mining PLC) accessing a seam at Aberpergwm that could provide decades of operation and hence employment.

"A priority in Cambrian's strategy is to gain access to resources at low cost and to favour projects that are either near production or in production."
www.cambrianmining.com

It is worthwhile to consider, however, what happens after this coal is exhausted. Luckily, we have an ideal case study on our doorstep, which is only twenty years out of date. The

legacy to the locality of the South Wales (and other UK) coalfields were derelict facilities (many still in situ); significant water and landscape cleanup and safety issues; widespread social and economic deprivation; and enduring transportation and migration issues. Whilst the reinstatement of perhaps half a dozen pits and one or two thousand jobs is on rather a smaller scale there is a point to be made here: The benefit to Wales from coal in the boom years prior to WWII was less than it might have been as a result of private ownership of the industry and concentration of profits among a small number of individuals (often non-Welsh). Nationalised management post-War created significant (over?) employment but little in the way of succession planning, whilst the Conservative shutdown programme of the 1980s provided some money and help for those prepared to tread the entrepreneurial boards, but little in the way of community renewal. This time, it is safe to say, once the coal is gone it really *will* be gone.

We have now reached a point when Wales must determine, once and for all, how it can maximise the benefit of an irreplaceable and currently appreciating resource. In 2050, we will be faced with a world which values fossil fuels either incredibly highly or not at all. Coal may be viewed in the same way we now see copper or pig iron; as commodities that were once central to the functioning of society, but now are limited to niche applications, handicrafts and tourism (after all, the Ffestiniog railway just would not be the same powered by a pressurised water reactor). Or it may be that energy is so scarce (particularly in resource-limited Europe) that coal commands a stratospheric price. Current policy will see us exploit and then exhaust reserves as they become relatively more inexpensive than the alternatives (factoring in any pollution-related taxes). Again, whilst the companies involved in the current deep mining schemes have a Welsh presence, ultimate ownership is outside Wales, which means that the only benefits for Wales will be income from employment. Indeed, given the lack of suitably qualified Welsh-resident miners (excepting the ageing Tower workforce) and effective full employment in Wales, even here the impact will be limited, with Unity Mines accepting it will have to source workers from Poland until local

workers are trained – should the demand exist.

This is, of course, the market doing exactly what the market is *supposed* to do – valuing and delivering products for use when they become the most economically efficient option. However, there are several reasons why the Assembly should think carefully before welcoming new, market driven coal exploitation in Wales. The unspoken presumption that the market knows best should be carefully considered in this context – after all, it is the 'market' that has denuded, in a century or so, oil deposits that took millions of years to accrue and then tens of millions more to permeate into accessible strata.

The market will only value irreplaceable natural resources when full negative externalities are factored into their cost – including those that are global (related to climate change and resource depletion) and local (in terms of noise, and landscape impact). Due to the limitations of carbon trading and capping in Europe, and the often problematic land use planning and coal licensing system in the UK this is some way off. Moreover, the relative geographic (if not geological) accessibility of Welsh coal for European use, especially if transportation becomes more expensive as oil markets tighten long-term, means that as mining methods and 'clean coal' technology develop, Welsh coal may be exhausted relatively early – and at a time when the price of coal in part reflects the near-trillion tons of identified global reserves.

Despite the above, Wales could derive substantial benefit from market driven exploitation of coal. The market will value accessible Welsh coal at the global (or at least northwest Europe) market price, currently at a two year high of around US\$70. Assuming half of the 250m tons of identified reserves (scattered widely around the coalfield) are accessible, this is worth around £9bn at current prices – or, assuming an exhaustive exploitation by 2050, £200m per annum, commensurately more should prices increase further (as they must do to make this level of mining economic).

This increase of a quarter of one percent of Welsh output will undoubtedly bring improvements in standards of living as

our coal is exported (either directly, or indirectly through use in the production of other goods such as Corus' steel), which will improve our notional balance of payments. Also, those who will be directly employed in the industry, and others who will service it, will be able to satisfy their (increased) demand for consumer goods (usually imported); and for other luxuries such as more short breaks to 'visit-before-you-die' tourism destinations (also an import). If coal prices increase substantially over the period, mining could add as much as a percentage point to Welsh output and value added per annum helping the Assembly in its aspiration to narrow the GVA per capita gap to the UK. Far more importantly, communities in the South Wales valleys might enjoy a new sense of worth and their economic 'place'.

The attraction of coal exploitation to policymakers (and *some* parts of south Wales coalfield communities) is thus clear. But neither should the

disadvantages be ignored. The 'rough and ready' valuing of reserves leads to an impressive £9bn. However, it is worth noting that even if all 250m tons was accessible, and mined immediately at *double* the current market price, it would have the impact of raising levels of gross value added per capita in Wales to UK levels. For one year. Following which, Wales would be left with little but decontamination costs. Exploitation over the longer term risks the same lack of legacy – the best hope for avoiding this being Tower Colliery's desire to become a centre for coal technology. The *laissez faire* economic orthodoxy entrenched since the 1980s would suggest there is little alternative. But there is an alternative and it is to be found here in Wales; forestry has increasing and sustainable value through its adaptation for leisure activities, and this has been achieved through the stewardship of the public sector. This demonstrates that a natural resource can be managed for wider societal (and increasingly,

environmental) good rather than simply for profit. Only thirty years ago in Wales, the idea of a privately owned and operated mining industry in the UK would have been anathema.

Perhaps returning to coal nationalisation is an absurdity (in the short term at least) for a nation which currently does not even have control over the granting of mining licenses. However, the devolution of these powers to the Welsh Assembly could be the first step in ensuring, through a sophisticated and contextualised licensing system, that coal is used to secure the future welfare of the people of Wales, and not simply excavated in the pure pursuit of short term profit, with no strategic context or guidance other than the UK governments discredited energy review. The alternative is that the Welsh populous of 2050 or 2100 will look back with incredulity that we wasted a black-golden opportunity, not once but twice.