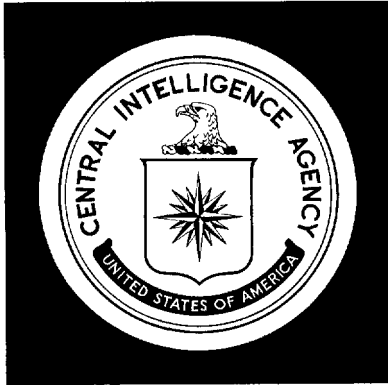


Secret



25X1



DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

Special Report

Economic Implications of Britain's Coal Strike

Secret

№ 47

3 March 1972

No. 0359/72A

25X1

Approved For Release 2006/03/16 : CIA-RDP79-00927A009400080002-1

Approved For Release 2006/03/16 : CIA-RDP79-00927A009400080002-1

Economic Implications of
BRITAIN'S
COAL STRIKE



The Strike

Britain's first nationwide coal strike in 46 years began on 5 January 1972 after pay negotiations between miners and the National Coal Board broke down. The president of the National Union of Mineworkers, Joe Gormley, had been demanding pay increases of 30-46 percent for various worker categories, while the National Coal Board, which manages the nationalized industry, stuck firmly to Prime Minister Heath's informal wage-settlement guideline of eight percent. Because coal is a declining industry in Britain, the miners' wages had not increased as rapidly as had those of other industrial workers. In the end, the miners settled for nearly 20 percent more than their previous wage, almost all they had been demanding during the strike.

One effect of the strike will be to accelerate the shift to other sources of energy for power generation, manufacturing, and heating. Over the next eighteen months, some 80-90,000 miners will likely be laid off as demand for coal declines, and purchases of Middle Eastern and African oil

to replace the coal could add up to \$350 million annually to British expenditures abroad. Exploitation of British oil and gas in the North Sea will reduce foreign dependence eventually, but full exploitation is not expected until the last half of this decade.

The strike has seriously hurt the British economy. Gross national product lost during the strike could exceed \$1.5 billion, although heavy overtime work and intensive scheduling of production could cut these losses by half. The strike will hamper the UK's recovery from the slow growth and high inflation that have plagued the economy in recent years, and it now seems likely that Prime Minister Heath will have to include new reflationary measures in his budget due on 21 March. The settlement, which opened a serious breach in Heath's guidelines, will have some inflationary impact, but it does not necessarily mean an end to the guidelines, which Heath intends to defend. Nevertheless, unions will be encouraged to press for big settlements. On

SECRET

25X1

balance, the outlook is for heightened labor-management conflict this year with little likelihood of keeping wage settlements below eight percent.

The Role of Coal

Coal is Britain's most important energy source, accounting for 47 percent of all energy used, more than twice the share in the US. As recently as 1956, the UK derived 85 percent of its energy needs from coal, and in 1960 coal was still the source of over two thirds of energy consumed. Until recently, this dependency on coal has been dictated by resource availability. The UK has relatively extensive bituminous coal deposits, but little in the way of exploitable petroleum, natural gas, or hydroelectric potential. By 1975, however, the North Sea oil and natural gas deposits will supplement imported oil in meeting growing domestic energy needs.

British electric power plants consume 46 percent of British coal production to generate three fourths of their power. Typically, coal is used in heating larger buildings, and is still used for home heating, though it is rapidly being replaced by gas, oil, and electricity in households. Approximately one third of British coal is consumed in manufacturing, much of it to make coke.

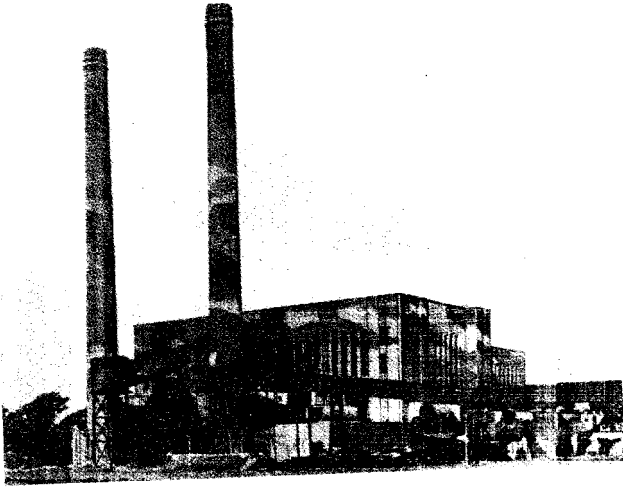
During the 1950s, conversion from coal to petroleum began in earnest. Over-all annual coal consumption has declined from 194 million tons in 1963 to less than 150 million tons today. The reasons behind the decline are largely economic; it is becoming more expensive relative to alternative fuels. Coal prices are more than 30 percent higher than they were in 1963, while the price of fuel oil is only 12 percent higher. Miner productivity, in particular, has been nearly stagnant since 1969. Technological considerations and coal's generally unfavorable environmental impact also favor other fuels. Even nuclear power plants, which require enormous capital outlays, are looking more attractive to the government's Electricity Board.



**Dirty, arduous, and dangerous
work justifies top wages.**

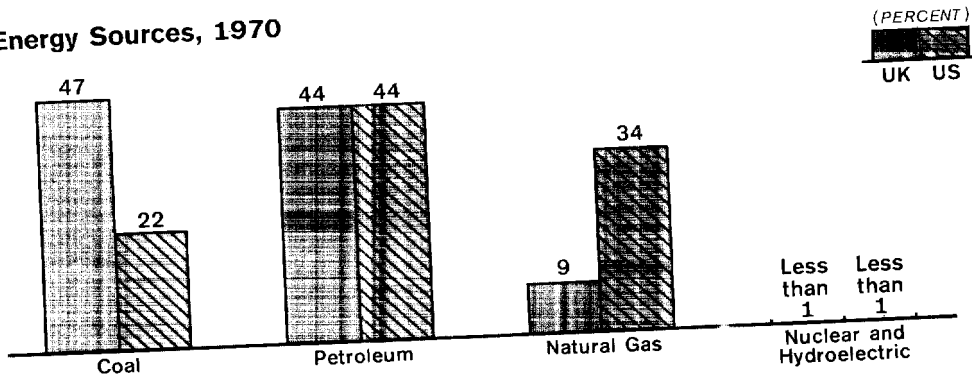


SECRET

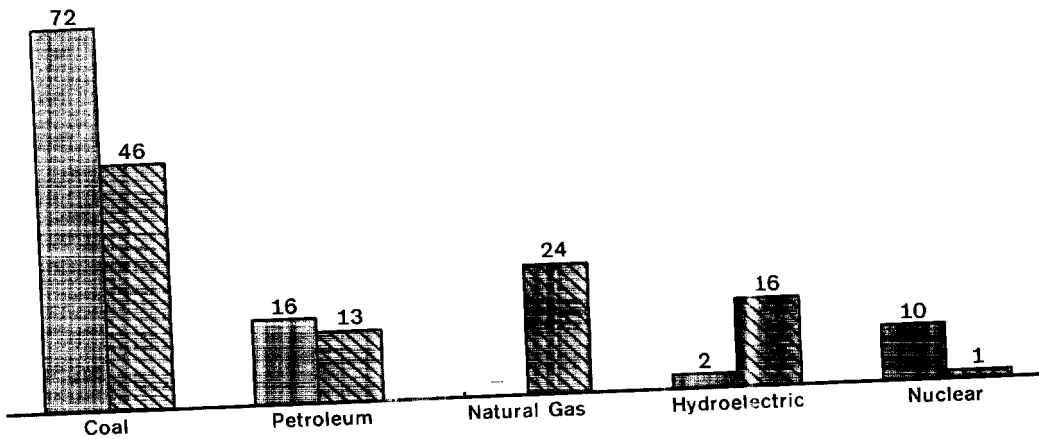


US-UK Fuel Comparisons

Energy Sources, 1970



Fuels Used in Power Generation, 1970



552608 3-72 CIA

3 March 1972

Special Report

SECRET

The decline in coal consumption has been inhibited, however, by the government's energy policy. British governments have worried over the country's dependence for much of its oil on unstable Middle East and North African suppliers. Fears of wholesale nationalization of British interests in the area or a ban on exports to the UK have lessened British political flexibility in dealing with the Middle East. In an attempt to slow the conversion from coal to oil, the government placed an additional tax on imported oil last year. Another aspect of British energy policy has been the desire to protect jobs in the coal mines. Unemployment in communities surrounding the mines has been well above the national average for years, and an even faster decline in coal use would only worsen an already bad situation. The number of miners employed by the National Coal Board fell from 517,000 in 1963 to 280,000 in 1971.

Dependence on Coal and the Strike

Over-all dependence on coal to generate electricity explains much of the mineworkers' success in forcing Prime Minister Heath to meet their wage demands. Without electricity, Britain's economy would be virtually paralyzed. By preventing coal deliveries to electric power generating stations, the miners threatened eventually to cut off nearly 75 percent of Britain's electric power. The miners also moved to stop deliveries of oil to oil-fired power plants, which supply another 16 percent. They were thus able to black out selected areas of the country intermittently.

The power stations' potential to continue operating from coal stockpiles was a critical factor in the miners' strike strategy. Stockpiles had been built up to near-record levels by a mild winter and expectation of the strike. At the beginning of the strike, they were generally thought to be adequate for at least ten weeks of normal usage. The mineworkers' union was able to limit access to stockpiles at the mines through effective picketing at the generating sites. Moreover, the stations were also denied other supplies,

including lighting-up oil, acids, and lubricants. The pervasive picketing created a power emergency well before actual coal stocks were exhausted. When the strike was settled, there was at least a three-week supply of coal at the mines, and many power stations had at least several weeks' coal supplies on hand.

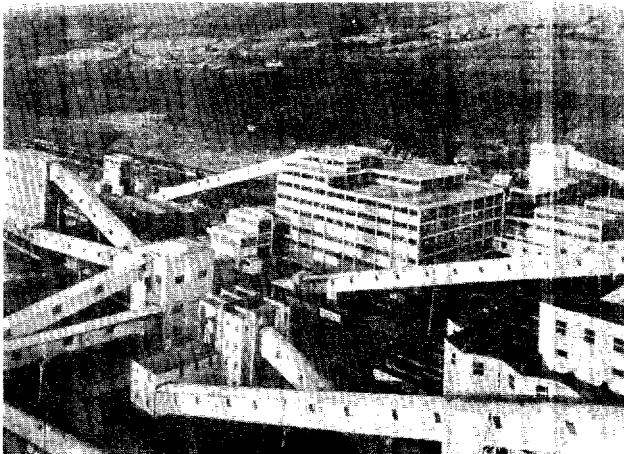
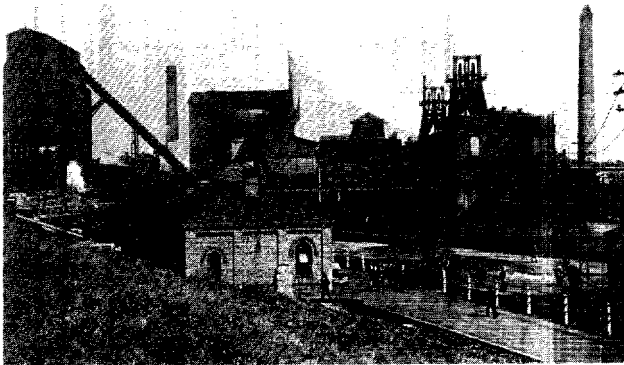
Economic Aftermath of the Strike

Although electric power will be back to normal in another week or so, Britain's coal output will not recover fully from the strike for several months. Production at the mines resumed early this week and should be up to 30-40 percent of the pre-strike level within a few more days. But it may be two months or more before full production can be attained, depending upon the speed with which new mine faces can be opened up to replace those that have deteriorated too much to be worked again. In the interim, stocks at the mines can supply essential needs.

Once pre-strike levels of production are attained, they will be maintained for as long as it takes coal users to rebuild their stockpiles. Once stockpiling needs are met, however, the impact of the strike and the wage settlement on the coal industry will begin gradually to surface. The price of coal will rise, and this, along with the inconveniences of the strike, will accelerate the conversion from coal to oil. The effects of the strike will also likely cause the government to look favorably on less reliance on coal.

An accelerated conversion will require expensive capital outlays and considerable time. Homeowners still using coal will be among the first to convert, followed by other retail customers. Even before the strike, coal was more expensive than oil for generating electricity, and further coal price hikes will mean that new generating equipment is likely to use natural gas, oil, or nuclear power. Few, if any, new major coal facilities will be built, and conversion or retirement of less efficient coal-fired generating plants will be speeded up.

Full production will take several months to achieve.



Within a year, coal production will likely be 15-20 percent lower than it was before the strike, and at least 50,000 jobs will have been lost. One reputable British journal estimates that in the "very near future"—possibly one and a half years—all grossly unprofitable pits will have been shut down. This would mean 80 to 90 fewer mines (the present total is 289), and a further 30-40,000 miners out of work, adding as much as 0.4 percent to unemployment.

During the first week of the power emergency, industry began to suffer heavy losses. Food processing production was reported off 20 percent, auto output down at least 30 percent, aircraft down 50 percent, steel down nearly 50 percent, and tires down 70 percent. Many manufacturers with continuous processes had to shut down altogether. Based on some reasonable assumptions concerning over-all industrial losses and the knowledge that services, retailing, and agriculture generally continued without much disruption, the strike could cost the economy as much as 5 percent in lost gross national product during the first quarter of 1972. If, as seems likely, some of these production losses are made up by overtime work, intensive scheduling, and possibly even additional hirings, then GNP losses could be cut to 2-3 percent.

Whatever the GNP loss, it will be a serious blow to the British economy. Britain is now recovering from 18 months of slow growth and excessive inflation. Unemployment was already at 4.3 percent—the highest rate in more than a generation—before the massive industrial shutdowns caused by the strike. The widespread layoffs and plant shutdowns are certain to interrupt the economic recovery. Pre-strike forecasts had estimated 1972 GNP growth at four percent during the first half, compared to only one percent during 1971.

The strike's impact on the economy is magnified because it comes at a time of rather nervous economic recovery. After a bad first half, consumer spending grew at an annual rate of six percent during the third quarter of 1971 and

SECRET

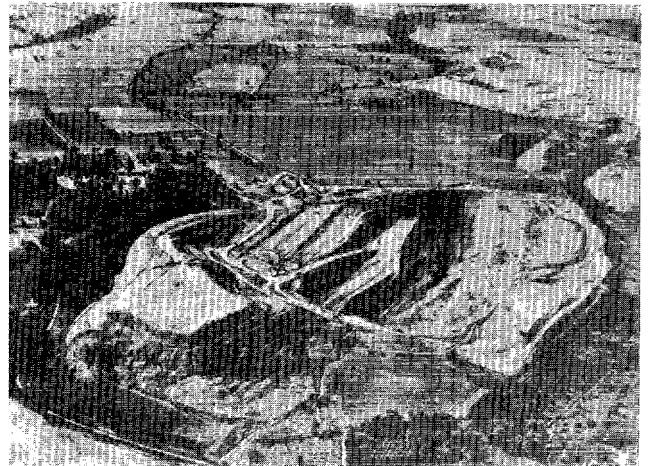
probably almost as fast during the last quarter. But British businessmen are a skittish lot, and they have been unwilling as yet to commit themselves to significantly higher capital expenditures or to increased industrial production. Inventories have been declining for at least half a year.



Thus a "stop signal" at this time in the way of an extremely disruptive strike heightened the investor and consumer uncertainty that already existed. The strike will not only undermine the British recovery through the first half of this year, but will likely affect the second half too.

Impact on the Balance of Payments

The strike probably will not have much direct effect on UK foreign trade other than to encourage a gradual increase of oil imports. Stockpiles are sufficient to obviate any need for heavy emergency coal imports, and there is sufficient slack in the economy to enable producers to fill export orders that may have been disrupted.



Britain eventually will have to buy more oil to replace coal. The UK used approximately 100 million tons of crude oil in 1970. If coal use declines as expected, imports at the rate of 25 million tons of crude per year would be needed within a year's time to replace declining coal production.

The potential balance-of-payments cost of less reliance on coal could likely be reduced over the next three to five years as the UK's oil and natural gas deposits in deep North Sea waters are tapped. Preliminary exploration of the new fields indicates that they may be able to supply up to 20 percent of the country's oil and gas needs in the second half of this decade.

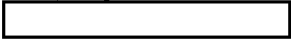
Closing of inefficient mines will hit many coal mining towns hard.

Future Wage and Price Stability

The miners' success in forcing a 20-percent pay settlement on the government is a serious breach of Heath's informal incomes policy. He

SECRET

SECRET



25X1

had successfully defended his eight percent wage settlement guideline against several civil service unions earlier this winter and apparently felt ready to take on the militant miners. His inflexibility in handling the strike served to further inflame the miners, cost him public support, and resulted in a higher settlement than the miners would have been willing to accept before the strike began.

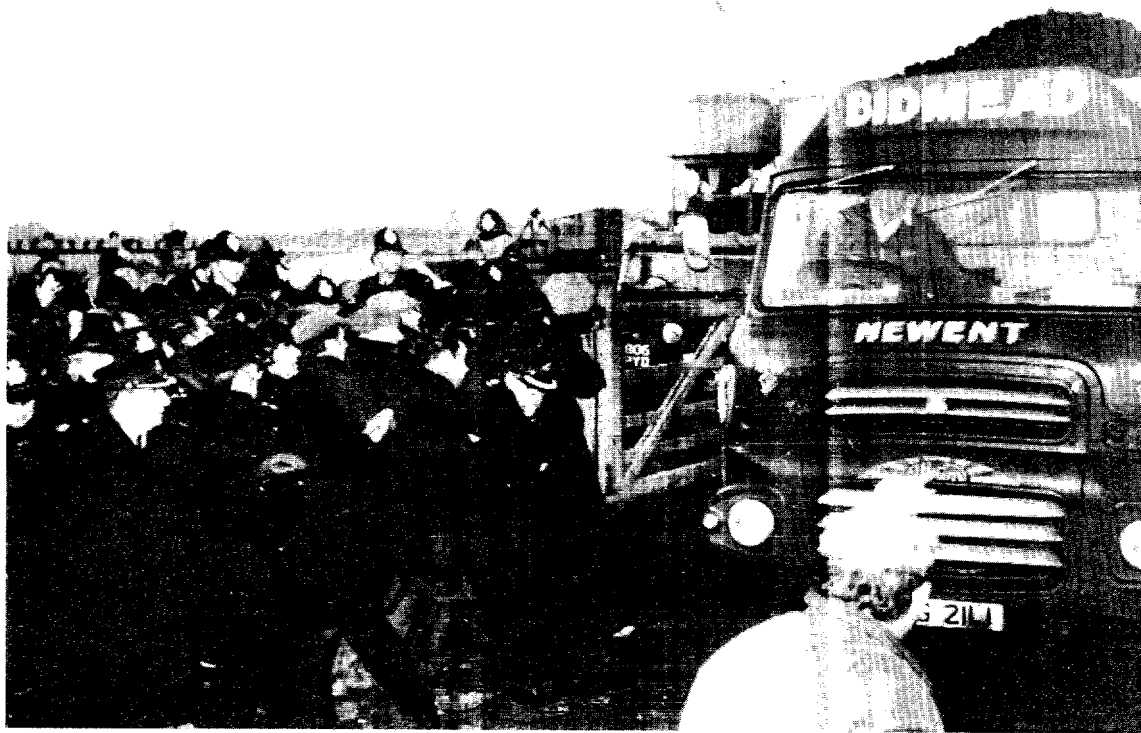
At this time, the outlook for future wage-and-price stability is uncertain. On one hand, the government is already describing the coal settlement as a "special case," and Heath has publicly reaffirmed his intention of firmly defending the guidelines. He also retains the option of introducing other initiatives to support them, possibly in the form of a more formal incomes policy. On the other hand, unions with contracts expiring

this spring are certain to plead the same "special circumstances" that worked for the miners and press for bigger settlements. Union members will not look favorably on union leadership that does not set its sights as high as did the miners or is willing to accept a settlement within guidelines already crossed by another union.

The outlook, then, seems to be for sharply increased labor-management conflict this spring, with the government urging management to bargain firmly, and union leadership committed to holding out for settlements in excess of the Heath guidelines. Shipbuilding workers, railwaymen, teachers, and nurses are demanding from 15 to 40 percent increases this spring; there is little likelihood they will be held below eight percent.



25X1



One of the few trucks that crossed picket lines at the power plants.

SECRET

Approved For Release 2006/03/16 : CIA-RDP79-00927A009400080002-1

Secret

Secret

Approved For Release 2006/03/16 : CIA-RDP79-00927A009400080002-1

Secret



25X1



DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

Special Report

Arms and Security in Latin America

Secret

No 47

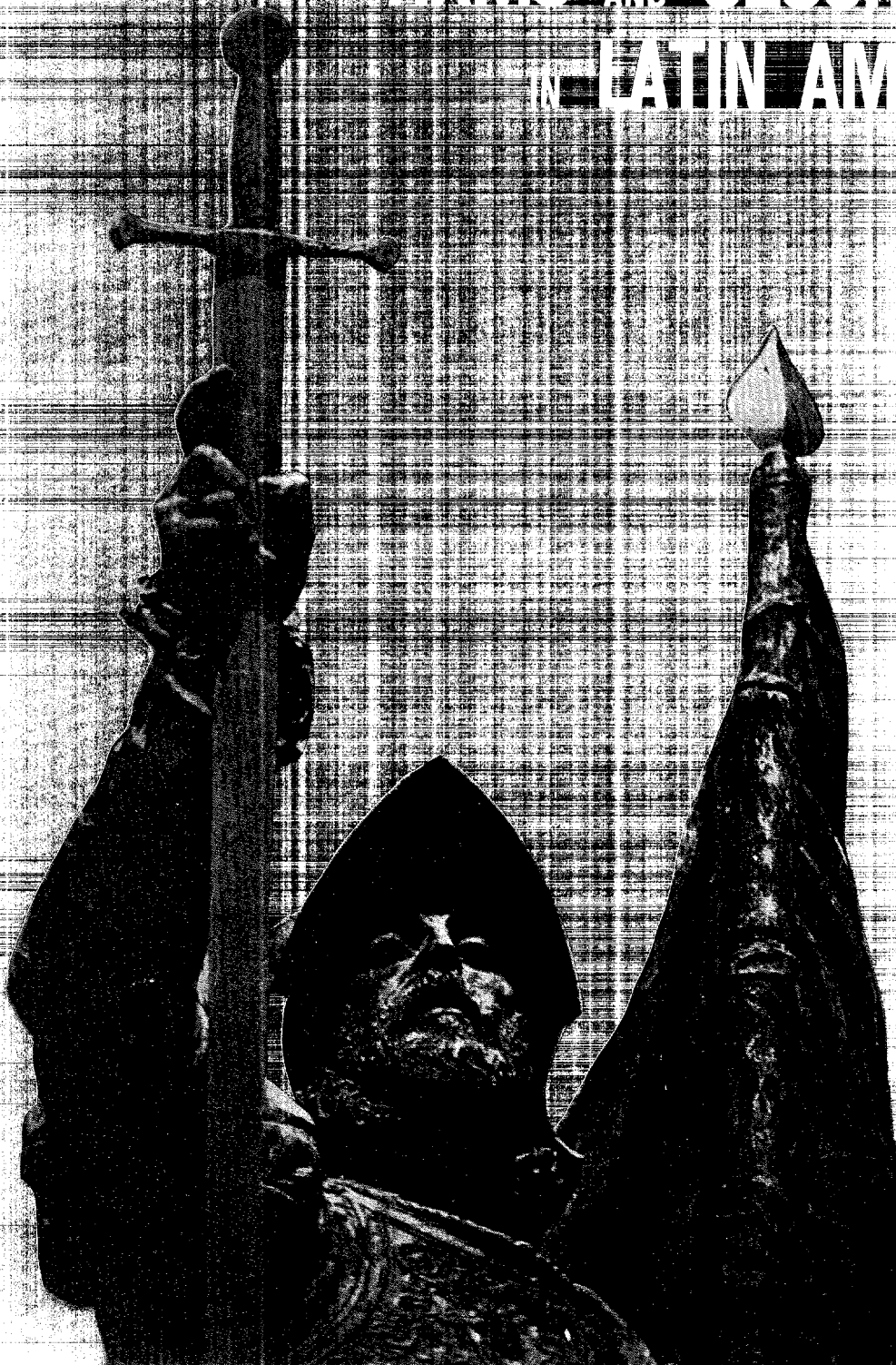
3 March 1972

25X1

Approved For Release 2006/03/16 : CIA-RDP79-00927A009400080002-1

Approved For Release 2006/03/16 : CIA-RDP79-00927A009400080002-1

ARMS AND SECURITY IN LATIN AMERICA



SECRET

25X1

In the furor over the alleged arms race in Latin America, there is much hypocrisy, maneuvering and trickery. And a good dose of foolishness in the repetition of disarmament cliches without much attention to the facts....

*Alberto Lleras Carmargo
Former secretary general
of the OAS*

Latin America spends less on arms than any other part of the world. In fact, in the past 20 years, defense budgets as a proportion of total expenditures have dropped 50 percent.

*Sol Linowitz
Former US envoy to the OAS*

During the past five years, South American countries have purchased more than a billion dollars worth of armaments from Western Europe and Canada with deliveries scheduled through the mid-seventies. While this amount is admittedly small in comparison with the acquisitions of major world powers, it reflects a growing interest in modern weapons systems and a movement away from traditional US suppliers. Nevertheless, no single European seller has cornered the arms market. Most of the Latin American countries continue to show a preference for US military missions.

Arms control efforts have been thwarted by political, economic, and institutional factors as well as by the way major Latin American governments view potential threats to their security. There is little danger, however, of a serious arms race since internal security and patrol of territorial seas continue to be the main focus of military operations. Armament inventories will continue to expand, but there is no indication of a dramatic increase in total military expenditures.

SECRET

Background

During World War II, the US replaced Europe as the main source of military assistance and materiel for Latin America. Military equipment from the US, provided at first through lend-lease aid, was supplied to the major South American forces at relatively low cost through surplus sales or loans. The sales of new armaments to South America consisted mainly of trainer and transport aircraft, helicopters, and small arms.

After the war, the US continued to dominate the Latin American arms market for many years. A little West European equipment was purchased, largely surplus warships, jet tactical aircraft, and tanks. These items the US was reluctant or unwilling to supply.

While the smaller Latin American military establishments, along with Mexico, generally have welcomed the US emphasis on internal security and arms limitations, the leading South American forces have been less receptive. In part, this reflects important differences among Latin American military organizations. Those in the larger South American countries are characterized by a high degree of specialization, adherence to discipline, and a hierarchical structure. They are relatively cohesive, and have well-organized command, staff, and school systems. They are not receptive to US attempts to limit their arms supplies. Since the mid-1960s, the six major South American countries—Argentina, Brazil, Chile, Colombia, Peru, and Venezuela—which account for 80 percent of Latin American military spending, have turned increasingly to non-US suppliers for major combat equipment. The smaller Latin American countries, however, generally lack the economic resources and technical expertise needed to support professional military institutions, and the acquisition of modern arms is not a matter of such intense national pride.

Arms Purchases from Europe

In Latin America, as in other areas of the world, weapons procurement is often dictated by

economic and political forces rather than by the strategic realities or by missions created to cope with those realities. In the 1960s, military leaders in the major South American countries began to express concern about the state of their military equipment. Their inventories dated from World War II or earlier and were in poor condition. Replacement parts were in short supply and technical skills lacking. In planning to modernize their holdings of combat equipment, the major South American services were inclined to set higher goals than were suggested by their US advisers. The advisers emphasized low cost and utility factors, while the Latin military wanted badly to stay abreast of contemporary military technology. The US stress on internal security, particularly, clashed with the nationalistic attitudes of leaders of the larger South American services. Before the current round of arms modernization began, some military commanders complained that their outmoded equipment made it difficult to attract officer candidates.

In the late 1960s, the larger South American countries were benefiting from better economic conditions, and in many of them military governments were determining the allocation of funds. These factors favored a more generous attitude toward military re-equipment programs. Brazil, the country that accounts for about 40 percent of current arms purchases, is particularly flush as a result of rapid industrial growth and increased government revenues. With more cash available and under pressures to expand and replace aging inventories, military buyers were willing to look beyond the US for new equipment.

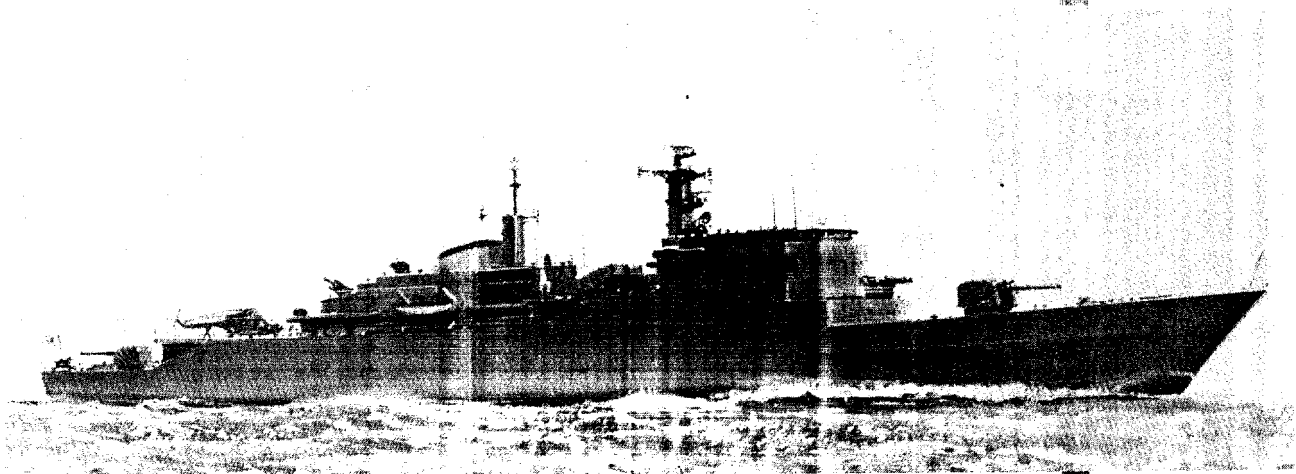
Another factor promoting the sale of non-US arms to Latin America has been US legislative restrictions on military assistance to foreign countries, particularly the Symington and Conte-Long amendments to the US Foreign Assistance Act of 1967. These amendments call for a reduction or termination of US economic assistance to countries that make "unnecessary military expenditures" or purchase sophisticated equipment. To most Latin American leaders, this was an unacceptable challenge to their national sovereignty



French AMX-13 tank assembled in Argentina.



Italian designed Aermacchi 326 jet aircraft produced in Brazil.



British Mark 10 frigate, which Brazil plans to build next year.

~~SECRET~~

and prestige, and they preferred to accept economic aid cuts rather than abandon their military modernization programs. European countries, on the other hand, have been less inhibited by such political reservations and have exported arms to Latin America for economic reasons. In many cases in West Europe, the export of arms helps to sustain armament industries, which would not be economically viable without a sizable export market, and to promote technological innovations. Naturally, these exports provide employment in European countries and strengthen their

Peru, Venezuela, Chile, and Colombia (in that order). Venezuela's large foreign exchange earnings have allowed it recently to increase its military expenditures at a record pace. Major equipment purchases, however, have been made to refurbish an antiquated weapons inventory.

The naval services used to account for the bulk of Latin armament acquisitions, but air and ground forces have greatly increased their share over the past several years. Latin American navies are buying the usual mix of principal combatant

Major Non-US Arms Purchases, 1965-1970

(Figures in millions of US \$)

	Belgium	Canada	Denmark	France	Italy	Netherlands	Spain	West Germany	United Kingdom	Total
Argentina		5.5		16.7	6.4	21.0+		22.0+	90.7	162.3+
Brazil	6.8	47.2		60.5	52.0			5.8	307.0	479.3
Chile		1.6	5.9				2.3		117.0	126.8
Colombia							6.0	2.2		8.2
Ecuador	0.6							3.6	2.4	6.6
Mexico	2.5				n.a.					2.5
Paraguay		0.4								0.4
Peru	8.0	70.0		43.6				3.6+	51.1	176.3+
Uruguay						2.2	6.0			8.2
Venezuela				5.6				6.5	17.0	29.1

balance of payments position. Most European countries have regulations controlling or prohibiting arms sales to "disturbed" areas, but there has not been a major war in Latin America since the Chaco War of the 1930s.

Major South American Consumers

Argentina and Chile were the main purchasers of military equipment prior to World War II. The circle of major customers has expanded since then to include Brazil, Colombia, Peru, and Venezuela. Today Brazil is the leading military power in South America, followed by Argentina,

ships and are showing a new interest in fast patrol craft. Recent orders by the air forces commit large sums for supersonic tactical aircraft, helicopters, and transport airplanes. Ground forces still take only a small portion of the armament pie. They are buying more armored personnel carriers, tanks, trucks, and electronic equipment, reflecting the modern emphasis on mobility and rapid communications. In addition, South American armies are seeking helicopters and transport aircraft; some even plan to use small tactical missiles.

Although the ships of the naval powers (Brazil, Argentina, Chile, Peru) look large by

~~SECRET~~

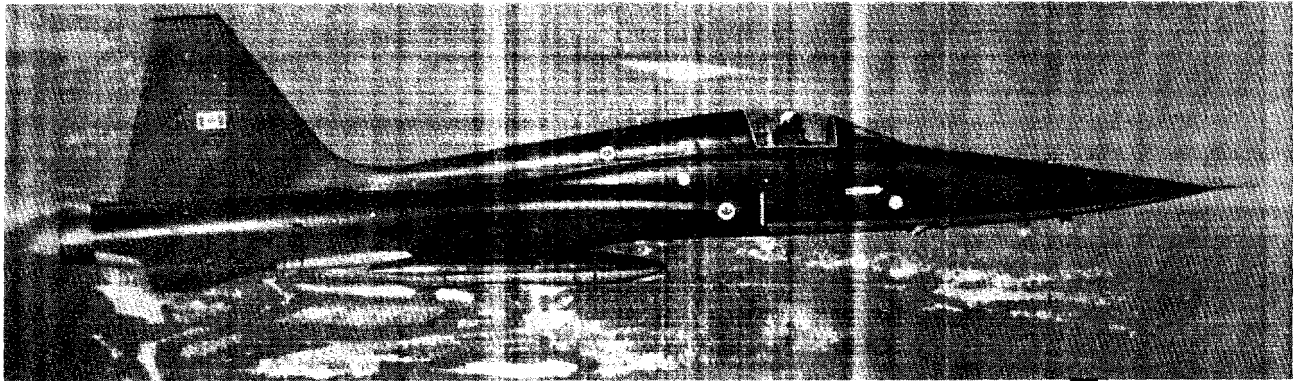
SECRET

25X1

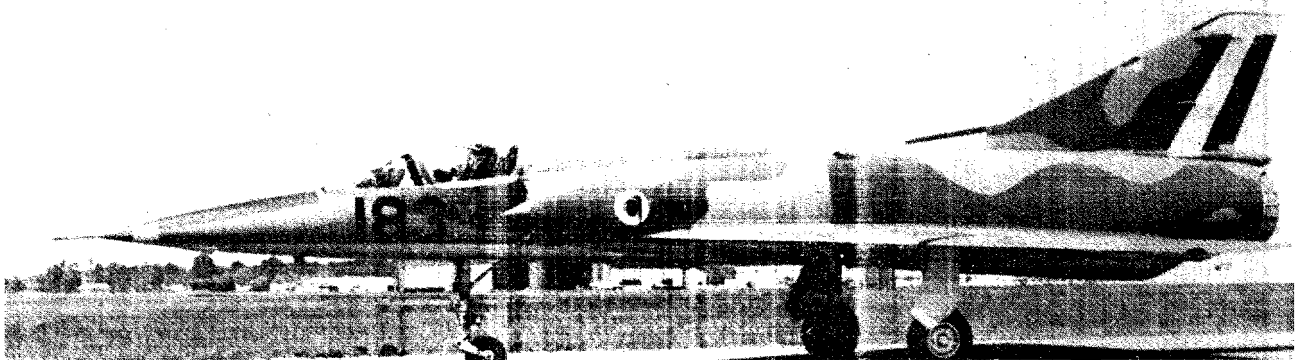
PURCHASED
FROM NON-US
SUPPLIERS



French Alouette helicopter used by Argentina, Peru, and Venezuela.



Canadian CF-5 jet (equipped with Sidewinder missiles) recently sold to Venezuela.



French Mirage 5-P multi-purpose combat aircraft of Peruvian Air Force. Colombia also has Mirages, and they have been ordered by Argentina, Brazil, Chile, and Venezuela.

SECRET



Latin American standards and current purchases include modern destroyers and submarines, inventories still consist mainly of World War II patrol boats, destroyers, and small aircraft carriers. Purchases of modern aircraft such as Canadian CF-5s and the French Mirages have not included the advanced radar systems necessary to give their owners a real intercept capability.

naval vessels in the South Atlantic. Argentina's response appears to be dictated by concern for the security of its shipping lanes, but Brazilian military leaders also view their country as a potential world power with commensurate security responsibilities.

Considerations in Arms Modernization

Although the major Latin American countries do not show serious expansionist tendencies that might generate an arms race, there are indications of continuous and deep nationalistic concern over disputes with neighbors. These reflect in part the natural tendency of a military establishment to keep up with its neighbors. They also reflect latent conflicts in hemispheric relations that have persisted over the years: Argentina and Chile (the Beagle Channel), Bolivia and Chile (outlet to the sea), Chile and Peru (Peruvian revanchism), and Colombia and Venezuela (disputed border, migrant workers). Among the smaller countries, the struggle between El Salvador and Honduras is a reminder of the possibilities of conflict and escalation of military costs.

Other forms of nationalism provide reasons for arms purchases. The current efforts of Ecuador to prevent foreign fishing fleets from working what it regards as Ecuadorean waters have resulted in the capture of a number of US tuna boats. The vessels used in these operations are German-made patrol boats and an old destroyer. Since there is no indication that these operations are slackening off, the need for small naval craft will continue.

While most of the major countries do not feel threatened by extra-hemispheric forces, both Argentina and Brazil have voiced concern over the growing presence of Soviet fishing trawlers and



Argentina has been assembling French AMX-13 tanks, various missiles, and transport vehicles, for which it obtains parts from European producers. In Brazil, each service has a representative who participates regularly as a member of the Permanent Group for Industrial Mobilization, a body that has as its principal aim the development of a capacity for domestic production of military items. Almost all of the purchase contracts signed with European suppliers since 1967 have included a provision that at least part of the items be assembled in Brazil. Current domestic production items include small arms, antitank and artillery rocket launchers, and most ammunition. Brazilian aircraft production in 1970 was about 70 trainer and light support aircraft. The Brazilian Air Force plans to assemble 112 Italian-designed Macchi MB-326 jet trainer/counterinsurgency aircraft in Brazil using Italian- and Brazilian-made components. This will be a major step toward the air force goal. Brazilian shipyards have produced ships as large as destroyers and are capable of repairing and overhauling all types of naval vessels.

SECRET



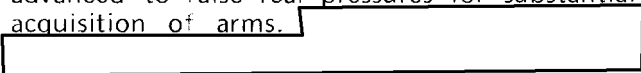
25X1

Outlook

While the current rate of Latin American arms purchases does not herald a major arms race, there is little likelihood of a general working agreement on arms control. The lack of serious conflict and the contest for funds with economic development put brakes on the pace of military spending and slow hemispheric efforts to work for arms control. So does the fact that a number of big buyers are military-controlled governments.

On the other hand, with the US and regional organizations occupying somewhat less influential roles, Latin American governments are becoming more preoccupied with balance of power politics and consequently more responsive to military requirements. External defense missions will probably seem of lesser security importance to most

government policy makers. Border patrols of the major countries may be more in the public eye than in the recent past, but insofar as weapons are concerned, they will probably settle for parity of equipment with their neighbors rather than seek extensive arms with a view to actual warfare. For some navies and air forces (Argentina, Brazil, Chile, Ecuador, and Peru), the surveillance and control of activity in the 200-mile coastal zone currently claimed by their governments will be an important function. The traditional mission of internal defense, transformed as it has been in recent years by greater mobility and communications, will also constitute a substantial source of demand for equipment. While regional peace-keeping efforts could require significant amounts of equipment, this concept is not far enough advanced to raise real pressures for substantial acquisition of arms.



25X1

• • •

SECRET

Approved For Release 2006/03/16 : CIA-RDP79-00927A009400080002-1
Secret

Secret

Approved For Release 2006/03/16 : CIA-RDP79-00927A009400080002-1