PO – CH/NL/0315
PART A

Part. A.

SECRET

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Begins: 8/12/87.
Ends: 27/2/89.

PO -CH /NL/0315

PART A

Chancellor's (Lawson) Papers:

SEVERANCE FUNDING FOR
REGISTERED DOCKWORKERS
IN LONDON AND LIVERPOOL

DD'S: 25 Years

27/10/95.

PO -CH /NL/0315
PART A

SF/Con/47

CONFIDENTIAL

PWP.

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CHIEF SECRETARY

REC. - 8 DEC 1987

ACTION Mr MacAuslan

COPIES TO CX Mr Anson Mr Kemp Miss Mueller Mr Monck Mr Burgner Mr Gilmore Miss Peirson Mr Turnbull

Mr Gray Mr McIntyre Mr Revolta Mr A Williams Mr Call

The Rt Hon John Major MP
H M Treasury
Great George Street
LONDON
SW1

8 December 1987

Dear John

SEVERANCE FUNDING FOR REGISTERED DOCKWORKERS

My officials have been in touch with yours about three issues. First, the extra funds we shall need for dockworker severances in 1987-88; secondly, about a consequent need to approach the House for authority to raise the current Parliamentary limit of £20 million using powers given in Section 1 of the 1985 Ports (Finance) Act; and thirdly about the continuing arrangements in 1988-89.

The position is this. We have so far spent £19.0 million on severances in the scheme ports other than London and Liverpool (for which Paul Channon makes the Government's severance contributions). On the latest estimates provided by the port employers we shall need a further £4 million in 1987-88 before the present agreement with the port employers ends on 31 March 1988. We propose to find the additional expenditure this implies over and above our current provision for severance grants from forecast savings on the Employment Measures and this is being discussed with your officials.

Looking to 1988-89, the employers are proposing that the existing severance funding arrangements under which Government contributes 50% of ordinary severance costs should continue for a further year after next March. In my view that is realistic as a holding operation and would meet our own needs while wider issues affecting the ports are being resolved. I would however also wish to tighten the second heading arrangements under which we offer 100 per cent funding where an employer de-registers. On that basis, my estimates are that a further £2.5 million will be needed in 1988-89.

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To provide some necessary headroom for contingencies and to guard against our having to return to Parliament yet again next year, I would have wished to seek to raise our Parliamentary cover by £10 million to £30 million. However to avoid giving the wrong signal to the employers I am prepared to try to get by with a £7 million increase.

Given the continuing flow of volunteers for severance a new Order is needed urgently. I do though plan to get the negotiations with the employers on a 1988-89 extension started right away, and if you agree that their main proposal meets our own needs, we would expect to complete them fairly quickly.

I should be glad to have your agreements, and that of John Wakeham to whom I am copying this letter, to my seeking Parliamentary authority to raise the present severance funding limit to £27 million; and to continuing with the existing Government contribution to severance finance as a holding operation for a further year.

Yours ever

Norman

NORMAN FOWLER

010/3298

CONFIDENTIAL

cc CX, Mr Anson
Mr Kemp, Mr Monck
Miss Mueller, Mr Burgner
Mr Gilmore, Ms Peirson
Mr Turnbull, Mr Gray
Mr McIntyre, Mr Revolta
Mr A Williams, Mr MacAuslan
Mr Call

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Norman Fowler MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
London
SW1H 9NF

PMP

11 December 1987

Dear Secretary of State,

SEVERANCE FUNDING FOR REGISTERED DOCKWORKERS

Thank you for your letter of 8 December.

As you say, our officials have been in touch on the issues of severance funding for this year and of the Parliamentary limit on total spending. I appreciate the need for more expenditure this year than previously provided for, and am content that the excess should be financed from forecast savings on employment measures.

I also agree with you (on the Parliamentary limit on severance expenditure outside London and Liverpool) that it is important to avoid giving the wrong signals to employers, and so I agree with your proposal that we try to get by with a new limit of £27 million.

I gather that Paul Channon has now (5 December) written on wider issues concerning the docks; I hope you will agree that it would be sensible for me to reply to your proposals about the negotiations for the severance scheme in 1988-89 in the light of our consideration of the issues Paul raises.

I am copying this letter to John Wakeham.

Yours sincerely,

Jill Rutter

pp JOHN MAJOR

(Approved by the Chief Secretary + signed in his absence).

2530/18/15

pmp

CONFIDENTIAL

FROM: A R WILLIAMS

DATE: 17 December 1987

1. MR REVOLTA I agree. DR 17/12
2. CHIEF SECRETARY

cc Chancellor
Mr Anson
Mr Kemp
Mr Monck
Mr Burgner
Mr Gilmore
Mr Turnbull
Mr Gray
Mr MacAuslan
Mr Call

SEVERANCE FUNDING FOR REGISTERED DOCKWORKERS

1. Mr Fowler proposed in his letter of 8 December that the severance funding arrangements for registered dockworkers (RDWs) in 1988-89 should be basically the same as those for 1987-88, namely that the Government should normally contribute 50% of severance payments of up to £25,000 per person. We recommend that you suggest that the limit on the Government's contribution should be reduced to 40%.

2. There are currently three separate issues involving RDWs:

(i) The extension of the Parliamentary limit on the funding of RDW severance from £20m to £27m. This was dealt with in John MacAuslan's submission to you of 9 December, and you have since written to Mr Fowler agreeing to the extension.

(ii) Severance arrangements in 1988-89, discussed here.

(iii) Proposals for the longer term, put forward in Mr Channon's minute of 5 December to the Prime Minister and considered in my submission of 11 December to the Chancellor.

3. The Government funded 100% of RDW severance payments (up to £25,000) in 1985-86, 75% in 1986-87 and 50% in the current year. But in responding to Mr Channon's proposal for the longer term, the Chancellor argues that any Government contribution should not be above 40%.

4. We know that there is still surplus labour in the ports covered by the dock labour scheme, which the employers would try to sever voluntarily (compulsory redundancy being effectively ruled out by the scheme) if they received Government financial assistance. Without assistance it is likely that much of this surplus would be kept on, in expectation of further developments on the future of the scheme. It would therefore make little sense to end Government contributions completely in 1988-89, only to reintroduce them in the following year. But there is much to be said for making the reduction in the Government contribution to 40% effective from 1 April 1988, so that the progressive stepping down of the Government's share of severance costs is continued in 1988-89, particularly with Mr Channon's longer term proposals in view. The Chancellor has indicated that he is content with this proposal.

5. When a port employer deregisters, which means in effect that he ceases to trade in that particular port, it is current Government policy to fund 100% (up to a maximum of £25,000) of the severance payments to his former RDWs. Mr Fowler proposes that this policy should continue but with some tightening up of the arrangements, to guard against, for example, an employer deregistering and reregistering a few months later with a smaller workforce. The existing agreement with the employers does include a provision to prevent such abuses, but DEm consider that it needs to be made more explicit. We recommend that you agree to this proposal. Any attempt by the Government to reduce its severance contributions in cases of deregistration would throw the burden of the surplus RDWs onto other employers at the port in question, weakening their commercial viability.

6. The Department of Employment is responsible for the severance funding at all scheme ports except London and Liverpool. The latter fall to the Department of Transport. Mr Fowler's letter was not copied to Mr Channon, but we are clear that the same policy should be applied at all ports. In particular the special arrangements under which surplus RDWs at London and Liverpool were offered £35,000 (the Government contributing £25,000) for a limited period should not be extended.

7. We recommend that Mr Fowler and Mr Channon should be pressed to meet the cost of continued Government funding of RDW severances in 1988-89 from within their existing provision. This might encourage them to look more favourably on a reduction in the size of the Government's contribution.

8. I attach a draft letter to Mr Fowler.

9. This submission has been agreed with IAE.

A. R. Wil

A R WILLIAMS

2530/18/15

CONFIDENTIAL

DRAFT LETTER FROM THE CHIEF SECRETARY TO THE SECRETARY OF STATE FOR EMPLOYMENT

SEVERANCE FUNDING FOR REGISTERED DOCKWORKERS

1. In my letter to you of 11 December, I left open the question of the severance funding arrangements for RDWs in 1988-89. I have now had an opportunity to consider this question in the light of Paul Channon's proposals for the longer term.

2. You will have seen Nigel Lawson's minute to the Prime Minister of /15/ December on these longer term proposals, in which he argues that if special compensation arrangements are introduced then the Government should contribute only 40%. I consider that a 40% Government contribution should be introduced from 1 April 1988. This would continue the progressive stepping down of the Government's share of severance costs.

3. I agree with your proposal that we should seek to tighten up the arrangements under which we fund 100% of the severance payments when an employer deregisters.

4. Paul Channon will wish to consider your proposals, and especially their application to London and Liverpool, but it is my firm view that these ports should be treated like other scheme ports. In particular the special arrangement under which surplus RDWs were offered £35,000 (the Government contributing £25,000) for a limited period should not be extended.

5. I would expect you and Paul Channon to meet the cost of RDW severances in 1988-89 from within your existing provision.

6. A copy of this letter goes to Paul Channon and John Wakeham.

SECRETARY OF STATE FOR TRANSPORT

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon John Major MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

21 December '87

CHIEF SECRETARY
REC. 21 DEC 1987
ACTION Mr MacAuslan
COPIES TO CST, Mr Anson, Mr Turnbull, Mr McGrath, Mr Kemp, Miss Mueller, Mr McIntyre, McCall, Mr Mason, Mr Burgner, Mr Revolta, Mr Gilhooly, Miss Peirson, Mr A Williams

Dear Chief Secretary,

SEVERANCE OF REGISTERED DOCK WORKERS IN LONDON AND LIVERPOOL

There has belatedly come my way a copy of your reply of 11 December to Norman Fowler's proposals to increase the statutory limit of his funding of severance payments to registered dock workers (RDWs) at ports other than London and Liverpool and to extend the existing severance arrangements for another 12 months from 1 April 1988.

I entirely support Norman's view that, whatever may be decided on wider issues, we must be prepared to continue contributing to the cost of RDW severance payments in 1988/89 and that we should do so on the existing terms of paying 50% of up to £25,000 and 100% where an employer deregisters. I should want to be able to do this in London and Liverpool. I note your wish to delay a decision on these terms for a little while. There is however a procedural point I should like to make progress on meanwhile. We need to secure the approval of the European Commission under state aid rules to any continuation of support to the ports of London and Liverpool after 31 March 1988. As you know, the Commission's wheels often grind slowly; so I hope you will agree that I can submit a case to the Commission immediately after Christmas, in terms that do not prejudice your decision.

Meanwhile, however, I have a more urgent problem for 1987/88. The Port of London Authority has just decided to close down a heavily loss-making facility at Tilbury, making 247 RDWs surplus on top of a surplus of 25 it is already carrying as a result of riverside wharves having gone out of business earlier this year. This amounts to 22.5% of its labour force. In Liverpool the biggest independent stevedore, Liverpool Maritime Terminal (a subsidiary of Ocean Transport and Trading) has decided to close down its operation and deregister as an employer of RDWs leaving

242 RDWs to be reallocated; and a smaller employer, with 5 RDWs, has made a similar decision. This is about one-sixth of Liverpool's labour force. In both ports the employers want to press ahead rapidly in January with the closures.

Under the terms of our existing agreement with the port employers the Government is expected to contribute to the cost of these severances. But I have no financial provision. When our officials discussed during the summer the additional £13m requirement for severances then forecast at the two ports (and since increased to £14.5m), we hoped to find at least partial offsetting savings on other subheads, and it was agreed to leave the question of a call on the Reserve until later. We are still refining our figures for the outturn report which is due at the Treasury shortly, but it looks as though we shall be able to identify savings of only about half the requirement and will have to seek a call on the Reserve for the balance. To that would therefore, I fear, have to be added the cost of these 494 new severances if the Government is going to contribute towards them at all.

Both ports are convinced - and so, very reluctantly, am I - that there is no hope of securing the numbers of severances needed unless the maximum payment offered is £35,000. The reasons are that in London the present maximum of £25,000 has manifestly not succeeded in attracting enough volunteers for the severances that had already been required this year; and in Liverpool the Mersey Docks & Harbour Company are still in the middle of a much delayed severance programme based (with our agreement) on a £35,000 maximum, so no docker would be prepared to go for less. Even if £35,000 is offered, no one can be certain that enough volunteers will be forthcoming at either port.

The PLA has asked me to contribute up to £25,000 per man (as we did in a special scheme to clear a huge surplus just over a year ago). I would propose, however, to stick at no more than £12,500, leaving them to find the rest. It will mean a very tough control of budget and cash flow by them in 1988, but though it will be painful I believe they can manage it. I would, however, be prepared, in respect of the 25 severances left over from the closures of wharfingers earlier in the year, to increase our maximum payment from £25,000 to whatever higher figure the PLA decides to pay to the generality of its RDWs, subject to a ceiling per man of £35,000. Bearing in mind what I propose below for Liverpool, this would slightly soften the blow to the PLA of not meeting their main request. The maximum total cost to the Government would be £3.35m.

At Liverpool I fear I see no practical alternative to our being prepared to meet the full cost of the severances, at up to £35,000 a man. If we stick at a ceiling of £25,000, neither LMT nor the MDHC has any obligation to pay anything towards the severances, nor will they do so. I am in no position to put any pressure on them. LMT can close down and walk away from the problem with impunity, whenever they choose. The end result would be a dock strike. The dockers would spurn the offer of £25,000; MDHC would refuse to absorb them; and the dockers would have to be placed on the temporarily unattached register, which the TGWU would be bound to make the cause of a national strike. The cost of our paying up to £35,000 a man would be between £4.4m and £8.6m, depending on whether MDHC were willing and able to negotiate satisfactory terms for handling LMT's cargo elsewhere in the port. If they were, they think they would need to take on about half of LMT's RDWs.

In total, therefore, I am proposing an additional cost to the Government in 1987/88 of between £7.75 and £12m, depending on whether LMT's business is retained in Liverpool. Trying to put off the cost until 1988/89 is of little avail. While in London it would result in a continuing drain on the PLA's finances and a souring of relationships for no very good purpose, in Liverpool we are powerless to prevent LMT pulling the plug whenever they choose. We should need to think most carefully before setting off down a road that would lead to a national dock strike.

I must therefore ask you to give this very urgent consideration. I am under pressure from both the PLA and the MDHC for an early decision: it will take them the best part of three months to secure the severances, and they need to initiate action early in January if they are to succeed before the end of March. Whatever our eventual decison, I also need to put in hand an approach to the European Commission regarding 1988/89.

Because of the link with other matters, I am sending copies of this letter to the Prime Minister, Norman Fowler and to Sir Robert Armstrong.

Yours Sincerely,

Jon Cunliffe

p.p. PAUL CHANNON

(approved by the Secretary of State and signed in his absence)

2501/2/

CONFIDENTIAL

FROM: A R WILLIAMS

DATE: 23 December 1987

1. MR REVOLTA I agree. DR 23/12

2. CHIEF SECRETARY

cc Chancellor
Mr Anson
Mr Kemp
Mr Monck
Mr Gilmore
Mr Burgner
Mr Turnbull
Mr Gray
Mr MacAuslan
Mr Call

SEVERANCE OF REGISTERED DOCK WORKERS IN LONDON AND LIVERPOOL

1. Mr Channon wrote to you on 21 December about Government contributions to severance payments to surplus registered dock workers (RDWs) at the ports of London and Liverpool. He wants to contribute £12,500 per man to the main group of severances in London, and up to £35,000 in Liverpool (and for a small number of the London severances) where an employer is closing down his operation and deregistering. We recommend that you agree to the £12,500 but press for a limit of £25,000 in the deregistration cases.

Background

2. Under an agreement with the port employers, the Government normally pays, in 1987-88, 50% of the cost of severance payments to RDWs of up to £25,000 per man. When an employer ceases his port operation and deregisters, the Government pays 100% of severance costs, up to the limit of £25,000. In the case of London and Liverpool (where labour surplus were particularly severe and it was thought that payments of £25,000 would not attract sufficient volunteers for severance), the Government agreed with the Port of London Authority (PLA) and the Mersey Docks and Harbours Company (MDHC) that severance payments of £35,000 could be made, of which the Government would contribute £25,000. In one case of deregistration at Liverpool, the Government paid the full £35,000 per man.

3. The special arrangements for London and Liverpool were intended to be a one-off concession designed to deal with a particular problem. In London this special offer was made to RDWs in 1986 and came to an end on 31 December of that year. In Liverpool the offer was delayed and is still in operation.

4. Mr Channon's letter describes new surpluses of RDWs at London and Liverpool that have only just arisen. They fall outside the existing agreement on special arrangements for these two ports, and their treatment is therefore an open question.

5. In London, 247 RDWs will be surplus as a result of the PLA's decision to close its loss-making West African Terminal at Tilbury. A further 25 are surplus as a result of riverside wharves having gone out of business. Mr Channon proposes to offer to pay no more than £12,500 per man towards the severance costs of the 247. This is in line with what would be available to an employer at any other port covered by the Dock Labour Scheme. However for the 25 RDWs made surplus by deregistration at London, Mr Channon proposes to offer to contribute £35,000 towards severances, in order to treat London in the same way as he proposes to treat Liverpool. At other ports the maximum would be £25,000.

6. In Liverpool, 247 RDWs will be surplus as a result of one large and one small employer deregistering. Mr Channon proposes to pay £35,000 per man for severances, for the following reasons:

(i) As the original (supposedly one-off) offer of £35,000 is still in operation at Liverpool, no RDW will volunteer for severance at any lower rate.

(ii) The MDHC will not agree to contribute to severance payments to these RDWs (who are not their own employees), nor will they take on all of them, though they might absorb about half if that can get hold of the work of the larger operator who is ceasing to trade. There is no other employer available in Liverpool.

(iii) It follows that the RDWs who refuse to accept severance at less than £35,000 and who are not taken on by MDHC will have to be placed on the temporily unattached register. The use of this register will provoke the TGWU into calling a national dock strike.

Discussion

7. For the bulk of the London severances, Mr Channon is proposing to offer no more than what he is bound to do under existing agreements. This is welcome. The treatment of the remaining 25 London severances stands or falls by what is agreed for Liverpool.

8. It is Liverpool that provides that real problem. It is highly undesirable for the Government to pay a full £35,000 towards severances. Although not completely unprecedented, if repeated on the scale proposed by Mr Channon, it would be a signal that Government contributions at this level were now normal practice for severances arising from deregistrations at Liverpool and London. The idea that payments of £35,000 were a special one-off arrangement would be undermined and it would be very difficult ever to get back to a lower level. RDWs would be encouraged to believe that they need never accept less, and port employers would be tempted to dump the whole problem of surpluses following deregistrations at the feet of the Government. Moreover other ports, already restive at the favoured treatment given to London and Liverpool, would be disinclined to settle for less themselves.

9. Against this must be weighed the risk of a dock strike. It should not be exaggerated. Surplus RDWs at Liverpool might be prepared to volunteer for severance at £25,000, though one cannot be too sanguine. More hopefully, the MDHC might be prepared to take a more cooperative stance when faced with a firm threat of industrial action, from which they would be one of the main losers. There are two steps they could take: they could agree to top up the severance contribution of £25,000 by the Government in order to attract more volunteers; or they could take on the surplus RDWs who did not volunteer for severance. The latter is hardly satisfactory in the long term but it is an inherent feature of the Dock Labour Scheme as it stands.

10. Even if a strike was called, it is not clear that it would be a major problem for the Government. The TGWU ~~would~~ might have difficulty in bringing out the dock workers at other ports when it was known that the Liverpool men had been offered £25,000 (the maximum that has ever been available at most of the other ports). And a feeble half-cock strike on a very dubious issue might give the Government some useful ammunition when it comes to longer term reforms.

11. It is quite possible that Mr Channon will wish to raise the Liverpool problem at the meeting on 12 January to discuss longer term proposals.

Secondary issues

12. Whatever level of payment is agreed, Mr Channon has no specific PES provision for it. In normal circumstances we would advise you to press for offsetting savings from the roads programme. As this programme is likely to be underspent in 1987-88 (when the severance payments are due), such savings are feasible. But provision of £15m for ports severances in 1987-88 was removed in the 1985 Survey (and a further £6m in the 1987-88 Estimates scrutiny) on the assurance of the then Chief Secretary that resources for severances were, in the event, required he would not enforce a cut in the roads programme to finance them. Mr Channon would undoubtedly argue that reducing the scope for end year flexibility on the roads programme would be, in effect, a cut.

13. I suggest that you leave us to negotiate about this with DTp officials with the aim of reducing the claim on the Reserve as much as possible. Even so, as much as £20 million might be required, taking account of ports severances already agreed this year. Although any claim on the Reserve is unwelcome, it would be much less serious for the payments to be made in 1987-88 than for them to slip into 1988-89.

14. In the first two paragraphs of his letter Mr Channon refers to the arrangements for severances at all ports in 1988-89. Unfortunately his letter crossed with yours of 18 December on this subject and has been overtaken. DTp officials are aware of this, and I suggest that you merely note the point briefly in your reply. Mr Channon's main concern is to be able to approach the European Commission about continuation of support for London and Liverpool. There is no objection to his doing this while the precise level of the Government's contribution is still being considered.

Recommendation

15. To summarise, we recommend that:

(i) you welcome the proposal that the Government should contribute only £12,500 to the severances arising from the PLA's closure of its West African Terminal.

(ii) despite the risk of a dock strike, you press for the Government's contribution to severances at Liverpool to be limited to £25,000, and for the 25 London severances arising from deregistrations to be treated similarly.

(iii) you suggest that officials should discuss further the provision required for severance payments and the potential claim on the Reserve.

16. I attach a draft reply.

A R Williams

A R WILLIAMS

CONFIDENTIAL

DRAFT LETTER FROM THE CHIEF SECRETARY TO THE SECRETARY OF STATE FROM TRANSPORT

SEVERANCE OF REGISTERED DOCK WORKERS IN LONDON AND LIVERPOOL

Thank you for your letter of 21 December.

I welcome your proposal that the Government should limit to £12,500 its contribution to the severance payments to the 247 RDWs made surplus by the PLA's decision to close the loss-making facility at Tilbury.

I have more difficulty, however, with your proposals for Liverpool and for the 25 RDWs at London made surplus by deregistrations. I do not agree that it would be right for the Government to contribute £35,000 towards severance in these two cases. Although it has, I understand, been done once before, it is essential that we avoid establishing contributions at this level as normal practice when there are surpluses arising from deregistration. The effect would be to encourage RDWs never to settle for less and to tempt port employers to dump the whole problem of deregistration surplus at the feet of the Government. It would be very difficult ever to revert to paying a lower figure at London and Liverpool and it would provoke employers and RDWs at other ports to demand similiar treatment for themselves.

In my view we should not contribute more than £25,000. I recognise the risk of a dock strike if this does not attract sufficient volunteers in Liverpool and surplus RDWs are placed on the temporarily unattached register. But we must not exaggerate the risks. It may be that surplus RDWs will volunteer for severance at the lower rate when it is clear to them that Government will not pay more. Alternatively the MDHC, when faced with the real prospect of a strike, might be prepared either to top up the £25,000 or to ~~take on~~ absorb the surplus RDWs.

Even if the TWGU does call a strike, it is by no means certain that it will be very serious outside Liverpool. I question how sympathetic RDWs at other ports (let alone dock workers at non-Scheme ports) will be towards Liverpool men who have been offered severance payments of £25,000.

I note what you say about your lack of provision for additional severance payments and I suggest that our officials should discuss this further, with a view to minimising any claim on the Reserve.

As regards severance arrangements in 1988-89, your letter crossed with mine of 18 December, which sets out my proposals. I see no reason why you should not approach the European Commission while we are still considering the precise level of the contribution that we propose to offer.

006/4211

cc:Chancellor
Mr Anson
Mr Kemp
Mr Monck
Mr Gilmore
Mr Burgner
Mr Turnbull
Mr MacAuslan
Mr Call
Mr Revolta
Mr A R Williams

CONFIDENTIAL

CHIEF SECRETARY TO THE TREASURY

Pnp

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London
SW1P 3EB

6th January 1988

Dear Paul,

SEVERANCE OF REGISTERED DOCK WORKERS IN LONDON AND LIVERPOOL

Thank you for your letter of 21 December.

I welcome your proposal that the Government should limit to £12,500 its contribution to the severance payments to the 247 RDWs made surplus by the PLA's decision to close the loss-making facility at Tilbury.

I have more difficulty, however, with your proposals for Liverpool and for the 25 RDWs at London made surplus by deregistrations. I do not agree that it would be right for the Government to contribute £35,000 towards severance in these two cases. Although it has, I understand, been done once before, it is essential that we avoid establishing contributions at this level as normal practice when there are surpluses arising from deregistration. The effect would be to encourage RDWs never to settle for less and to tempt port employers to dump the whole problem of deregistration surplus at the feet of the Government. It would be very difficult ever to revert to paying a lower figure at London and Liverpool and it would provoke employers and RDWs at other ports to demand similar treatment for themselves.

In my view we should not contribute more than £25,000. I recognise the risk of a dock strike if this does not attract sufficient volunteers in Liverpool and surplus RDWs are placed on the temporarily unattached register. But we must not exaggerate the risks. It may be that surplus RDWs will volunteer for severance at the lower rate when it is clear to them that Government will not pay more. Alternatively the MDHC, when faced with the real prospect of a strike, might be prepared either to top up the £25,000 or to absorb the surplus RDWs.

Even if the TWGU does call a strike, it is by no means certain that it will be very serious outside Liverpool. I question how sympathetic RDWs at other ports (let alone dock workers at non-Scheme ports) will be towards Liverpool men who have been offered severance payments of £25,000.

I note what you say about your lack of provision for additional severance payments and I suggest that our officials should discuss this further, with a view to minimising any claim on the Reserve.

As regards severance arrangements in 1988-89, your letter crossed with mine of 18 December, which sets out my proposals. I see no reason why you should not approach the European Commission while we are still considering the precise level of the contribution that we propose to offer.

Yours Ever,

John

JOHN MAJOR

Put on Dock Labour Scheme folder for meeting.
Serial No: 1883
Copy No 2 of 6

SECRET

SECRETARY OF STATE FOR TRANSPORT

CH/EXCHEQUER
REC. 16 JAN 1989
ACTION CST
COPIES TO

✓ 16/1

16 JAN 1989

PRIME MINISTER

SURPLUS DOCKERS AT LIVERPOOL

1. At your meeting on 19 January to consider Norman Fowler's minute of 21 December on the Dock Labour Scheme, I should also like to discuss a problem that has arisen in the port of Liverpool.

2. On 21 January a small independent firm, Liverpool Stevedoring Ltd, is to shut down. The firm employs 172 registered dock workers (RDWs), who will be made surplus. The Dock Labour Board will be looking for that number of volunteers for severance. If not enough men volunteer, the remainder should, under the industry's Aldington/Jones Agreement, be reallocated by the Board to other employers in the port.

3. I have agreed to pay grant of 100% on severance payments of up to £25,000 to all 172 men, in accordance with the terms of our agreement with the National Association of Port Employers (NAPE). The Mersey Docks & Harbour Company (MDHC) believes that very few men will apply for severance at that figure. (Indeed the dockers' representatives are now asking for as much as £50,000.) The Company considers that a figure of £35,000 will be needed to have any chance of attracting enough volunteers. The Company is probably right, because up to £35,000 is what was paid, with our agreement, for a few months up to March 1988 in order to clear a large and persistent surplus of RDWs in Liverpool. The problem is where the extra £10,000 per man or £1.7 million in total might come from. Liverpool Stevedoring Ltd does not have that money. The MDHC nowadays does, but sees no reason why it should contribute to the severance payments of men who are not its employees and to whom it has no obligations. For us to provide the extra money would be to pay Danegeld yet again and set a potentially damaging precedent.

SECRET

SECRETARY OF STATE FOR TRANSPORT

4. A shortfall of volunteers might not matter if MDHC and the other remaining employers of RDWs in Liverpool were prepared between them to absorb the surplus men. But they refuse to accept men for whom they have no work. If they persist, the Dock Labour Board will have to place the men on the Temporarily Unattached Register (TUR). The TGWU is pledged to call a national dock strike if men are put on the TUR, and I have little doubt would do so and gain widespread support, because RDWs would see it as a fundamental attack on the Dock Labour Scheme.

5. NAPE has devised a strategy for trying to delay a decision on whether RDWs need to be put on the TUR. If successful, it might buy an extra 4-6 weeks time. But although I judge it is likely to be backed by the port employers, no one yet knows whether the union will accept it.

6. I should like to discuss our handling of this situation in the light of our decision on the Dock Labour Scheme, as events may move fast after 21 January.

7. I am sending copies of this minute to Nigel Lawson, Norman Fowler, David Young, John Wakeham, and Sir Robin Butler.

PC

PAUL CHANNON
January 1989

he.dc/williams/sub6

SECRET

£80,000 + re BRM

FROM: A R WILLIAMS
DATE: 18 JANUARY 1989

CHANCELLOR

cc: Chief Secretary
Financial Secretary
Sir P Middleton
Mr Anson
Mrs Case
Mr Mortimer
Mr Burr
Mr Call
Mr Monck

SURPLUS DOCKERS AT LIVERPOOL

1. The Secretary of State for Transport minuted the Prime Minister on 16 January about the treatment of 172 surplus registered dockworkers (RDWs) at Liverpool. He wants to discuss the handling of this problem at the meeting on 19 January about the future of the Dock Labour Scheme.

behind.

Line to take

2. We recommend that the Government should offer severance payments of no more than £25,000 a head to these surplus RDWs, whether or not it is decided to move forward on the abolition of the Scheme.

Background

3. This problem was mentioned in paragraph 19 of my brief of 6 January. It arises because a small port employer is about to go out of business. Those RDWs thereby made surplus either accept voluntary severance or they must be reallocated to other port employers at Liverpool, under the Aldington/Jones agreement. Mr Channon has offered to find severance payments of up to £25,000 a head, in accordance with the agreement with the National Association of Port Employers (NAPE). There is a fair chance that a number of the 172 surplus RDWs will not agree to go for that figure. The Mersey Docks and Harbour Company (MDHC) and other Liverpool employers have said they will not take on the surplus RDWs (in breach of the Aldington/Jones agreement); nor will they top up the severance payments to attract more volunteers. If they persist, the TGWU is very likely to call a strike.

behind

4. The question for the Government is whether to prevent a strike by increasing its severance payments to a level which would attract sufficient volunteers. MDHC have suggested that a figure of £35,000 a head would be required. The tactical considerations differ depending on whether it is decided to prepare for abolition of the Dock Labour Scheme or not.

5. If the decision is to move ahead, it might be argued that a strike must be avoided before the Government is ready to act. But paying to avoid a strike now would be interpreted as a gesture of weakness by the dockworkers and could encourage them to fight that much harder against abolition of the Scheme. To offer £35,000 to surplus RDWs at Liverpool would also make it much more difficult to keep to a maximum of £25,000 for compensation for ex-RDWs made redundant after abolition, as proposed by Mr Fowler. Increasing this figure to £35,000 would cost an extra £10 million. Although a strike immediately would be awkward, Mr Channon mentions that NAPE has a strategy to delay the crisis by up to 6 weeks, and it would take the TGWU a little time to ballot its members on strike action. By then the Government could be close to having a Bill to abolish the Scheme ready. There might even be some presentational advantages in announcing abolition in response to what many would see as irresponsible action by Liverpool dockworkers.

6. If it is decided to take no further action on the Scheme in the foreseeable future, then a firm line on a £25,000 severance maximum is needed as much as a signal to the employers as to RDWs. The Aldington/Jones agreement is an employer-union agreement. If employers saw that when they threatened to break it, the Government would step in with the necessary funds to prevent a strike, they would have no incentive to try to resolve the problems arising from it themselves. It would be virtually imposible to prevent Government severance payments of £35,000 spreading to other ports and surplus RDWs would conclude that they need never accept less. Indeed it is difficult to see what would prevent the level of payment increasing steadily higher as time went on.

7. It is quite possible that the MDHC's refusal either to take on the surplus RDWs or to contribute to their severance payments is a bluff which would be called if the Government indicated that it was prepared to face a strike. The Company would be the chief loser from industrial action at Liverpool, especially if RDWs at other ports were half-hearted in their support.

8. Mr Channon does not indicate what his views are. His officials are inclined to think that it would not be sensible to buy off a strike if abolition of the Scheme is likely to go ahead. But if the Scheme is to stay, they are more doubtful about resisting industrial action.

A. R. Williams

A R WILLIAMS

Serial No 1886
Copy No 1 of 5

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref:

Your ref:

CH/EXCHEQUER
REC. 23 JAN1989
ACTION CST
COPIES TO

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

23 JAN 1989

Dear Nigel,

SURPLUS DOCKERS AT LIVERPOOL

It was agreed at the Prime Minister's meeting on 19 January that we should keep the situation in Liverpool under close review.

We agreed that it would be very undesirable to increase beyond £25,000 the figure on which Government grant for severance payments to surplus registered dock workers is based. On the other hand £35,000 has become recognised in Liverpool as the going rate for severances and I accept the Mersey Docks & Harbour Company's view that there is no chance of securing sufficient volunteers at the lower figure. But the MDHC are not prepared to top up our grant to £35,000 out of their own resources, without an assurance of some form of compensation from the Government. They argue that the men are not, and have never been, their employees, and they see no reason why they should pay out £1.7 million towards generous severance terms which are only required because of the existence of the Scheme. Although they might be able to buy a little time, the situation is very risky and even if they can there is little prospect of their being able to hold the situation for very long.

As your officials know, the MDHC has recently put to me proposals for a financial reconstruction, aimed at severing the existing links between them and the Government so that they can stand on their own feet as an independent company. Although some detail still needs to be settled, the broad framework of the reconstruction has been agreed between my officials and the Company, subject to the approval of Ministers. The terms are essentially the same as those which John Major agreed last October in the context of a possible takeover bid by Mr John Whittaker, which did not in the event materialise. I would probably have been writing to John Major in a couple of weeks' time inviting his agreement to the reconstruction.

The reconstruction as proposed at present does not entail any write-off of Government loans, although the Ports (Reduction of Debt) Act 1983 contains unspent power to write off a further £6 million of the Company's debt. Any use of this power would expressly require Treasury agreement.

In the course of discussions with the Company, they have suggested that, as an alternative to the Government funding the extra £10,000 for the surplus RDWs, we might, as part of the financial reconstruction, write-off an equivalent amount of debt. The advantage of this would be that the Government would not be seen as endorsing a severance offer of £35,000 which, if we did, would certainly knock-on into the rest of the industry. It is clearly important to avoid this.

I therefore suggest that the financial reconstruction should include the write-off of £1.5 million of debt, on the understanding that the Company will top up a severance offer to £35,000 from their own resources.

The terms of the reconstruction of the MDHC will become public in due course - possibly as soon as April, when the Company publishes its annual report and accounts for 1988. If any questions should arise about the write-off of the £1.5 million we would simply say that it was part of the total reconstruction package, designed to launch the MDHC on its own, with no further special support from the Government.

Such a strategy does of course imply our willingness to agree to a reconstruction of the MDHC, even if we do not need to settle all the details of it here and now. I think it is reasonable for us to agree to it now in principle. As I have explained, apart from the small amount of write-off I am now suggesting, the financial terms on which the MDHC have proposed a reconstruction are essentially the same as those which John Major agreed last October. I think it will be hard to find sound reasons for refusing a reconstruction in principle; so although there is further work that officials need to do on specific elements of the Company's proposals, I do not think we shall be exposing ourselves unduly if we give an assurance that carries with it an implication that in principle we will agree to a reconstruction.

It is important to settle this quickly and I am, of course, at your disposal should you wish to discuss this proposal.

I am sending copies of this letter to the Prime Minister, Norman Fowler, David Young and Sir Robin Butler.

Yours,

Paul

PAUL CHANNON

he.dc/williams/sub2

SECRET

FROM: A R WILLIAMS
DATE: 25 JANUARY 1989

CHANCELLOR

cc: Chief Secretary
Financial Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mrs Case
Mr Mortimer
Mr Burr
Mr Call

Ch/ content?

25/1

SURPLUS DOCKERS AT LIVERPOOL

1. The Secretary of State wrote to you on 23 January about the situation in Liverpool where, you will recall, 172 registered dockworkers (RDWs) will be made surplus when their employer ceases business at the end of this month. Mr Channon proposes that the Mersey Docks and Harbours Company (MDHC) should be persuaded to top up the severance payments to those dockers to a maximum of £35,000 a head, in exchange for the Government writing off £1.5m of the Company's debt. This offers a reasonable prospect of avoiding an early dock strike without bidding up the maximum level of the Government's contribution to severance payments. I recommend that you agree.

Background

2. The problem was described in my submission of 18 January and discussed at the Prime Minister's meeting on 19 January. Briefly, the alternatives are to persuade all the surplus RDWs to accept voluntary redundancy, to get another port employer (in practice this means the MDHC) to take on those dockers not made voluntarily redundant, or to face a national dock strike called by the TGWU. It is unlikely that all 172 surplus RDWs will be willing to go for the normal maximum redundancy payment of £25,000 a head, though there is good reason to expect that £35,000 would be sufficient to persuade them. The MDHC are refusing either to take on any surplus RDWs or to top up the redundancy payment to £35,000 themselves. It would be very undesirable for the Government to pay £35,000 because of the knock-on effect for future RDW redundancies not only in Liverpool but throughout the country (Mr Channon says that this was agreed at the Prime Minister's meeting).

3. Mr Channon now proposes to get round this dilemma by making the MDHC an offer to write-off £1.5m of its debt to the Government in exchange for the Company topping up the redundancy payments to £35,000 a head. Topping up would cost some £1.7m and would mean finding the cash immediately, whereas the relief afforded by debt write-off would be spread over 3 years. So the MDHC would make a small financial loss from the deal but they would of course benefit from avoiding a strike. DTp officials are fairly confident that the Company would accept this offer; they have already indicated that they are willing in principle to make redundancy payments in exchange for debt write-off.

4. Debt write-off would be offered as part of a financial reconstruction package for MDHC, an issue that would in any case have to be discussed between the Company and DTp. In that way an injection of Government money could be effectively distanced from higher redundancy payments. As far as other port employers and dockworkers were concerned, the Government would be seen to be sticking to a maximum redundancy payment of £25,000 a head.

5. The offer would in effect commit the Government to going ahead with some form of financial reconstruction of the MDHC, though the other terms would still be for negotiation. But DTp believes that reconstruction would have been necessary even if the redundancy problem had not arisen. They were preparing a package which was basically similar to one agreed by the Chief Secretary in October 1988 in connection with a possible take-over of the MDHC (which did not in the end materialise). This involved the Government selling its shares at market price (bringing in about £20m at current prices) and writing off repayable grants to the Company worth £110m, which we did not expect to be able to recover except in the very long term. Writing off a further £1.5m of debt, in the form of loans rather than repayable grant, would be an extra cost. The MDHC would still owe the Government a further £4m. In PES terms the £1.5m loan write-off would mean a loss of receipts of some £0.5m in each of the next three years.

Recommendation

6. Another payment of Danegeld (as Mr Channon put it in earlier correspondence) in connection with the Dock Labour Scheme sticks in the throat. It may be that that the MDHC are playing chicken and would in the end top up the redundancy payments to avoid a strike without a sweetener from the Government. But DTp officials believe that they are serious and would resist payments to RDWs who have never had any connection with the Company, unless they got a quid pro quo. In those circumstances a dock strike in February would be a strong possibility. Given the decisions the Government has now taken on the Dock Labour Scheme, an early strike is not worth the risk when it can probably be avoided by a relatively modest increase in the cost of a financial reconstruction of the MDHC. We recommend that you agree to Mr Channon's proposal but ask him to meet the cost of the loss of receipts by offsetting savings within his programme.

A draft letter is attached.

A.R.W

A R WILLIAMS

he.dc/ministers/25January

SECRET

DRAFT LETTER FROM THE CHANCELLOR TO THE SECRETARY OF STATE FOR TRANSPORT

Pse type final.

SURPLUS DOCKERS AT LIVERPOOL

Thank you for your letter of 23 January.

In the circumstances, your proposal to write off £1.5 million of MDHC's debt, as part of a financial reconstruction of the Company, on the clear understanding that the MDHC will top up a severance offer to £35,000 a head from their own resources, looks to be the best way forward. I am content for you to proceed. You do not mention the PES consequences in your letter, but I would expect you to make the necessary offsetting savings to cover the loss of receipts arising from debt write-off.

I am copying this letter to the Prime Minister, Norman Fowler, David Young and Sir Robin Butler.

chex.rm/jmt/72

SECRET

cc Chief Secretary
Financial Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mrs Case
Mr Mortimer
Mr Burr
Mr Williams
Mr Call

Treasury Chambers, Parliament Street, SW1P
01-270 3000

PM

26 January 1989

The Rt Hon Paul Channon MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1

Dear Paul

SURPLUS DOCKERS AT LIVERPOOL

Thank you for your letter of 23 January.

In the circumstances, your proposal to write off £1.5 million of MDHC's debt, as part of a financial reconstruction of the Company, on the clear understanding that the MDHC will top up a severance offer to £35,000 a head from their own resources, looks to be the best way forward. I am content for you to proceed. You do not mention the PES consequences in your letter, but I would expect you to make the necessary offsetting savings to cover the loss of receipts arising from debt write-off.

I am copying this letter to the Prime Minister, Norman Fowler, David Young and Sir Robin Butler.

Yours
Nigel

NIGEL LAWSON

27/2

SECRETARY OF STATE FOR TRANSPORT

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB
01 276 3000

My ref:

Your ref:

Serial No. 1901
Copy No 2 of 6

PMP

Paul Gray Esq
Private Secretary
10 Downing Street
LONDON
SW1A 2AA

27 FEB 1989

Dear Paul

SURPLUS DOCKERS AT LIVERPOOL

My Secretary of State's minute of 16 January to the Prime Minister described a problem caused by the decision of one of the independent firms of stevedores in the port of Liverpool, Liverpool Stevedoring Limited (LSL), to close its business. He subsequently wrote to the Chancellor of the Exchequer on 23 January about the severance arrangements for the surplus dockers. It may be helpful before the meeting on 1 March to report developments since then.

In short, things have gone reasonably well and the possibility of a strike over surplus men being put on the Temporarily Unattached Register in Liverpool has been averted. The Mersey Docks & Harbour Company (MDHC), on behalf of the port employers, have offered severance payments of up to £35,000 for 172 dockers, equivalent to the number which LSL employed. 190 dockers in the port applied for voluntary severance, though several of them subsequently withdrew their applications. MDHC hope to be able to negotiate the reallocation of about 40 men into two new stevedoring companies, thus reducing the number of severances needed to about 132. 76 men have already gone, so a further 56 have still to be shed.

There are more than enough (about 70) applications still outstanding, but 51 of them are from skilled men whom MDHC cannot afford to let go unless and until they have adequately trained replacements. So MDHC have to embark on a phased training programme for the remaining surplus unskilled men from LSL, which they expect will take about two months to complete.

Until the reallocation of the 40 men and the retraining of the others have been negotiated with the TGWU and implemented, the MDHC will continue to pay the surplus dockers in the port. They have been working hard to avoid an open dispute, and it seems that the union has been co-operating. The only risks now are if agreement cannot be reached on setting up the operations for the two proposed new stevedoring companies, so that more men are left surplus than is now hoped, or if anything goes wrong with the retraining programme. My Secretary of State believes both risks are small, but officials will continue to keep in close touch with the MDHC as the situation develops.

The MDHC's present timescale also means of course that they will now have surplus dockers in their employment in April. If the Government's strategy goes ahead as planned, the MDHC may find that they are then unable to sever them when they were hoping to. My Secretary of State feels that this would be unfortunate, but that it does not particularly matter.

I am sending copies of this letter to Moira Wallace (Treasury), Clive Norris (Employment), Stephen Catling (Lord President's office), Nick Gibbons (Lord Privy Seal's office), and Trevor Woolley (Cabinet Office).

Yours sincerely
Katherine

KATHERINE ORRELL
Private Secretary