

PREM 19/267



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Northern Ireland Office  
Stormont Castle  
Belfast BT4 3ST

T Carlin Esq  
Northern Ireland Officer  
Irish Congress of Trade Unions  
Northern Ireland Committee  
Congress House  
236 Antrim Road  
BELFAST BT15 2AN

18 August 1980

*Dear Mr Carlin*

*m. huff + rider*  
The Prime Minister asked me to respond to the submission by your Committee which you left with her at the meeting on 6 August 1980 and which I have read with interest. It is useful for me, and for the Prime Minister, to have this detailed exposition of the views which your delegation put forward at that meeting.

You start with the figures of unemployment in Northern Ireland. I assure you that all of us are very concerned about the high level of unemployment and are conscious of the social and other problems which it brings as well as of its effects on the lives and hopes of so many people. Our objective is to maintain the highest possible level of employment in a manner compatible with the Government's strategy of curbing inflation as the necessary pre-condition for sound and stable economic growth. As the Prime Minister made clear, the Government is determined to hold to that strategy, which it is confident will set the economy on the right course. Continuing control of public expenditure is an essential concomitant of its economic objectives.

Northern Ireland as an integral part of the UK economy cannot be insulated from the short-term effects of these measures. But, by the same token, it will benefit in the longer term from the upswing in economic performance.

However, within this general framework, I have certainly directed my attention to the special problems of Northern Ireland, many of which you have identified in your paper.



I know that you have studied my statement of 6 August on the review of public expenditure in Northern Ireland and have taken up some points of detail in it on which Hugh Rossi will be replying to you. The whole purpose of this review was to address Northern Ireland's special difficulties as far as possible within the limits of existing total public expenditure resources augmented by the addition of £48m in the current year. The addition of this substantial sum is a clear and positive response by Government to Northern Ireland's particular needs, and it has enabled me to give priority to increasing the resources for industrial assistance and to holding down energy costs.

The redeployment and injection of extra resources in support of industry will serve to strengthen and widen the industrial base. It will increase the flow of new jobs which is, in the long term, the best prospect for improving living standards and raising the quality of life. The 8 - 9000 Belfast jobs which will be preserved or created by the support for De Lorean and Harland & Wolff alone have an immense social and economic value, as I am sure you will recognise.

I have also in the reallocations been conscious of the large number of unemployed young people and the amount of money available to the Department of Manpower Services for the Youth Opportunities Programme has not been reduced. It retains its target of over 7,000 places and I underline once more our commitment to offer every Northern Ireland school leaver a job or a place before Easter under this Programme. The Temporary Short Time Working Compensation Scheme and the Job Release scheme have now been extended for a further year. Through these schemes, Enterprise Ulster, GTCs and grant-aided training by employers, a total of 30,000 jobs and training places are being provided or supported.

You have rightly in your document paid considerable attention to the problems on the energy front and our policy - pending the outcome of the review of the NIES - is to provide the NIES with sufficient



resources to enable it to continue to hold down its charges to both industrial and domestic consumers which otherwise would have to be substantially increased because of the continuing rise in oil prices. The advantages of this policy to both industrial and domestic consumers are clear. So are the disadvantages of the dependence of the Northern Ireland electricity generating system on oil. However, until the review of the NIES is completed it would not be sensible to take any further decisions about policy issues such as the future of Phase II of Kilroot Power Station (for example, the possibility of converting to coal firing). To alleviate your concern about the decision to halt work on Kilroot Phases 3 and 4 while these matters are under consideration, I should point out that the completion of Phase 1 in itself will provide a 33% increase in generating capacity which will be sufficient to meet increases in demand for the immediate future. I should also say that both the Governments of the United Kingdom and of the Republic of Ireland are anxious to restore and maintain the north-south interconnection as soon as possible. On gas, I can only repeat that the Government reached its decision about the pipe-line after long and full consideration of the facts. The Cooper and Lybrand report is being carefully examined but in the meantime planning for closure must go ahead.

In considering the public expenditure allocations I have also taken account of the specific problems affecting agriculture and the possible effect on employment in the processing and ancillary industries, should there be any cutback in production. You have, I am sure, noted Giles Shaw's remarks when he met the Council of the Ulster Farmers' Union on August 5.

The reallocation from other sectors towards achieving the aims of remedying basic structural problems in the economy has been difficult but without the addition of the £48m to the total available the necessary transfer of resources would have been very much greater and could not have been held at 2% of the overall budget.



I am continuing the review of the Northern Ireland public expenditure forecasts to see whether they match our overall objectives and whether the pattern of spending will achieve the greatest impact on the basic problems of the economy - to ensure, in other words, that the amount of money available is spent in the most effective way.

In looking at public expenditure, I note your hope that the European Community might provide substantial further assistance. I can assure you that the Government constantly presses the Northern Ireland case at Brussels and maximises the benefits obtained from EC sources but it is too often overlooked that the European Community has its own budgetary problems and does not have an unlimited source of funds. It is, however, sympathetic to and very conscious of the special needs of Northern Ireland. As you have pointed out, it has made Northern Ireland an area of absolute priority for European Social Fund assistance and also recognises it as a priority area for Regional Fund Aid. In that context, you have referred to the allocation of £23m from the European Social Fund which Mr Giolitti announced. That allocation had in fact been decided earlier this year against a programme submitted to the Commission. As the ESF operates on a system of co-funding, the payments cannot be made unless the Government matches them which it proposes to do as planned in its programme.

The Commission has also given support to cross-border projects - it has borne half the cost of the Londonderry-Donegal Communications Study and of the Erne Catchment Area Study and it has provided grants from the appropriate sources for projects such as the Foyle Bridge. It has also set aside 8 MEUA out of the non-quota section of the Regional Development Fund specifically for the UK for cross-border projects.

The details of the allocation of money obtained through the Budget Settlement have not yet been decided but I can assure you that a Northern Ireland programme is being put forward. I must make the point, however, that without this settlement and the prospect of supplementary payments from the Commission, there would undoubtedly have been further cuts in public spending programmes which would



have applied in Northern Ireland just as much as in the rest of the United Kingdom. Therefore, the schemes with which these funds will be associated are maintaining their places in existing programmes because of the budget settlement.

The Community is also actively involved in the question of import controls. The Government is concerned about the level of import penetration - particularly, as far as Northern Ireland is concerned, with its effects on the textile and clothing industries - but has to give weight to the fact that the imposition of import controls could have a damaging effect on exports and on industry generally and would also raise prices to the consumer. The Government is watching the position very closely and is, as the Prime Minister said, very sympathetic to the textile case.

Could I repeat in conclusion that the Government is very much aware of the needs of Northern Ireland and of its special difficulties. It is particularly conscious of the relationship between economic welfare and social and security problems. Although you dispute the reasons for it, the fact is that public spending in Northern Ireland remains at a high level and many special measures have already been taken.

While you and I may differ on some of these matters, I have found the exchange of views at the meeting last week and through reading your paper most useful. I am sure that the exchanges will lead to a greater mutual understanding.

Hidden copies:

Mr Lankester, No.10 ✓  
PS/SOS for Energy  
Mr David Wright (Cabinet Office)

PS/Ministers

PS/PUS

Mr Marshall  
Mr Hannigan  
Mr Wyatt  
Mr Corbett

PS/Mr Bell  
NI Perm Secs  
Miss Davies  
Miss Kelley  
Mr Cowan  
Mr Templeton

PP

HUMPHREY ATKINS

Approved by the Secretary of State  
and signed in his absence.

Yours sincerely  
Jonathan Margrett.

22 AUG 1980





file

CC: NRM,  
TIMT.

EK.

no pd

10 DOWNING STREET

*From the Private Secretary*

6 August 1980

*Dear Roy,*

I enclose the record of this morning's meeting with the delegation from the Northern Ireland Committee of the Irish Congress of Trade Unions. The record refers on page 2 to a document entitled "Unemployment in Northern Ireland". Your Secretary of State and Lord Gowrie both were given copies of this.

I am sending a copy of this letter and enclosure to J.E. Taylor (Lord Gowrie's Office, Department of Employment) and to Martin Hall (HM Treasury).

*[Handwritten flourish]*

*Tim Laker*

R.A. Harrington, Esq.,  
Northern Ireland Office

EK.



SUBJECT

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND NORTHERN IRELAND  
TRADE UNIONISTS AT No 10 AT 1000 HOURS ON WEDNESDAY 6 AUGUST 1980

Present:

- |   |             |
|---|-------------|
| Prime Minister  | J. McCusker |
| Secretary of State for Northern Ireland                   | J. Graham   |
| Minister of State, Department of Employment (Lord Gowrie) | T. Carlin   |
| Mr. T.P. Lankester  | J. Cosby    |
|   | J. Freeman  |
|   | G. Hunter   |
|   | A. Mackle   |
|   | P. McCartan |
|   | T. Smyth    |
|   | W. Wallace  |
|   | D. Wylie    |

\* \* \* \* \*

Mr. McCusker, after thanking the Prime Minister for agreeing to see the delegation, said that their biggest concern of all was the high and rising level of unemployment in Northern Ireland. 85,000 were already on the unemployment register but the 'true' unemployment figure was about 100,000 - taking into account the job release scheme and those in assisted jobs. And even this figure ignored the fact that there was substantial under-recording of unemployment at the register. If repeated nationally, there would be 3½-4 million unemployed in the country as a whole. It was essential that the Government consider the Northern Ireland unemployment problem in this light and provide appropriate measures to combat it. The previous Tory Government had given a commitment that living standards in Great Britain and Northern Ireland should be equalised: the delegation would like this reaffirmed. To implement such a policy would mean, amongst other things, revoking the cuts in the Northern Ireland spending programmes. Perhaps the most serious aspect of the unemployment problem was the fact that so many young people were unemployed. The situation was worse than in Great Britain, not only proportionately

/but also

but also because young people who were unemployed were all too easily subject to pressure from the paramilitary organisations. Special measures were urgently needed.

Mr. McCusker then handed the Prime Minister a document entitled "Unemployment in Northern Ireland". Besides summarising the unemployment situation, this document made the case for extra public expenditure in Northern Ireland, for import controls, for improved arrangements for EEC funding, and for a new energy policy for Northern Ireland. Mr. McCusker called on other members of the delegation to speak to each of these points.

#### Public Expenditure

Mr. Carlin said that the Government appeared to accept the principle that public expenditure allocation to Northern Ireland should be based on needs. It was not living up to this. On the face of it, expenditure per capita in Northern Ireland was higher than in Great Britain. However, this ignored the fact that more had to be spent on social security benefits and on law and order. On a proper needs basis, the Treasury ought to be spending considerably more. The Treasury ought to be prepared in any case to provide extra money under the trade and industry programme because funds allocated to this programme in previous years had not been fully utilised. It was wrong to find extra money for industrial projects by cutting back other hard-pressed programmes.

The Prime Minister said that she could not accept the premise that public expenditure could automatically be determined by needs. Resources were limited, and if there was to be extra spending the money had to be found from the private sector and from trade unionists everywhere in their capacity as taxpayers. The Government was certainly aware of Northern Ireland's special problems; and that was why public spending was higher per capita than elsewhere. There were also many individual projects which the Government had supported in Northern Ireland: she mentioned,

/in particular

in particular, the extra £42 million recently announced for Harland and Wolff. But it was not enough for Northern Ireland trade unions just to ask for more money. They also had to deliver in terms of producing competitive goods.

Mr. Graham interjected to ask whether the Prime Minister was accusing Northern Ireland workers of being lazy and slothful. The Prime Minister said she was not: she was simply saying that industry, both management and employees, had to be more competitive.

#### Import Controls

Mr. Wallace said that unemployment was so serious in Northern Ireland that it was particularly important to retain labour-intensive industries there. More vigorous action was needed to combat low cost imports. In regard to textiles, the Multi Fibre Arrangement had been of some help. But the quotas were too high and had not been monitored adequately enough. Northern Ireland, because of its dependence on textiles, was particularly affected by low cost production and "social dumping" in the poor countries. Furthermore, the doubling of VAT had suppressed demand, and high interest rates were putting still further pressure on small businesses.

The Prime Minister said that she was very sympathetic to the textile case. She agreed that monitoring of the MFA quotas had not been entirely adequate, but this was now improving. There were 400 quotas in place, and whenever the Government saw imports in a particular category rising, they were quick to go to the EEC Commission to obtain further quotas. In addition, the Government had managed to impose two special quotas on yarn imports. But the reaction to this had been mixed. While the yarn manufacturers had welcomed it, the carpet manufacturers had complained that they were now having to use more expensive domestic yarn.

/The Prime Minister

The Prime Minister went on to say, that while the Government was ready to do what they could under the MFA, they also had to recognise the risks of retaliation. The UK had a substantial trade surplus with the LDCs and with the newly industrialised developing countries, and we also had to beware of retaliation from, for example, the United States. On the other hand, there was some scope for strengthening our non-tariff barriers. For example, the Government would shortly be announcing mandatory origin marking, though this would be presented as a measure of consumer protection.

#### EEC Funding

Mr. Wylie said that Northern Ireland trade unionists applauded the Prime Minister's stand on Britain's contribution to the EEC Budget. But they were unhappy about the Government's attitude to additionality. Recently, Commissioner Giolotti had confirmed that Northern Ireland was one of the least developed regions within the EEC, and as such was entitled to priority funding. He had announced the allocation of £23 million to Northern Ireland, but on condition that the Government would match this with an additional £23 million. The Government ought to recognise the special needs of Northern Ireland, and accept that additional funds should be provided. In a recent report, Sir Charles Carter had suggested that the UK, and Northern Ireland in particular, would receive more from the EEC if the Government would agree to additionality. It seemed likely that more EEC funds would also be available if the Government were to push ahead with projects relating to cross-border cooperation.

Mr. Wylie went on to say that agriculture in Northern Ireland was facing a crisis. He was particularly concerned that any reduction in agricultural off-take would cause problems for the food processing industries. Pigs and poultry were particularly badly hit. Mr. Walker had done very well in his negotiations in Brussels, but further action was needed

/to help

to help Northern Ireland farmers. Mr. Wylie also hoped that the Government would make funds available to provide free school milk.

The Prime Minister said that a great deal had been done for farmers, and for those in Northern Ireland in particular. She mentioned the green pound devaluations, the hill subsidy for lambs, the recently negotiated sheepmeat regime, and the cow suckler premium. In addition, farmers had benefited from the high exchange rate insofar as this reduced the cost of imported feed grain. The Government was already spending a great deal in support of the farming community: with all the other pressures on public expenditure and the recent discouraging figures for central government borrowing and the money supply, it was an illusion to think that agricultural support could be increased further. She repeated that the Government recognised the exceptional circumstances of Northern Ireland, and for this reason per capita spending in the Province was higher than in the rest of the UK.

#### Energy

Mr. Cosby said that an energy policy for Northern Ireland was urgently needed. They were particularly concerned about two issues. First, they were disturbed by the decision to stop work on phases 3 and 4 at Kilroot Power Station. It was highly desirable that there should be a greater mix of fuels in Northern Ireland, and completion of Kilroot could have helped. Besides providing additional jobs, it would also have provided greater scope for cross-border cooperation insofar as the electricity generated might be fed into the Republic's system. But this would require an interconnector between the two countries. It was often said that, because of the troubles and the risk of it being blown up, it would be wrong to build an interconnector. However, the authorities managed to maintain the rail link, and they ought to be able to maintain and protect an interconnector.

/Secondly,

Secondly, they were opposed to the proposed closing down of the Northern Ireland gas industry. Closing down the industry would itself cost a lot of money and would involve the loss of some 2,000 jobs. And it pre-supposed that the gas pipeline project should not go ahead. The Northern Ireland people felt that they, like the British, should benefit from North Sea gas. He hoped that the Government would review the position of the industry in the light of the Cooper and Lybrands Report.

The Prime Minister said that there was already excess electricity in Northern Ireland, and consumers inevitably had to pay for this. She hoped very much that it would be possible to build an interconnector with the Republic, though the security problems could not be ignored. As regards gas, she understood that the industry was losing £200,000 per week. This could not be allowed to continue. Nonetheless, a comprehensive review was being undertaken of energy policy in relation to Northern Ireland generally.

#### Other points

Mr. Mackle said that he hoped there would be no further cuts in education or health spending. If there were further cuts in education, more and more children would be driven into the hands of the terrorists. As for health, there was a terrible maintenance backlog on buildings. In general, it was crucial for the stability of the Province that the Government should give extra priority to public services in Northern Ireland.

The Prime Minister said that, if the teachers had not taken out so much in pay, it would have been possible to spend more on buildings and equipment. As regards public spending generally, the Northern Ireland Secretary would be making a statement that afternoon in answer to a written Question, setting out the Government's revised plans. Although she could not give details, she hoped this would be regarded as helpful. But there was a limit on what could be done: the more that the public sector spent, the greater was the burden on the private sector.

Mr. Freeman said that it was essential to broaden the Province's economic base. One way of ensuring this was for the Government to make available additional funds to the Northern Ireland Development Agency if good projects became available. The Quigley Report had said that the Agency should be prepared to take greater risks than would normally be acceptable, and he hoped that the Government would go along with this and provide the necessary funding. In addition, the Agency would benefit greatly if there was someone with good contacts in the City of London on its Board. The Prime Minister replied that the Government could not guarantee extra funds, but Mr. Atkins would no doubt consider Mr. Freeman's other proposal.

Finally, Mr. McCusker said that he hoped the Prime Minister would let the delegation have a detailed reply to their document. The Prime Minister responded that Mr. Atkins would consider the document further, and let them have his views in due course.

R.

6 August 1980

1. N.Ireland Committee - names and notes.
2. General economic situation, particularly the size and scope of the unemployment problem.
3. Selective import controls.
4. NI public expenditure needs.
5. EC additionality.
6. Energy.



BRIEF FOR PRIME MINISTER'S MEETING WITH NIC/ICTU ON 6 AUGUST 1980  
BACKGROUND

NIC/ICTU have asked to see the Prime Minister to express their concern about the rising level of unemployment in Northern Ireland and other economic issues. Their views will echo many of those expressed in the Censure debate in the House of Commons on 29 July - notably pressure for government action to prevent unemployment rising, to restrict certain imports of manufactured goods more severely to increase public expenditure and so on. The Prime Minister will no doubt wish to take the same general line with NIC ICTU on these matters as she did in the House of Commons. The particular difficulties facing Northern Ireland are recognised but it would be a mistake to think that its long term interests would be best served by measures which provide immediate palliatives rather than seek long-term solutions to long-term problems.

OPENING REMARKS

1. The Prime Minister will wish to welcome the NIC/ICTU delegation—her first meeting with representatives of Northern Ireland trade unions, and may like to say that she welcomes this opportunity to widen her range of Northern Ireland contacts, as her two visits to Northern Ireland have been to the security forces. She might go on to welcome the non sectarian and constructive role which NIC/ICTU play. (See Brief F ) and then invite NIC/ICTU to present their views. Separate briefs are attached dealing with the five specific points which NIC/ICTU have said they wish to raise, and notes on members of the delegation.

CLOSING REMARKS

2. The contribution of workers to improving their own position by higher productivity, willingness to accept change, and moderation in pay demands could be stressed.

MEETING WITH PRIME MINISTER ON 6 AUGUSTMEMBERS OF THE NIC/ICTU DELEGATION

- J McCUSKER (Chairman) - Northern Ireland Public Service Alliance
- J GRAHAM (Vice-Chairman) - Amalgamated Union of Engineering Workers
- T CARLIN (NI Secretary) - Irish Congress of Trade Unions
- J COSBY - Electrical, Electronic Telecommunications  
and Plumbing Union
- J FREEMAN - Amalgamated Transport & General Workers Union
- G HUNTER - Irish Transport and General Workers Union
- A MACKLE - Irish National Teachers Organisation
- P McCARTAN - Association of Professional, Executive,  
Clerical and Computer Staff
- T SMYTH - Union of Construction, Allied Trades  
and Technicians
- W WALLACE - National Union of Tailors and Garment Workers
- D WYLIE MBE JP - Union of Shop Distributive and Allied Workers

Mr JIM McCUSKER

General Secretary of the Northern Ireland Public Service Alliance (NIPSA)

Chairman of the Northern Ireland Committee of the Irish Congress of Trade Unions

Background

A Catholic, born in 1942, and educated at the Christian Brothers Grammar School in Belfast, Mr McCusker was a civil servant before becoming a full time trade union official. A protegee of Brendan Harkin (his predecessor as General Secretary of NIPSA and now Chairman of the Labour Relations Agency), he has risen quickly in local TU circles. He holds various public appointments, including membership of the NIEC, NI Industrial Court, NI Industrial Tribunals and the Staff Commission for Education and Library Boards. He is married with 2 children.

J (Jimmy) Graham

Position held: Irish Divisional Organiser, Amalgamated Union of Engineering Workers (AUEW), Engineering Section.  
District Secretary, Confederation of Shipbuilding and Engineering Unions (CSEU).

Government appointments: Member of Health and Safety Agency,  
Engineering Industry Training Board,  
Employees' Panel of Industrial Tribunals  
and of the Industrial Court.

A long-standing Communist and leader of the engineering workers.  
A doughty working-class negotiator, now nearing retirement.

TERRY CARLIN

Northern Ireland Officer of the Irish Congress of Trade Unions.

Background:

Born in 1946, to a working-class family of 12 in the Bogside, Londonderry, his father was a painter and decorator. He was educated at St Columb's College in Londonderry; then after working for a spell in a local factory (BSR, a big record-player factory which closed its Londonderry plant in 1965) he made his way to the National University of Ireland, graduating with a BA. He then taught for three years, first in Limavady and later in Bangor. In 1971 he became the training and information officer for ICTU in Northern Ireland and later its administrative officer. In 1975 when Billy Blease (now Lord Blease) retired, he took over as Northern Ireland Officer. He is now a member of the Northern Ireland Economic Council and the Industries Development Advisory Committee. His appointment to the Police Authority as a NIC/ICTU nominee on the resignation of Councillor Jack Hassard caused some controversy within ICTU (as to whether their representation should be continued).

He is married (Una). They live in Belfast.

Personality and Political Views:

His approach to his job was initially influenced by his lack of the more orthodox trade union credentials. In demonstrating his militancy, he could appear shrill and naive. With greater experience and maturity he has become a more assured negotiator who clearly values his informal contacts with Government. He is however still given to occasional intemperance and lack of tact.

He acquired a reputation in the 1977 UUAC attempted stoppage when he worked tirelessly to keep people going to work. Given the weak chairman at that time, he became the main NIC mouthpiece. He looks back on this period with pride and likes to highlight his role in it. He is totally committed to establishing (NIC/) ICTU as the authoritative body representing workers in Northern Ireland.

He sees himself (as do nearly all Northern Ireland trade union leaders) as a socialist rather than a sectarian 'politician'. He is adamantly opposed to the extension of Conservative policies on public expenditure and industrial relations to Northern Ireland. On other political issues he displays less intractability. In private, fond of anecdotes, he is an engaging conversationalist.

He is keenly interested in Human Rights matters.

J (Jim) Cosby

Position held: Area full-time official Electrical, Electronic  
Telecommunications and Plumbing Union (EETPU)

Government appointments: Member of Economic Council (but  
retiring due to ill health) and  
Employees Panel of Industrial  
Tribunals.

Is a former Communist until the purge by the ETU, but still  
has left-wing sympathies.

Apparently a quiet and not very articulate man, said to have  
greater intellectual depths. His recent ill health may  
perhaps lead to less than 100 per cent commitment to the  
NIC/ICTU cause. Also a member of the Fire Authority in  
Northern Ireland.

JOHN FREEMAN - Irish Regional Secretary of the Amalgamated Transport and General Workers' Union

Background

Born 1923 in Scotland, in a working-class background. On leaving school he took a semi-skilled job with Short and Harland in Belfast, where he became a senior shop steward. After a spell as a full-time union convenor in Australia he returned to Shorts. After serving as the ATGWU Northern Ireland organiser, he was appointed to be the regional secretary for all Ireland.

He was chairman of the Northern Ireland Committee of the Irish Congress of Trade Unions 1978-79. He is currently deputy chairman of the Northern Ireland Development Agency, and a member of the Northern Ireland Electricity Service Board, the Northern Ireland Economic Council and the Northern Ireland Advisory Council of the BBC. His wife worked for Shorts too, in the canteen. They live in South Belfast.

Personality and Political Views:

He is a small man with a rather intense, yet engaging, manner. Articulate, to the point of volubility, he has an idiosyncratic accent. He has become in the last few years one of Northern Ireland's most influential trade union leaders. He has for the most part avoided, as the majority of leading trade unionists in Northern Ireland do, engaging in public political debate. His principal loyalty is to the working-class (somewhat in the tradition of Jim Larkin). If pressed however his sympathies would probably lie with the newly formed United Labour Party.

Ministers have generally found him one of the more malleable and sympathetic of the Northern Ireland trade union leaders, and in the main this impression is justified. As a man of principle, he is capable of digging his heels in on certain issues. He has also been made conscious, not least in the context of the oil tanker drivers' and the road hauliers' strikes of early 1979, of the tenuous nature of the hold of the leadership (with its all Ireland ICTU orientation) on the rank and file. He therefore has to protect his flank.

NB The TGWU has in Northern Ireland 74,000 of its total membership of c 100,000 in Ireland. The vast majority of the Irish Transport and General Workers' Union, an entirely separate body with its headquarters in Dublin, are in the Republic.

HUNTER, GEORGE

North-West District Secretary of the Irish Transport and General Workers' Union.

Background:

Mr Hunter was elected to the NI Committee of the Irish Congress of Trade Unions in May 1978. He also holds several public appointments mainly as a Trade Union representative.

Mr Hunter lives in Strabane, a town which has one of the worst records of unemployment in Northern Ireland.



MACKLE FelixAloysius:      Approximate age 52

Northern Ireland Secretary of the Irish National Teachers' Organisation.

A former teacher who taught in a small primary school in Magherafelt before becoming Principal of St Mary's School, Maghery, where he remained until taking up his present post as INTO Secretary.

INTO represents most Roman Catholic teachers in primary schools throughout Ireland though Mr Mackle's responsibility is as Secretary to the organisation in NI.

Mr Mackle, on behalf of INTO, has given public support to the proposals of the Chilver Committee Report on Higher Education in NI. This support was in the face of strong criticism from the Catholic community in general.

Mr Mackle holds several public appointments mainly as a Trade Union representative.

P (Pat) McCartan

Position held: Area Secretary, Association of Professional, Executive, Clerical and Computer Staff (APEX).

Government appointments: Vice-Chairman, NI Consumers' Council. Member of Public Service Training Committee, SE Education and Library Board, Board of Governors of Belfast College of Business Studies, Employees' Panel of Industrial Tribunals.

Former Civil Servant, when he was active in Public Service Alliance affair. Re-elected to NIC/ICTU this year after being dropped for a year. When previously a member seemed likely to become an influential member.

(Tommy) Smyth

Position held: Regional Organiser, Union of Construction, Allied Trades and Technicians (UCATT).

Government appointment: Member of Construction Industry Training Board.

Recently became chief local official of UCATT; a relative newcomer and hence an unknown quantity.

W (Bill) Wallace

Position held: Irish Divisional Officer, National Union of Tailors and Garment Workers (NUTGW).

Government appointments: Member of Fair Employment Agency, Health and Safety Agency, Training Executive, Clothing and Footwear Industrial Training Board, of 3 Wages Councils, Employees' Panel of Industrial Tribunals and of Industrial Court.

Appointments really reflect the great activity of his predecessor in the position with NUTGW who died suddenly some time ago; has largely taken over those appointments. Is himself still something of an unknown quantity.

D (David) Wylie MBE JP

Position held: Area Organiser, Union of Shop, Distributive and Allied Workers (USDAW).

Government appointments: Chairman of Employment Service Management Committee, Member of Labour Relations Agency, Arts Council, Training Council, Legal Aid Advisory Council, Construction and Distributive Industries Training Boards, Boards of Ulsterbus Ltd and Citybus Ltd, Employees' Panel of Industrial Tribunals and of Industrial Court and of 4 Wages Councils.

Now something of an elder statesman on NIC/ICTU and in local TU scene. Stance is generally right of centre.

GENERAL ECONOMIC SITUATION

The NIC deprecate the high levels of unemployment in Northern Ireland and believe that the problem is greatly exacerbated by Government's economic policies. These points were made recently at the annual conference of ICTU. In press comments on the July unemployment figures, Mr Carlin was reported as saying that "the SOS and the PM showed a completely callous lack of concern towards the problem of unemployment in Northern Ireland".

Line to take

The rising level of unemployment is regretted, but as the PM said on 29 July "It is a cruel deception to pretend to the unemployed that it is within the capacity of politicians on their own to create employment that will last, or to avert indefinitely the disappearance of a job whose market has gone". (Hansard col 1302). Remedial action must bear this point in mind. As NIC/ICTU know specific counter measures are in force. The Youth Opportunities Programme has been increased this year from 6,000 to over 7,000 places. Through various schemes, Enterprise Ulster, the Government Training Centres and grant-aided training by employers, a total of 30,000 jobs and training places are provided or supported.

The rates of industrial development assistance are the highest in the UK. These have been effective in promoting over 3,400 new manufacturing jobs in the first 6 months of 1980. £42.5M has been made available to Harland and Wolff to cover the shipyard's operations during the current financial year. There will be an Enterprise Zone in an area in inner Belfast.

See Appendices I and II for detail.

1100M

CURRENT UNEMPLOYMENT SITUATION

1. Unemployment in Northern Ireland now stands at 84,687 (14.7%). These figures can be broken down as follows -

a. Male unemployment - 53,341 (16.7%)  
 Female unemployment - 29,346 (12.0%)

- b. Comparison with previous periods -

	July 1980	June 1980	July 1979
Numbers	84,687	73,031	71,961
Unemployed	(14.7%)	(12.7%)	(12.5%)
Increase over June 1980	+11,656 (16%)		
Increase over July 1979	+12,726 (18%)		

School leaver unemployment is 2,217 (20%) higher than July 1979 and 5,396 (67%) than June 1980.

2. Industrial Analysis

The industries which suffered the greatest job losses -

<u>Industry</u>	Jobs lost since July 1979	Jobs lost since June 1980
Textiles	1,312	322
Construction	1,908	438
Distribution	1,154	329
Clothing & Footwear	898	-
Miscellaneous Services	913	-
Professional & Scientific Services	-	805 (mainly teachers)

3. Unemployment in Northern Ireland compared with Great Britain

- i. Areas of highest unemployment (seasonally adjusted and excluding school leavers) -

Northern Ireland	12.1%
North	9.6%
Scotland	9.1%
Wales	9.0%

ii. Rate of increase (seasonally adjusted and excluding school leavers)

	June 1978	July 1980	% increase
Northern Ireland	58,200	69,800	19.9%
Great Britain	1223,600	1536,200	25.5%

← It should be noted that the trend in unemployment since 1974 has been predominantly upward with no real indication of reversal at any stage. Even the sum total of large increases since 1979 is small compared to the increase which occurred between 1974 and 1976. The high levels established then have shown no sign of reduction, but continued to increase up to 1977. The decrease between 1977 and 1979 were insignificant in comparison.

4. Redundancies

In addition to the 6336 redundancies notified to the DMS in the period January to June 1980, a further 3807 advance redundancies (of which 1363 are associated with applications under TSTWCS) have been notified since the beginning of July. This includes Grundig an electronic firm in West Belfast which is closing down with a loss of 1,000 jobs.



## COUNTER UNEMPLOYMENT MEASURES

1. Youth Opportunities Programme

The Programme currently provides over 7,000 places for unemployed young people under 19 years of age. The programme offers a variety of opportunities to accommodate the needs of a wide range of young people.

Apprentice Training in Government Training Centres and with Employers	3,800 places
Work Experience and training with Employers and in Colleges of Further Education	1,000
Basic and remedial training	700
Community Workshops	1,000
Other Schemes	800

2. Temporary Short Time Working Compensation Scheme

Introduced in April 1979 and extended from April 1980 for a further year, this scheme aims to combat unemployment by providing for compensation to be paid to employers who are prepared, after consultation with the appropriate Trade Union, to adopt short time working as an alternative to implementing redundancies. The number of persons on short-time working can be up to twice the number of redundancies so averted. The Scheme is identical to the CB Scheme. The cost in 1980/81 will be approximately 55m.

3. Job Release Scheme

This scheme aims to create vacancies for unemployed people by encouraging older workers to leave their jobs before retirement age. The scheme has been extended for a further year until 5 April 1981 and applies to men aged 64, women aged 59 and disabled men aged 60 to 63. The scheme is identical to the CB scheme and will cost approximately £2.45m in the current financial year.

SELECTIVE IMPORT CONTROLS

It is assumed that NIC wish to press in particular for import controls to protect the textile and clothing industries.

Line to take

The Prime Minister could refer to the action already taken to place quotas on imports of polyester filament yarn and nylon carpet yarn, and say that the level of import penetration for carpets of man-made fibre origin is being monitored by the Department of Trade. If there is any evidence of escalation of the problem the Commission will be pressed for safeguard action. The government is also encouraging firms to meet the challenge from overseas. There is an active programme of trade support to encourage NI clothing and textile firms to develop their sales and export markets and Government support is available for re-equipment and modernisation to enable textile and clothing companies to improve their competitive position.

Finally the Prime Minister will wish to repeat warnings about the danger of retaliation if the Government imposed import restrictions on a wide range of goods.

NI PUBLIC EXPENDITURE NEEDSNIC views

NIC will argue that restraint on public expenditure should not apply in Northern Ireland because of its high unemployment and its economic and social problems. In particular, NIC may press for

- a programme of public works to be carried out by direct labour
- exemption of NICS from civil service manpower cuts
- maintenance of the capital spending programme to provide employment in the construction industry.

Line to take

Northern Ireland cannot be exempt from public expenditure cuts. It is reaping and will reap the benefits of the Government's policies. It is already benefitting from the lower direct taxation of persons and companies. In the longer term it will gain as much as any other region of the UK from the reduction in inflation and the increased economic activity which the Government's whole strategy will achieve. Its objective is to get the economic base right. Artificial job creation does not achieve this.

Northern Ireland's needs and circumstances have been give special treatment in the allocation of public expenditure. For example:-

- (a) After allowing for inflation the planned levels of public expenditure for the 4 years from 1980/81 are still 5%, 4%, 2% and 2% (respectively) higher than the average for the years 1974/75 to 1977/78.
- (b) Public expenditure in Northern Ireland this year will be some £1,750 for every person living there. This is 35% more per head of population than in the rest of the UK. Are NIC/ICTU suggesting that other areas should get less so that NI can get more? Or that taxation and borrowing should be increased all round to divert more funds to NI? Neither is acceptable.
- (c) The planned levels of public expenditure show a reduction in Northern Ireland of about 3% between 1980/81 and 1983/84. This compares with a reduction of about 6% in comparable services in Great Britain over the same period.

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- (d) Net public expenditure on housing in Northern Ireland is currently planned to decline by some 11% over the period from 1980/81 to 1983/84. The corresponding figure for Great Britain is about 40%. Public expenditure per capita on new house building and on improving and maintaining existing dwellings within Northern Ireland will be  $1\frac{1}{2}$  times the GB rate.

The Government is committed to reducing the size of the UKCS/UK Civil Service. The same arguments in favour of reducing the size of the public sector apply with equal force to the NICS.

The Secretary of State for Northern Ireland, as you will know, has been reviewing the Northern Ireland public expenditure programme for the current year. He will be making a statement on this later today, and I think you will see from this that the Government is conscious of the need to give a proper priority to the improvement of the industrial base in the province.

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ADDITIONALITY

NIC/ICTU will argue that because of Northern Ireland's economic and social problems EC monies should be treated as an addition to agreed public expenditure levels. They may allege that Northern Ireland is cheated out of its benefits by Westminster and contrast the situation in Northern Ireland unfavourably with the Republic.

Line to take

Assistance from the EC helps us to maintain the level of public expenditure at its present level - without it public expenditure would have to be cut further. This is particularly true of the money we will receive to reduce our excessive net contribution to the EC Budget. Northern Ireland already receive a large share of EC resources for its size and public expenditure is the highest in the UK on a per capita basis. The Government cannot increase this. The Republic is a large net beneficiary of the Community and can therefore treat new money as a windfall; even with the Budget settlement we are only getting back what we put in.

ENERGY

NIC will point to the high cost of energy in Northern Ireland and will argue that:-

- (a) electricity tariffs should be kept in line with those in the rest of the UK;
- (b) Government should pursue alternative sources of electricity generation or supply eg conversion of oil-fired stations to coal-firing, reinstatement of the interconnector with the Republic of Ireland, tidal generation at Strangford Lough;
- (c) the decision against providing a natural gas pipeline from Scotland should be reversed and hence the gas industry in Northern Ireland should not be run down;
- (d) if it is, there should be 100% assistance to consumers to replace appliances and
- (e) there should be a continuation or enhancement of special assistance to the needy in respect of fuel costs.

Line to take

Government is very conscious of the implications of high energy costs for economic and social development in Northern Ireland. That is why it has instituted a comprehensive review of the problems of the Electricity Service. This review will cover all possible options. Decisions on such matters as conversion to coal-firing etc must await its outcome. Measures are in force to keep the cost of electricity to industrial users below what it otherwise would be.

Restoration of the interconnector with the Republic of Ireland would benefit not only to Northern Ireland but the Republic as well and both Governments have publicly stated their determination to restore and maintain the interconnector.

The Government's decision about the Gas pipeline was made after long and full consideration of all the facts. The recent Coopers and Lybrand report (commissioned by the NI Gas Employers Board) is being carefully examined but in the meantime planning for the closures must go ahead. A moratorium is not justified when eg the Belfast gas undertaking is running at a loss of around £200,000 a week. It is unreasonable to expect the general public to meet such deficits. And public expenditure for this purpose means less is available for other uses.

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If NIC refer to the 100% assistance given to consumers for conversion to natural gas in Great Britain, the PM could point out that the cost of conversion was borne ultimately by those consumers through tariffs. There is no way of avoiding such costs in one way or another.

If NIC/ICTU raise detailed points about fuel assistance for the poor in NI, the PM may like to suggest that these be followed up separately with the Secretary of State.

NORTHERN IRELAND COMMITTEE (NIC)

1. Unions operating in Northern Ireland are for the most part British based and thus linked to the TUC. However, practically all the Unions, British and Irish, are affiliated to the Dublin based Irish Congress of Trade Unions (ICTU). ICTU's Northern Ireland Committee (NIC) and not the TUC is therefore the TU central body in NI. NIC has no formal links with the TUC though there are open lines of communication between them.

Links with ICTU

2. NI Trade Unionists are frequently on the all-Ireland executive of ICTU. As such they have on occasions in the past played an influential and sometimes decisive role in Southern affairs (eg in the wages negotiations field). However the reverse is not the case. Southern Trade Unionists do not have a corresponding influence in the North. The NIC of ICTU therefore acts with a great deal of autonomy in the trade union affairs in the Province.

NIC and Security Situation

3. The Trade union movement in Northern Ireland embraces both communities and has played a prominent part in promoting reconciliation and opposing sectarianism and violence. On the whole, the troubles of the Province have not spilled over onto the shop floor.

NIC and Industrial Relations

4. The Trade Unions have also played a reasonably constructive role in the wider industrial relations field - thus Northern Ireland has enjoyed a better strike and days lost record than either Great Britain or the Republic of Ireland. Their non-sectarian and constructive role has been greatly appreciated by successive Governments.

NIC and Politics

5. NIC/ICTU has no affiliation with any political party either in NI or in GB. On the political initiative, the Secretary of State has written to the Chairman stressing the importance of the Government's constitutional proposals and inviting any comments NIC wishes to make, either in writing or at a meeting with Mr Rossi.

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# Irish Congress of Trade Unions

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<p style="text-align: center;"><u>UNEMPLOYMENT</u></p> <p style="text-align: center;"><u>IN</u></p> <p style="text-align: center;"><u>NORTHERN</u>      <u>IRELAND</u></p>
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SUBMISSION BY

THE NORTHERN IRELAND COMMITTEE, I.C.T.U.

TO

THE RT HON M THATCHER, PRIME MINISTER

AUGUST 1980

## UNEMPLOYMENT IN NORTHERN IRELAND

The Northern Ireland Committee, Irish Congress of Trade Unions welcomes the opportunity to discuss with the Prime Minister the present unemployment crisis as it affects Northern Ireland.

At the outset, we should place on record that we disagree fundamentally with many of the Government's economic and industrial policies for the United Kingdom as a whole. Our primary purpose in presenting our views to the Prime Minister is, however, to press the special considerations of Northern Ireland.

Our document - Jobs: An Action Programme - published in October 1979, challenged the Government's policies as they applied generally to the UK, but particularly to Northern Ireland. We restated our objective of full employment and said specifically that the present Government's policies made the achievement of that objective seem very remote. We clearly warned that the pursuit of those policies would lead to a drastic increase in the level of unemployment throughout the Province.

In our discussions, both at conferences and elsewhere, with representatives of the community at large, we have received many expressions of support for our views contained in the Programme. The widespread reaction of concern at the July unemployment figures shows that very many community sections still retain that view.

The 'official' figure of 84,687 represents the worst unemployment figure since the mid 1930's. To that figure should be added the 1400 people who have opted out of employment under the Job Release Scheme and who, whilst unemployed in the real sense, are debarred from either registering as unemployed, or taking full-time work.

The Minister of State, Mr. Hugh Rossi, in his statement, indicated that 5472 jobs were being assisted under the Short-time Working Compensation Scheme. He did not, however, admit that 12,079 people share those jobs. Taking these three groups of workers together, this adds up to 98,166 workers directly affected either

wholly or partly, by unemployment. This does not include the 7345 adult students who are registered for temporary employment, many of whom, in better years, would have had the opportunity of summer employment. This gives us a total of 105,511 people in the Province currently suffering full-time, part-time or temporary unemployment.

In proportionate terms, if these figures were reflected throughout the United Kingdom, they would equate almost  $3\frac{1}{2}$  million unemployed, with almost another  $\frac{1}{2}$  million on short-time working. We respectively submit that no Government could persuade even its own Party that its industrial and economic policies were working for the benefit of the country if such figures became a reality for the whole of the UK.

Over 21,000 of Northern Ireland's unemployed are under 19 years of age and a recent study on unemployment commissioned by the Department of Manpower Services shows that the rate of youth unemployment has increased at double the rate of Northern Ireland's overall unemployment. The increase is also double the rate of increase in youth unemployment in Great Britain. It is depressing to note that there are 140 young people for each vacancy registered with the Department of Manpower Services.

Even before this year's crop of school leavers joined the labour market, there were 7,685 young people under the age of 19 unemployed. This level of unemployment amongst young people represents a disgraceful waste of resources, both in terms of human resources and in terms of financial and technical resources which have been committed to their education over the years.

That is true of the whole of the UK. There is however another aspect to this problem in Northern Ireland. The young unemployed who live in circumstances of cumulative social disadvantage in terms of poor housing and lack of recreational facilities, become potential prey for the godfathers of violence and recruits for terrorist

organisations, or themselves become the victims of violence. A number of young people, for example, have been seriously injured or killed in "joy-riding" incidents involving the security forces in the most deprived areas of West Belfast. There is fairly conclusive evidence that the oppressive levels of unemployment are themselves a contributory factor to violence in our community, leading to death and destruction. We firmly believe that urgent remedial action designed to tackle and eliminate the scourge of unemployment would, in itself, have direct beneficial results in the security situation.

The Northern Ireland Committee is conscious of the fact that in making its plea for Northern Ireland, we face competition from other areas, which can show very high levels of unemployment, and Government Ministers have in the past replied to the Committee's representations by pointing to high levels of unemployment in towns in Merseyside, South Wales and the North-east. It gives the NIC/ICTU no joy however to record the highest unemployment rates in the UK in areas such as Strabane, with 34.5% male unemployment, Newry with 29.6%, Dungannon with 27.2%, Cookstown with 25.3% and Londonderry with 23.2%.

In Northern Ireland, therefore, in 5 out of 13 travel-to-work areas, male unemployment is in excess of 20% and no other sub-region of the UK suffers to the same degree. While the unemployment rates in various parts of Belfast are not published, official Department of Manpower Services data shows that unemployment in West Belfast reaches almost 40% .

In the past, Government measures to combat unemployment have been inadequate to meet the scope of the problem. For example, the first phase of the De Lorean project is expected to yield 2000 jobs. Yet, since the project was announced, nearly 2000 redundancies have been declared in companies such as Grundig, Ford, Olympia, in Bridgeport Brass, Tilley Lamp, Duff's etc., some of which are literally within walking distance of the new De Lorean plant.

A number of those who have recently announced closure, including for example, the German-owned Demag company, paid tribute to the productivity and industrial relations record of their workforce and blamed Government policies of high interest rates, coupled with a strong pound and a refusal to ban imports, for their decision to close.

The crisis of unemployment in Northern Ireland therefore runs deeper, is more all-pervading, and even has life and death overtones far in excess of the problem in other areas of the UK. Government Ministers have indicated that they expect even the present level of unemployment to rise, and we urgently request the Prime Minister to immediately institute emergency programmes of job creation and employment, designed to significantly reduce the current level, let alone projected levels of unemployment. As a minimum we urge that the Prime Minister accepts that Northern Ireland should be spared the adverse effects of current policy at least until the rate of unemployment in Northern Ireland has been reduced to no more than the United Kingdom average.

PUBLIC EXPENDITURE NEEDS IN NORTHERN IRELAND

The Northern Ireland Committee is well aware of Government's standard response to representations about public expenditure in Northern Ireland. Government Ministers inevitably draw comparisons on a per capita basis between Northern Ireland and other regions within the United Kingdom, or alternatively, point to percentage cuts in public expenditure in trying to show that the Northern Ireland cuts are less. Government then proceeds to claim that this is in recognition of a special case for Northern Ireland, and that Northern Ireland is treated quite generously.

The NIC/ICTU does not accept that either of these comparisons is an adequate base for assessing the expenditure needs of the Province. Equally, we must state clearly that it is our belief that any recognition of Northern Ireland as a special case which existed under the previous Government has now largely been dissipated, and Northern Ireland is expected to share the same burdens as the rest of the UK, in spite of the fact that we already have more than our fair share of problems.

Taking firstly the per capita figures, we would point out that Northern Ireland spends 12% more on social security per head of the population than the UK as a whole. This however is only to be expected in an area with twice the national rate of unemployment, and an expenditure on Family Income Supplement per head which is eight times greater than that in South-east England.

The per capita figure also includes a higher spending on law and order which is a direct reflection of the continuation of violence. Citizens in Northern Ireland however have every right to expect the Government to provide a level of security which guarantees as far as possible, their lives, safety and property.

Furthermore, over the last few years, Northern Ireland has had to pay for the implementation of UK national policy in a manner which

was not reflected in any other region of the United Kingdom. The Meat Industry Employment Scheme and other related schemes in the milk and intensive sectors of the agricultural industry have meant diverting £50m per annum from other Northern Ireland funds into these sectors with a view to protecting farm incomes and employment both on and off the farm.

The 'per capita' figures for public expenditure must therefore be adjusted to take account of a number of special considerations. When these adjustments are made, it is quite clear that the people of Northern Ireland received no more favourable considerations than other regions, in spite of the fact that Northern Ireland is officially recognised by the EEC, for example, as one of the most deprived regions of Europe let alone the United Kingdom.

In its last Annual Report (published August 1979), the Northern Ireland Economic Council examined the cuts announced by the Government almost as soon as Government took office. In a unanimous Report, the Council, which is composed of NIC/ICTU, CBI and independent members, stated: "On the public expenditure front, £35m specific cuts in Northern Ireland amounted to 1.6% of planned expenditure for 1979/80, compared with 2.4% reduction for the UK as a whole". The Secretary and Ministers of State for Northern Ireland have made similar assessments in relation to those cuts and other changes in planned or real expenditure. Unlike the Ministers, however the Council go further in their assessment and came to the conclusion that "The two figures are not strictly comparable because the Northern Ireland programme covered a more limited range of services than the total UK public expenditure figure. Given the greater proportionate importance of public expenditure in Northern Ireland, however, we would expect cuts of this relative magnitude to have a broadly similar impact on economic activities within the two areas. Moreover, Northern Ireland will have to bear its share of the proposed £1bn savings produced by the strict application of cash limits in 1979/80 and this will have a greater adverse affect on economic activity in the Province".

The Council then went on to warn that these cuts were likely to lead directly to increased unemployment during the next 12 months (i.e. up to the present). The Council's arguments point to the weakness of Government's argument in simply drawing comparisons between percentage cuts and in the argument advanced by the Secretary and Ministers of State in the Province that those cuts would not lead to unemployment. Previous Governments, Conservative and Labour, have given a pledge that they will work progressively towards the equalisation of living standards in Northern Ireland with the rest of the UK. That can not possibly be achieved if Government pursues its current policy in respect of public expenditure cuts. The choice therefore for the Prime Minister is quite clear. The Prime Minister must either publicly retract that declaration or must be prepared to give assurances that the Government will adopt policies which will allow progress towards the equalisation of living standards.

Government has also claimed that its priority is to divert resources from the public sector to the industrial sector. The 1980 White Paper on Public Expenditure however projects for Northern Ireland a cut on planned expenditure in trade, industry and employment from £252m (in the 1979 paper) to £190m, in spite of the fact that Northern Ireland will require to generate very large numbers of new jobs to tackle the current unemployment crisis, cater for a higher percentage increase in the working population as compared with the remainder of the UK, and to replace further jobs which will be inevitably lost in industries such as textiles, electrical consumer goods, shipbuilding and agriculture.

Whilst the main thrust of this submission is to express our concern about unemployment, we cannot ignore the other aspects of the social fabric of life in the Province. It has long been recognised that Northern Ireland has the worst housing situation in Britain and amongst the worst in Western Europe. In spite of this, in the period from 1979/80 to 1983/84, Government has projected a reduction in housing expenditure in the Province from £205m to £180m. As a direct result of cuts in its budget, the Northern Ireland Housing Executive has, in recent days, announced cuts in some of its house



building programme and also major changes in its repairs and maintenance programmes. Under the scheme, tenants could have to wait up to four days for emergency repairs, and the Housing Executive is experimenting with self-help repair schemes over which the Executive's control of expenditure would be reduced as compared with direct labour repair schemes.

The Northern Ireland Housing Executive, once described by a Government Minister as the largest slum landlord in Western Europe, has had its assessment of its needs which it submitted to the Department for the current financial year, slashed by £17m. Cuts of this magnitude cannot be effected without further rapid deterioration of the already appalling housing conditions which have been repeatedly documented in official reports.

Health and Social Services are similarly suffering and the Area Boards have warned Government that the cuts, together with the freeze announced by Mr. Atkins in July, are leading directly to a deterioration in services, and the non-replacement of decayed and dilapidated buildings which should not form part of the facilities of a modern health service.

In education, approximately 20,000 children from low income families will be denied free school meals from this September and this will affect 6/7000 low income families whose total income is only marginally above that of Supplementary Benefits level.

To use one of the Government's own oft-repeated phrases, school meals have "priced themselves out of the market" and the Southern Education Board has declared 90 of its school meals staff redundant because of the fall off in demand, following the recent price increases.

At the start of July, the Secretary of State announced a freeze on new expenditure by public authorities or departments wherever possible. No other region in the UK has been treated in this manner. It is deplorable that bodies such as health and education boards should have their expenditure plans, which were agreed by Government as recently as last March, suddenly halted and all of their budgets reassessed.

The Secretary and Ministers of State have indicated that the purpose is to find about £100m in these budgets for transfer to industrial programmes. We wish to remind the Prime Minister that, for a number of years, Northern Ireland departments underspent very substantial sums of the budget which had been agreed with the Central Exchequer, and millions of pounds allocated from the UK Exchequer were not therefore transferred to Northern Ireland.

Amongst the largest of the short-falls was expenditure on trade, industry and employment, because of the dearth of new industrial development projects coming forward for grant-aid. If, therefore, £100m is required, as the Minister sought to imply for new industrial development projects, then that money should be made available from Central Exchequer funds in lieu of the previous underspending in the Northern Ireland budget for that same purpose. We suspect however that some of that money is required not for the maintenance or expansion of industrial projects but for payments of redundancy payments and unemployment benefits. Redundancies in Northern Ireland for the past three years have averaged approximately 8,800 per annum. In the first six months of this year alone, 6336 redundancies have taken place, according to Department of Manpower figures. In the last three months there has been a steady increase from 963 to 1102 to 1698. In addition, the first week in July saw the announcement of the pending closure of Grundig, with 1000 redundancies and a steady stream of daily announcements, many of them affective immediately after the July holidays. Annualised, the rate of redundancies this year will be little short of 12,000

The NIC/ICTU therefore requests that the Prime Minister order the Secretary of State for Northern Ireland to lift the freeze imposed at the beginning of July. We would claim that the Treasury should make an additional payment to Northern Ireland funds to cover any needs which may have suddenly arisen from either increased industrial investments or increased unemployment, and for which it was impossible to make forward provision. The resources allocated for public expenditure in Northern Ireland are already inadequate and we cannot afford the exercise of 'robbing Peter to pay Paul' from within the existing Northern Ireland budgets.

We are therefore opposed to the current freeze on the basis that Northern Ireland has been unfairly treated and in any event cannot afford it.

Furthermore, the Northern Ireland Committee strongly contends that as a matter of principle, public expenditure programmes should be designed and resourced to meet the needs of the Province and its people.

The Government itself pays lip service to these same principles and in both of the recent Discussion Documents on the Government of Northern Ireland the Secretary of State has stated: "Public expenditure in Northern Ireland will continue as at present, to be assessed on the basis of need and to be financed with support as necessary from the United Kingdom Exchequer". The Need Assessment Study, published by the Treasury in December of last year showed clearly that the needs of Northern Ireland are considerably greater than in other regions of the United Kingdom.

It is blatantly obvious that the public expenditure resources allocated to Northern Ireland are hopelessly inadequate when one considers the needs and problems of the Province. Cuts and freezes in public expenditure serve only to cause further deprivation in the Province and therefore increase its needs.

Since its expenditure policies in Northern Ireland have been in direct conflict with this principle, the Committee requests that the Prime Minister publish a detailed statement setting out the ways in which Government intends to honour the principle which it has itself enunciated not once, but twice, in the recent Discussion Documents.

SELECTIVE IMPORT CONTROLS

Government's refusal to introduce selective import controls in a number of industries is causing massive redundancies at a rate which even the industries themselves did not expect. In some cases, the Government's refusal has hinged on EEC responsibilities, and yet the Government seems to disregard the actions of other EEC countries.

The situation affects many industries but we would like to illustrate some of those which give us direct grounds for concern.

Unemployment in the clothing, textile and footwear industries has increased by over 2000 since last year, and at least another 2000 are currently operating under the Temporary Short-Time Working Compensation Scheme. In some cases, the imports which are displacing Northern Ireland products, come from Third World countries, such as Thailand and Taiwan. Import controls against these countries would be unlikely to cause the major international trade war which Government often advances as a reason for not introducing import controls. The multi-fibre arrangement of the EEC which held out some hope for controlling the situation, is proving increasingly ineffective in a number of ways.

For example, one American company is shutting its Northern Ireland subsidiary because of cheap American imports into the EEC, and in particular, into the United Kingdom. In other cases, EEC countries have sub-contracted garment making to low-cost countries, have brought back the finished article and affixed their own label, and then re-exported the goods to other Common Market countries, including the UK - a process known as outward processing. The present multi-fibre arrangement is inadequate to deal with unfair competition from American imports, which benefit from the hidden subsidy on energy costs and the effects of the strength of sterling as against the US Dollar. Nor can the M.F.A. withstand the Outward Processing described above, which is a flagrant breach of the spirit of the Multi-Fibre Arrangement. The UK Government has not sought to initiate action against other EEC countries which are guilty of this practice.

Northern Ireland is also suffering a recession in its electrical goods manufacturing, with for example the forthcoming closure of Grundig and Olympia, and large-scale redundancies at Goblin. Again, the restriction on imports into the EEC as a whole could safeguard the 1000 jobs at Grundig, without any adverse effect on any other EEC country, since these products are not made anywhere else within the Common Market. Looked at in EEC terms, the EEC as a whole, and not just Northern Ireland, will lose 1000 jobs and will have to import products to substitute for those currently made within EEC itself.

The Government cannot be unaware that the French and Italian Governments in particular have imposed bans on imports of certain electrical goods, such as television sets, even from other member-countries of the EEC. Yet the Government shows a marked reluctance to take any effective action at EEC level to protect our industry.

Northern Ireland's industry includes a substantial element of industries located in the Province in the 1960's and 70's. In many cases, the plants established here were nothing more than 'satellite' manufacturing units which tend to be amongst the first victims of any recession. Included in that wave of investment was a number of major multi-national fibre companies. Even these newer industries, including man-made fibres which has been highly capitalised from the very beginning, are themselves facing serious problems, again due largely to competition from the USA and Third World countries.

We realise that it is a fundamental belief of every Conservative Government that companies should face competition. Even a Conservative Government however has a moral responsibility to protect its industry against unfair competition.

The NIC/ICTU is fully aware that trade unionists, and indeed employers, in many parts of the United Kingdom are saying the same thing about the industries within their own areas. Northern Ireland however suffers more than any other region from having a narrower industrial base, still heavily dependent on declining industries such as textiles, shipbuilding and agriculture and with many of its post-war investments having little firm root in the Province, and now uprooting in the face of the cold winds of recession.

Government must therefore, as a matter of urgency, give consideration to selective import controls in the clothing, textile and footwear industries, and should be prepared to adopt the same measures as other member-States in the EEC to protect industries such as electrical goods and shipbuilding. Northern Ireland cannot afford to wait until the EEC is next due to renegotiate the Multi-Fibre Arrangement and we would urge the Prime Minister to give a commitment that the Government will take a lead in seeking renegotiation as one of its priorities in the European context.

EEC FUNDS

On a recent visit to Northern Ireland, Commissioner Antonio Giolitti confirmed that Northern Ireland is viewed by the European Commission as one of the four least developed regions within the EEC. As such, Northern Ireland is entitled to receive priority in the allocation of EEC funds. Accordingly the Commissioner announced the allocation of £23m to a number of Northern Ireland projects from the European Social Fund and the European Regional Development Fund. These funds are being made available on the understanding that Government will match the funds with an additional £23m. If, however, Government continues its previous practice, the Government will not, in fact, invest any additional money in the projects, but will instead allocate £23m of expenditure to which it is already committed. It would therefore appear that the Common Market is more ready to recognise the special needs of Northern Ireland, and the need for additional funds to help the region overcome its economic problems, than the Government at Westminster.

The very least that Northern Ireland is entitled to expect is that the UK Government should recognise the special needs of the Province to the same extent as it has persuaded the other eight member-Governments ie, that Northern Ireland is a depressed region which needs special and additional resources allocated to it if it is to overcome its economic problems. The Northern Ireland Committee and the Executive Council of ICTU have, on a number of occasions, been involved in making representations to Governments North and South, on the need for cross-border co-operation and have consistently argued through organisations such as the European Economic and Social Committee that the EEC must support cross-border projects. Projects of this nature help some of the areas worst-hit by unemployment. There are indications that the EEC would be prepared to make available further funds for these types of projects if the UK Government was prepared to make additional funds available rather than simply displace its own expenditure in Northern Ireland.

A further opportunity for the Government to do so arises from the renegotiations of the UK's contribution to the EEC budget. In some cases, the Government will save money which it would have been required to transfer to the Common Market, whilst in others, direct rebates will be made available. We wish to know from the Prime Minister:

1. whether or not she will ensure that additional UK Funds are provided to Northern Ireland to match the £23m recently announced;
2. the extent to which Northern Ireland will benefit from the renegotiations on the EEC budget. This includes details of the projects in which funds would be spent and whether or not any additional UK funds would be made available to such projects.

Some resources have suggested that a £10 per week subsidy would be available from EEC funds under the Youth Recruitment Premium. Again, the premium would require additional EEC funds and the Northern Ireland Committee urges the Prime Minister to immediately investigate the possibility of introducing a scheme of youth recruitment under this premium as a way of providing real job opportunities for the unemployed young people.

Our concern over EEC matters is however not solely related to the additionality of its funds. We are also seriously concerned at the threats to jobs in the agricultural sector arising from the refusal of the EEC to extend to Northern Ireland the scheme under which the Italian agricultural sector receives assistance towards the cost of feed prices for the intensive live-stock sector of pigs and poultry, and the EEC insistence that the Northern Ireland feed prices allowances be phased out.



ENERGY PROBLEMS

Over one year ago, the Northern Ireland Economic Council submitted to Government a report on a number of aspects of energy. It is disappointing that, to date, there has not been a concerted and thorough review by Government of the total energy situation in the Province, and its inter-relationship with the rest of the UK and/or the Republic of Ireland.

The Committee's principal immediate concerns are in the field of electricity and gas. In respect of electricity, the Minister of State has recently announced a moratorium on further work on the construction of Phases 3 and 4 at Kilroot Power Station, allegedly on the grounds that a decision must be made on whether or not phases 3 and 4 should be converted to dual firing by coal and oil.

The Northern Ireland Committee would support the re-designing of Phases 3 and 4 so that they could be fired by either fuel. This would assist the overall UK economy in reducing imported oil and would reduce the dependence of Northern Ireland on oil for electricity generation. The Northern Ireland Committee understands the costs involved would be considerable and takes the view that since such a measure would be in line with total UK energy policy and would assist the whole of the UK economy, that conversion project should be paid for from UK funds. If such a burden were placed on the Northern Ireland Electricity Service, the increased price of electricity to finance such a project would cause untold hardship to many domestic consumers and would force redundancies in existing industries and act as an insurmountable barrier to potential inward investment.

The Northern Ireland Committee however is not convinced that a decision on the fuel mix is the sole reason for the decision to halt further work at Kilroot. We believe that the responsible authorities, including Government, privately accept that there will be no growth in demand for electricity, particularly from the industrial sector for a number of years ahead.

We wish to have an assurance from the Prime Minister that the halting of work in Kilroot Phases 3 and 4 is nothing more than temporary and is not based on an assessment by either Government or the Northern Ireland Electricity Service that Northern Ireland's industry will remain in the depths of recession for the next four or five years.

In parallel with its consideration of the fuel mix for Kilroot, both the Government and Northern Ireland Electricity Service should immediately make contact with their counterparts in the Republic of Ireland, particularly in view of the statement by a Minister in the Republic that they would be prepared to consider partly financing the construction of Kilroot Phases 3 and 4, on a joint consortium basis, as a way of assisting them to meet their electricity demand which is expected to outstrip supply during the 1980's.

In relation to gas, the Northern Ireland Committee has consistently argued that the Statement by the Minister in July 1979 was based on a totally inadequate assessment of the various options open.

Our concern is not only with the 1400 jobs involved but also that the fuel choice both for domestic and industrial consumers in Northern Ireland, is being narrowed. People in Northern Ireland resent the fact that Government is effectively denying them access to an asset for the whole of the UK, namely natural gas. The Minister's views have been the subject of very serious criticism by both the Economic Council and the Gas Employers' Board who recently commissioned and published a consultants' Report on the Viability of a Gas Pipeline. Studied and constructive criticisms deserve a proper and reasoned response from Government. To date, none has been forthcoming. The refusal of Government to change its view on this issue becomes increasingly difficult to understand. The Minister recently stated that the capital cost associated with closure was £78m, while the cost of a pipeline would be £120m for which 40% EEC grant would be available.

The Northern Ireland Committee does not accept that the total cost of closure would be as low as £78m, since there are a number of revenue costs which would appear to be excluded from the Minister's calculations. In any event, even if one were to accept the Minister's figures, as representing the total cost of closure as £78m, it is now clear that it would be £6m cheaper, according to the Minister's figures, to construct the pipeline than it would to close the industry. In these days when Government is allegedly interested in the most effective use of public expenditure, it is surely absurd to spend more money in limiting people's choice of fuel, and creating 1400 redundancies, than in spending less to revitalise an industry.

As with electricity, the authorities in the Republic of Ireland have expressed an interest in the possibility of an all-Ireland gas grid based on a pipeline from the Kinsale gas field to Cork, Dublin and Belfast and linked also to Britain. Again, the Minister responsible and the gas authorities should be directed by the Prime Minister to initiate discussions with their counterparts in the Republic to further investigate these possibilities.

In relation to both electricity and gas, the Northern Ireland Committee wishes to point out that Northern Ireland is treated most unfairly in comparison with Scotland and Wales, since neither of those regions are expected to pay the full cost of providing either gas or electricity, but are in fact assisted by transfers within the nationalised industries' accounts. Yet all energy calculations for Northern Ireland are based on the assumption that the energy industries in Northern Ireland must stand on their own feet.

The Northern Ireland Committee therefore calls for Government to review the financial structures for both of these industries with a view to ensuring that Northern Ireland shall not be treated less favourably in this crucial area of energy than Scotland and Wales.

CONCLUSION

The NIC/ICTU will have the opportunity to raise briefly some of the issues contained in this Submission. We realise, however, that it will not be possible to discuss all of the points in detail, and to receive detailed replies during the course of one meeting.

We look forward, therefore, to receiving from the Prime Minister a detailed reply to the Submission.

THE NORTHERN IRELAND COMMITTEE  
IRISH CONGRESS OF TRADE UNIONS



NORTHERN IRELAND OFFICE  
GREAT GEORGE STREET,  
LONDON SW1P 3AJ

4 August 1980

T P Lankester Esq  
Private Secretary to  
The Prime Minister  
10 Downing Street  
London  
SW1

*briefing + notes on deputation  
in buff under returned to file.*

*Dear Lankester,*

MEETING WITH NORTHERN IRELAND COMMITTEE OF IRISH CONGRESS OF TRADE  
UNIONS AUGUST 6 at 10.00 AM

I enclose a brief for the Prime Minister's use at this meeting, which  
takes account of NIC/ICTU wish to discuss:-

- (a) the general economic situation with particular reference  
to the size and scope of the unemployment problem in  
Northern Ireland
- (b) Selective import controls
- (c) NI public expenditure needs
- (d) EC Additionality
- (e) Energy

Briefs are attached on these points, plus a general note on NIC/ICTU  
and notes on the members of the deputation.\* The brief at (c) is  
written on the assumption that the allocation of £35m from the  
Contingency Reserve to Northern Ireland is agreed, as proposed in the  
Chief Secretary's letter of 29 July to the Prime Minister and other  
members of the Cabinet. Separate arrangements are in hand for clearing  
the draft written reply for use on 6 August on public expenditure in  
Northern Ireland.

It has unfortunately not been possible for the Secretary of State, who  
is in Belfast today, to see this briefing material in its finished  
form. It may therefore be necessary to notify you of any amendments  
which he may suggest by telephone tomorrow morning.

\* Not to all

CONFIDENTIAL

The Secretary of State will attend the PM's meeting as requested. I am also sending copies of this letter to John Taylor at the Department of Employment for the use of Lord Gowrie who will also be attending the meeting.

Yours sincerely,  
George Ferguson

G D FERGUSSON

CONFIDENTIAL



- 4 AUG 1980

Ind P.S. 205  
BIF 4-8-80

25 July 1980

I am writing to confirm that the meeting with the Irish Congress of Trade Unions will take place at 10 a.m. on Wednesday, 6 August at 10 Downing Street. I have confirmed this with Mr. Carlin on the telephone this morning. The Secretary of State for Employment has to attend a meeting of the NEDC so the Department of Employment will be represented by Lord Gowrie. We will require a full brief to reach us by close of play on Monday 4 August, together with a list of people who will be attending.

CAROLINE STEPHENS

M.W. Hopkins, Esq.,  
Northern Ireland Office.

TR



PRIME MINISTER

Meeting with the Irish Congress of Trade Unions

It appears that they would now prefer the date that you originally suggested, i.e. Wednesday 6 August. Mr. Atkins can manage this but Mr. Prior will be at a NEDC meeting. Would you be happy to have the Earl of Gowrie instead?

ES.

Yes not

24 July 1980

1

PRIME MINISTER

Meeting with the Irish Congress of Trade Unions

Wednesday, 6 August does not really suit them, though obviously we can tell them to come then if necessary. Apparently they are all due to be in London on Thursday 31 July for a meeting and could manage 1600 hours as could the Secretary of State for Northern Ireland and the Secretary of State for Employment. This is the day after the Censure Debate and your diary is free for that afternoon.\* Agree to see them then?

These meetings for oil can only  
do it after  
p.m. no.

\* except for one relating to the  
1922 Committee at 1800 but  
~~I have blocked out separate~~  
23 July 1980 time for that as well  
as 1700 onwards on the 31st.

PRIME MINISTER

Meeting with the Irish Congress of Trade Unions

You asked to see your diary before making a decision as to whether or not to see the above. I attach the diary between now and when the House rises. The latest ~~best~~ week is the week beginning Monday, 4 August.

Shall I arrange?

Wed. 6<sup>th</sup> Aug.

Could whoever types this  
please pp. it. *[Signature]*  
it in the Box.

21 July 1980

Belfast 749481  
746576

PRIME MINISTER

The Northern Ireland Committee of the Irish Congress of Trade Unions has been pressing for a discussion with you. Humphrey Atkins has not previously pressed you to accept, but the Congress has now telegraphed you direct, and Mr. Atkins feels, on balance, that there are advantages in your seeing the Committee - see his letter below.

Are you prepared to meet a deputation from the Committee?

*Yes - but let me see the things it helps justify it. M.A.D.*

18 July 1980

From: THE PRIVATE SECRETARY



**CONFIDENTIAL**

NORTHERN IRELAND OFFICE  
GREAT GEORGE STREET,  
LONDON SW1P 3AJ

17 July 1980

Michael Pattison Esq  
10 Downing Street  
London SW1

*pps all*

*Dear Mike,*

You sent me on 27 June a copy of a telegram which the Prime Minister had received from Terry Carlin of the Northern Ireland Committee of the Irish Congress of Trades Unions, seeking a meeting on the unemployment situation in the Province. You indicated that the Prime Minister would not wish to offer a meeting and asked that we should reply on her behalf.

My Secretary of State has considered this matter with some care, and would like to suggest that the Prime Minister should perhaps after all consider whether she could not manage to fit in a meeting, even though there might be little comfort which she could offer. The sad truth is that the short-term effects of the Government's current economic policies, which are being applied as sternly in Northern Ireland as elsewhere, hit hard in a province which suffers from such longer-term disadvantages as heavy dependence on declining industries, an absence of any indigenous source of energy, and geographical remoteness. This produced in June an unemployment rate of 12.7% (compared with a GB equivalent of 6.7%, and a highest GB regional rate of 9.3%); and there is worse to come - Grundig have recently announced a factory closure in the autumn which will cost a further 1,000 jobs.

All of this produces strong local feelings and my Secretary of State considers that if it is at all possible the Prime Minister should at least find a little time to listen to the worries of the trade unionists. A complete refusal would cause a degree of resentment out of all proportion to its true significance, not only because of the human implications of the current Northern Ireland economic scene, which are serious enough, but because it would feed a sense of the remoteness of direct rule. Time invested in fostering the understanding that the Westminster government does in fact care could be time well-spent.

Mr Atkins therefore hopes that the Prime Minister will feel able to agree to Mr Carlin's request.

*Yours sincerely*  
*Mike Hopkins*

M W HOPKINS

**CONFIDENTIAL**

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17 JUL 1980

CONFIDENTIAL

hel B1



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

8th July 1980

T. Lankester Esq.  
No. 10 Downing Street  
LONDON  
SW1

*Dear Tim,*

*M817*

MEETING WITH LEN MURRAY: TUESDAY 1 JULY

You will have seen a copy of my record of the Chancellor's meeting with the Secretary of State for Employment and Len Murray. I showed this record to the Chancellor, who felt that although it faithfully recorded the conversation he was afraid it did not fully convey the essentially constructive flavour of the occasion.

I am copying this letter to the recipients of my original note.

*Ys ever,*

*M.A.*

M.A. HALL  
Private Secretary

CONFIDENTIAL

- 8 JUL 1980







Rose  
MF

PRIME MINISTER  
Worth reading, especially for  
Len Murray's comments towards  
the ad

CALL BY THE SECRETARY GENERAL OF THE TRADES UNION CONGRESS ON THE  
CHANCELLOR OF THE EXCHEQUER AT 11 DOWNING STREET: 5.45 P.M. ON  
TUESDAY, 1 JULY 1980

MS  
4h

Present:

Chancellor of the Exchequer  
Secretary of State for Employment  
The Rt. Hon. Lionel Murray, OBE  
Mr. M.A. Hall

The idea of a meeting between the Chancellor, the Secretary of State for Employment and Mr. Murray had arisen a few weeks earlier during a meeting between the Secretary of State and Mr. Murray. There were no specific subjects on the agenda.

NEDC on 2 July

2. The Chancellor said he had put in a paper for NEDC on the effects of North Sea oil on the non-oil manufacturing sector of the economy. The Secretary of State for Energy had also written a paper on oil pricing policy; Wednesday's agenda was already crowded, and he intended to circulate this later. Mr. Murray said that he did not expect that discussion of public purchasing would take long. A debate was certainly needed, but it should take place discreetly. The best results in this area were achieved by stealth. He would himself, at Tony Christopher's request, voice the TUC's concern about the placing of contracts for the forthcoming computerisation of PAYE. The Chancellor said he also had discussed this with Tony Christopher. Orders of some £150 million were at stake, and there was nothing he would like better than that British equipment should be purchased; but the most important consideration was that the equipment should work. Mr. Murray said he was concerned also about the redundancies implied by computerisation.



Widening the debate

3. The Secretary of State for Employment said that he would like to discuss the worries the TUC had voiced publicly about lack of consultation by the Government. He thought NEDC was a valuable forum, and individual trade union leaders saw particular Ministers on an ad hoc basis. Mr. Murray said that things were "not going too badly". Against the present economic scenario it was very difficult for the TUC to engage in formal discussion with the Government; how could the Government even convince his colleagues that they were listening? He knew that his colleagues saw individual Ministers, and encouraged them to do so. But more wide ranging and semi-structured discussion was much more of a problem.

4. The Chancellor said that the effects of the sharp increase in oil prices were depressing economic performance and expectations throughout the world. Because of its relatively high level of inflation and low productivity growth the UK was starting from a worse position. But even countries which appeared to be rapidly growing - he had that day seen the Governor of the Malaysian Central Bank and the Deputy Premier of South Korea - were now feeling the pinch imposed by contraction of the world economy. He was especially worried about our relatively high unit labour costs. How could we continue to pay ourselves 10 per cent more than the rest of the world did? The Government and the trades unions had a joint interest in bringing down unemployment and interest rates; but the high level of interest rates was due to excessive Government borrowing in the market. He saw value in widening discussion based on this broad analysis, on which there could be little scope for disagreement. Mr. Murray said he nevertheless **strongly** disagreed. There was a fundamental difference between him and the Chancellor on analysis; analysis and objectives should not be confused. He saw the problems of the balance of payments, unemployment, inflation, the exchange rate, the effects of North Sea oil etc. as of equal importance. Inflation and pay should not be singled out



for special treatment. Trade union leaders were all on the defensive (he mentioned specifically Mr. Weighell in this context) and believed the Government was picking out pay and inflation out of hostility towards the trades unions. How was the Government going to dispel this deeply-rooted feeling? The Chancellor thought this was by no means a fundamental difference; our poor current balance of payments position was due to the worsening of our trade performance. Competitiveness was at least as much a matter of unit labour costs as of the exchange rate. There was an undeniable relationship between pay, output and jobs. Mr. Murray said that whatever the facts of the matter pay and prices would continue to be closely linked in the minds of trade unionists. The Government however thought that it could break their nerve through the rising tide of unemployment. The Chancellor said that in the public sector, many settlements were below the rate of inflation. The Government was attempting to lead the level of pay down. Mr. Murray said that this Government was under the same illusion as had been Mr. Callaghan's. The pay/price link was firmly embedded in the trade union mind, not least in the public sector. The Government must stop giving the impression that it was gunning for the trade unions. It would however be a great help when the RPI itself began to fall. The Chancellor said this would soon happen; but even after the sharp step fall which would reflect the 1979 VAT increase dropping out of the RPI, the index would still be higher than an economically acceptable level of pay settlements. He agreed with Mr. Murray that it was difficult to discuss these things with the trade unions. But they were legitimate topics of mutual interest which needed to be opened up.

5. Mr. Murray repeated that "the irrationalities force their way through". The Government's cuts in the planned expenditure of the MSC, for example, had been highly inflammatory to the trades unions. The Secretary of State for Employment reminded Mr. Murray that the MSC was in fact planning to spend £50 million more this year than last. Nearly all the cuts were in fact of



projected increases in spending. Against a rising tide of unemployment, the Government's objective was to help the unemployed without excessive public expenditure. The Chancellor said the Government wanted to reduce the overall level of public expenditure without damaging "good" public expenditure programmes. Large sums, could, for instance, be saved on housing subsidies, on both the tax relief and public expenditure sides; but the effect of doing this would be to push up the RPI, which brought the argument round again to Mr. Murray's link between pay and prices. How could the obsession with the RPI be broken? The Secretary of State for Employment said that the specific cause for worry at the moment was the combination of high interest rates and a high exchange rate. Here surely there were no differences between the Government and the TUC? Mr. Murray commented that here the Government had more of a problem than he did. The Chancellor said it would probably be possible to bring interest rates down in due course; and this may affect the exchange rate, though it was unlikely to have a dramatic effect.

6. All in all, the Chancellor said it looked as though the NEDC was the best place to carry on the broad economic dialogue. There was no obvious semi-formal alternative, and to try to move too fast too soon could well be counter-productive. This would certainly not be the right time to canvass the idea of an "economic forum". Mr. Prior said he was attracted by the German system of concerted action. Mr. Murray said there was now much disillusion with concerted action in Germany, and commended to Ministers a book by Mr. D. Winchester.

7. The Secretary of State said that there should be more public discussion of the general economic situation and the social problems of high unemployment. Mr. Murray commented that crises produce the best results; but that this was not a crisis, simply a steadily deteriorating situation.

8. Reverting to the following day's discussion in NEDC, the Chancellor said he would like to identify subjects for



discussion in August following on from his paper on the economic effects of North Sea oil. Mr. Murray said there was a good deal of agreement in NEDC, particularly on supply side matters. Specific issues - e.g. public purchasing, response to technological change, had to be used as building blocks to improve the overall climate for broadening the discussion. The Chancellor wondered if Mr. Murray saw further scope in the NEDC initiative to improve communication at plant level. Mr. Murray commented that this was a long process; and the real problem was action not communications - a word he preferred to avoid. The Secretary of State said there was an undeniable ignorance of basic economic facts on the shopfloor. Mr. Murray said that there was simply a different perception of those facts. The message must be put across in terms they could understand. "Curious inertias" persisted.

9. Reverting again to possible modalities of expanding contact between Government and trade unions the Chancellor said that one merit of the NEDC was that it took place to a regular schedule. If on the other hand the TUC were to come and see him to discuss e.g. public expenditure, this was likely to be a sterile setpiece discussion. Mr. Murray agreed. The Secretary of State said that the Government had now been in office for more than a year, and - although he reluctantly agreed - both they and the TUC were still saying the time was not ripe for more formal contact. Mr. Murray said that there may well be small measures the Government might take, which were not offensive to their philosophy, but could "produce bits of mood" to influence the climate. "Little fish were sweet". It was necessary to look all the time for middle ground. The Secretary of State said the RPI would fall sharply in August. It was important to use this to influence the climate in bringing wage settlements down. Mr. Murray said that all roads led to unemployment, which would dominate this year's Congress. There were "ridiculous" pressures that the TUC should organise the unemployed. He was worried that unemployment would reach such a serious level as to trigger off



flashpoints which would give extremists in the trade union movement scope for manoeuvre. The Chancellor commented that he had observed this happening in other countries; the Government must try to contain the social pressures caused by unemployment. The problem was that national living standards were falling, and were borne disproportionately by the unemployed. One of Mr. Callaghan's mistakes had been to represent the fall of wage levels below the cost of living as a temporary sacrifice which would be later reversed. The real message was that it was indeed a sacrifice, but that there could be no promise that real wages would in fact again resume their increase. It was in everyone's interests that this unpalatable message be widely understood. Mr. Murray said he fundamentally disagreed. It was not necessary to cut GDP as much as it had fallen in this recession, nor was it necessary for unemployment to rise by as much or for inflation to be squeezed out with such vigour.

It was not necessary for trade unions to be picked out; antagonism to the trade union movement was the common thread running through the whole of the Government's approach. This was not just a "persecution complex"; it was undeniable. The Chancellor insisted that the argument the Government was putting forward on pay was not simply a stick with which to beat the trade unions. The Secretary of State acknowledged that there was a natural and traditional tendency for Conservative Governments to blame trade unions for the country's problems and for trade unions to blame Conservative Governments. Mr. Murray said that whether or not these attitudes were real, what mattered was that they were seen to exist.

10. The Chancellor said he suspected that he and Mr. Murray were closer intellectually on the causes of inflation and the need to control it than it seemed at first sight; he wished there was more time to press the argument further. Summing up his views, Mr. Murray said that there was probably not a great deal of room at the moment for significant widening of the dialogue between Government and trade unions, but their common



aim should always be to widen the middle ground. "Little fish were a help"; the TUC and the Government should try to take forward their thinking on small measures which might be taken to improve the atmosphere. He felt that discussion in NEDC was moving forward in helpful ways. He commended the work of the Secretariat, which insisted on picking up loose ends and forcing them back to the Council for further discussion. He thought it might be a good idea if someone, e.g. John Elliot, could be persuaded to write a book or monograph about the NEDC, presenting its work in an interesting way to the outside world. Close attention should be given to the timing of such an initiative. He referred to a book by Hugh Stephenson as a possible model.

11. The Chancellor thought this was a promising idea. The work of NEDC was very little noticed outside the immediate circle of interested parties. But this was not without advantage in conducting useful business. The Secretary of State for Employment said that important meetings of the Cabinet were scheduled on economic matters. He thought he and the Chancellor should now reflect on this discussion with Mr. Murray and see how the situation looked "in a little while".

Distribution

Chief Secretary  
 Financial Secretary  
 Minister of State (C)  
 Minister of State (L)  
 Sir Douglas Wass  
 Mr. Rylie  
 Sir Anthony Rawlinson  
 Mr. Burns  
 Mr. Middleton  
 Mr. Dixon  
 Mr. Unwin  
 Mr. Butt  
 Mrs Heaton  
 Mr. Ridley  
 Mr. Cropper  
 PS/Prime Minister  
 PS/Secretary of State for  
 Employment  
 PS/Secretary of State for  
 Industry  
 PS/Secretary of State for  
 Energy  
 PS/Secretary of State for Trade

MAH

(M.A. HALL)

3 July 1980

- 4 JUL 1958





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LIST OF GUESTS ATTENDING THE DINNER TO BE GIVEN BY THE PRIME MINISTER  
ON MONDAY, 30 JUNE 1980 AT 7.45 PM FOR 8.00 PM

---

INFORMALS

The Prime Minister

The Rt. Hon. Sir Geoffrey Howe, MP

The Rt. Hon. James Prior, MP

Mr. John Chalmers

General Secretary, Amalgamated Society  
of Boilermakers, Shipwrights, Blacksmiths  
and Structural Workers

Mr. Tom Jenkins

General Secretary, Transport, Salaried  
Staffs Association

Mr. Gavin Laird

Member, Executive Council, Amalgamated  
Union of Engineering Workers

Mr. R.J. Ramsey

Fords

Mr. Tom Cain

Board member in charge of industrial  
relations at Shell

Mr. Oscar de Ville

Executive Vice Chairman of BICC

Mr. Tim Lankester

DRAFT SEATING PLAN FOR DINNER ON MONDAY, 30 JUNE 1980

---

Mr. Tom Cain

Mr. Tim Lankester

Mr. Gavin Laird

Mr. Tom Jenkins

PRIME MINISTER

The Rt. Hon. Sir Geoffrey Howe

Mr. John Chalmers

Mr. R.J. Ramsey

The Rt. Hon. James Prior

Mr. Oscar de Ville

ENTRANCE

DINNER AT No.10, MONDAY 30 JUNE 1980

1 The attached note gives brief sketches of the guests.

2 The idea of this dinner originated from Ministerial discussion on the general state of Government-TUC relations (Tim Lankester's letter of 3 June), from which two main considerations emerged:

attached  
TL  
..

(a) on the one hand, the need to avoid structured talks with the TUC (other than in NEDC) which would give the TUC false authority and a negotiating platform;

(b) on the other hand, the need to develop personal relations with influential trade unionists wherever possible.

3 The occasion therefore is primarily social. Not one for introducing topics for discussion - particularly of a potentially adversary kind - in any formal way. Most of the guests are acquainted with each other, and informal conversation should flow freely once it gets going.

4 Conversation could be steered towards a couple of broad themes of common interest to these industrial relations "practitioners" which offer the prospect of constructive and forward-looking discussion.

5 One is the general theme of management/employee communications and employee-involvement at the workplace. Some of those present would be found very ready to develop discussion on the relevance of these issues to improved industrial relations and economic performance.

6 Another, which might follow on naturally, is the general question of productivity - the poor performance of much of British industry in comparison with overseas competitors - the need for a common approach to the problem - experience - suggestions.

7 More generally, the Prime Minister will no doubt wish to divert discussion from what Government should or should not be doing to what managements and unions can contribute.

JOHN CHALMERS, CBE. General Secretary, Amalgamated Society of Boilermakers.

Aged 65. Approaching retirement and something of an elder statesman in the shipbuilding world. Member of the TUC General Council since 1977. Unpolished, by no means an intellectual, but shrewd and experienced. Well-regarded for his work as a member of the Board of British Shipbuilders during this critically difficult period for the industry. A quiet but unmistakable Scot.

TOM JENKINS. General Secretary, Transport Salaried Staffs Association.

Aged 60. Elder brother of Clive, but quite unlike. Moderate leader of a moderate union. Pleasant and courteous disposition. A member of two Industrial Training Boards. Keenly interested in the future of the railways.

GAVIN LAIRD. AUEW(E), Executive Council Member for Scotland.

Aged 47, still up and coming. Could eventually be a serious contender for the leadership of the AUEW. Straightforward, out-going and able. Became a member of the TUC General Council in 1979. On the board of BNOC. Recently appointed to the Inquiry on index-linked pensions.

BOB RAMSEY, CBE. Director, Industrial Relations, Ford UK Ltd (Board Member).

Aged 59. Very high reputation as a leading management expert in IR. Pleasant, quiet manner with much underlying toughness. Shrewd and practical. CBI Employment Policy Committee.

TOM CAIN. Director of Personnel, Shell UK Ltd (Board member).

A young-looking 50, appointed 18 months ago to the top IR post in Shell UK Ltd. A North-Easterner (from Consett!) who joined Shell as a chemistry graduate and spent most of his early career on the operational side, much of it abroad. Serious, determined, with firm views on industrial relations and economic performance. CBI Employment Policy Committee.

OSCAR de VILLE, CBE. Executive Vice Chairman, BICC.

Aged 55. Has reached the top of a large group through a career in personnel management and industrial relations. Combines practical competence with a thoughtful, philosophical approach. Member of the ACAS Council and of the CBI Council.

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27 JAN 1947

CONFIDENTIAL

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Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213.....6400.....

Switchboard 01-213 3000

Tim Lankester Esq  
 Private Secretary  
 10 Downing Street  
 LONDON SW1

27 June 1980

Dear Tim,

12

I enclose some thoughts, together with brief notes on the guests, which I hope will be helpful for the dinner the Prime Minister is giving on 30 June. Do let me know if you need anything more.

I am sending a copy of this letter to John Wiggins (Treasury).

John Wiggins

Richard Dykes

R T B DYKES  
 Private Secretary



- 1 The attached note gives brief sketches of the guests.
  
- 2 The idea of this dinner originated from Ministerial discussion on the general state of Government-TUC relations (Tim Lankester's letter of 3 June), from which two main considerations emerged:
  - (a) on the one hand, the need to avoid structured talks with the TUC (other than in NEDC) which would give the TUC false authority and a negotiating platform;
  - (b) on the other hand, the need to develop personal relations with influential trade unionists wherever possible.
  
- 3 The occasion therefore is primarily social. Not one for introducing topics for discussion - particularly of a potentially adversary kind - in any formal way. Most of the guests are acquainted with each other, and informal conversation should flow freely once it gets going.
  
- 4 Conversation could be steered towards a couple of broad themes of common interest to these industrial relations "practitioners" which offer the prospect of constructive and forward-looking discussion.
  
- 5 One is the general theme of management/employee communications and employee-involvement at the workplace. Some of those present would be found very ready to develop discussion on the relevance of these issues to improved industrial relations and economic performance.

6 Another, which might follow on naturally, is the general question of productivity - the poor performance of much of British industry in comparison with overseas competitors - the need for a common approach to the problem - experience - suggestions.

7 More generally, the Prime Minister will no doubt wish to divert discussion from what Government should or should not be doing to what managements and unions can contribute.

JOHN CHALMERS, CBE. General Secretary, Amalgamated Society of  
Boilermakers.

Aged 65. Approaching retirement and something of an elder statesman in the shipbuilding world. Member of the TUC General Council since 1977. Unpolished, by no means an intellectual, but shrewd and experienced. Well-regarded for his work as a member of the Board of British Shipbuilders during this critically difficult period for the industry. A quiet but unmistakable Scot.

TOM JENKINS. General Secretary, Transport Salaried Staffs Association

Aged 60. Elder brother of Clive, but quite unlike. Moderate leader of a moderate union. Pleasant and courteous disposition. A member of two Industrial Training Boards. Keenly interested in the future of the railways.

GAVIN LAIRD. AUEW(E), Executive Council Member for Scotland.

Aged 47, still up and coming. Could eventually be a serious contender for the leadership of the AUEW. Straightforward, out-going and able. Became a member of the TUC General Council in 1979. On the board of BNOC. Recently appointed to the Inquiry on index-linked pensions.

BOB RAMSEY, CBE. Director, Industrial Relations, Ford UK Ltd (Board  
Member).

Aged 59. Very high reputation as a leading management expert in IR. Pleasant, quiet manner with much underlying toughness. Shrewd and practical. CBI Employment Policy Committee.

TOM CAIN. Director of Personnel, Shell UK Ltd (Board member).

A young-looking 50, appointed 18 months ago to the top IR post in Shell UK Ltd. A North-Easterner (from Consett!) who joined Shell as a chemistry graduate and spent most of his early career on the operational side, much of it abroad. Serious, determined, with firm views on industrial relations and economic performance. CBI Employment Policy Committee.

OSCAR de VILLE, CBE. Executive Vice Chairman, BICC.

Aged 55. Has reached the top of a large group through a career in personnel management and industrial relations. Combines practical competence with a thoughtful, philosophical approach. Member of the ACAS Council and of the CBI Council.

IRISH Congress of Trade Unions

jfh

22/7

P.R.?

27 June 1980

I have spoken: advice coming this week.

MA 14/vii

I enclose a copy of a telegram to the Prime Minister from the Irish Congress of Trade Unions about a request for a meeting with her on unemployment.

Unless you advise otherwise, I am sure that the Prime Minister would not wish to offer a meeting at this stage. Could you please arrange for an appropriate reply to be sent on the Prime Minister's behalf, with a copy to us for our records.

MAP

Mike Hopkins, Esq.,  
Northern Ireland Office.

DBO

R2716

889113 PO SW G  
299992 PO TS G  
FM27 1111 BELFAST T 64

THE RT HON THE PRIME MINISTER  
MRS M THATCHER  
10 DOWNING STREET  
LONDON

WITH UNEMPLOYMENT AT 73,000 THE WORST SINCE THE  
MID THIRTIES, THE NORTHERN IRELAND COMMITTEE  
IRISH CONGRESS OF TRADE UNIONS RENEWS ITS REQUEST  
FIRST MADE IN MARCH 1980 THROUGH THE SECRETARY OF  
STATE FOR NORTHERN IRELAND FOR DISCUSSION WITH YOU  
ON THE PRESENT UNEMPLOYMENT CRISIS STOP

T CARLIN NORTHERN IRELAND OFFICER ICTU

COL M 10 73,THOU, 1980 PSE RD WA SINCE AS THE RPT THE

299992 PO TS G  
889113 PO SW G





cc Mr Hoskyns

Ann Shute

hd 20 2

I think you took  
the same view

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

as the Chancellor  
on this.

PRIME MINISTER

M

R.

1/16

RELATIONS WITH TRADE UNION LEADERS

I have seen a copy of John Hoskyns' minute to you of 6th June. I agree with much of what he says in the early part of his minute, but I must say that I am very doubtful about his suggestion of a public initiative for talks with the TUC on an agenda of our own choosing.

2. I am afraid that an initiative of this kind would tend to build up the TUC when its national standing is declining, and I think on the whole it is best that it should decline further. It would make it look as if we were worried about TUC hostility and anxious to buy them off in some way. If the TUC said yes, the discussions would be difficult. Even if they accepted an agenda limited to the points which John suggests (which is a little difficult to imagine) they would in practice try to expand the discussions into wider subjects. If they said no, I am afraid it would look like confrontation.

3. There is so much foolish talk about "U-turns" around and so many journalists are waiting for signs of it that they would surely pounce on this and interpret it in this way, no matter what we might say about the agenda and about our unwillingness to discuss the Government's economic policy.

/A time may

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4. A time may come when it may be right to have talks with the TUC on some of these matters. Even so, I am not persuaded that John's is the right way - or that that time has yet come.

A handwritten signature in dark ink, appearing to be "J.H.", written in a cursive style.

(G.H.)

12 June 1980

CONFIDENTIAL





12 JUN 1981

PRIME MINISTERRELATIONS WITH TRADE UNION LEADERS

B

This minute records a few thoughts following our discussion last Tuesday with Geoffrey and Jim.

1. The overriding objective for the Government, over the next few months, is to ensure that, if possible, trade union leaders do not issue a call to arms for massive pay claims for the next pay round; or, failing that, to ensure that the membership ignores such a call to arms.
2. Contacts with trade union leaders are all part of this "Pay Round Debate". I suggest that, to win that debate, we have to achieve four things:
  - (1) Display firmness on policy. We must be categorical that there will be no weakening of policy on money supply, public spending no question of the incomes policy alternative. We have to convince everyone that there is no alternative to the present route. That means not only explaining why, but also sticking our necks out, not choosing our words carefully to avoid giving hostages to fortune. If we did that, our whole position would lack credibility.
  - (2) Maintain Government's authority. We should be ready to talk to trade union leaders on our agenda, which is about the real problems. We must make it absolutely clear that we are not "negotiating" with the TUC about items on their agenda. Government policy is not negotiable.
  - (3) Assign responsibility. The Government can and must do one thing - bring down inflation. It is for employers and unions to minimise the transitional unemployment.
  - (4) Create empathy. Government has to show that it understands the concerns of both trade union leaders and - different and even more important - trade union members. We cannot persuade someone to change his mind if we don't first listen to him to show that we understand his initial point of view. Ideally,

the public debate then becomes more adult, less of an exercise in politically posturing. At the very worst, the public should begin to see that the Government's position is mature, honest, responsible, even if trade union leaders are unable to respond.

3. We discussed the pros and cons of overt consultation with trade union leaders on our agenda. At first sight, this looks risky, because it might be interpreted as a weakening of the Government's position. But we believe that it could be the reverse. By spelling out what is on the agenda and, just as clearly, what is not on the agenda (eg changes of Government policy, adoption of TUC economic nostrums) we maintain authority. By talking constructively about real problems in which a responsible union movement should be able to help, we create empathy. By inviting trade union leaders to work constructively to help their own members, in and out of work, we assign responsibility. Once they are working with us, for example, on how to help the unemployed, it is harder for them to push for the big pay rises which, we shall be explaining, can only increase unemployment. It would be very difficult for them to reject the invitation (or try to "bargain" about the terms on which they were prepared to co-operate) without appearing politically-motivated and callous about their members. Finally, the very act of such consultation would show the Government's confidence and would give repeated opportunities to display firmness on our central economic strategy.

4. The agenda from which we could choose might include the following:

- Getting local enterprise agencies, big firms, trade unions to work together to encourage the growth of new businesses in badly-hit areas.
- Ensuring best possible use of services and advice from Departments concerned in high unemployment areas to encourage job mobility, best use of redundancy pay, maximum provision of information about jobs, mobility, etc.
- Productivity, participation, profit-sharing, value-added bargaining.

The principle, as Jim suggested, would be to fill the vacuum with positive ideas and initiatives to which it would be impossible for trade union leaders not to respond. It would be overt - ie it would

carry a message to the public and to union members that the Government is concerned about the people who get hurt in the process of industrial shake-out and monetary squeeze and are active in mobilising efforts to alleviate hardship - but by ideas and ingenuity and goodwill, not by squandering more taxpayers' money and thus endangering our policy objectives.

5. How would such an initiative be launched? This needs thought. We could do it in a fairly low-key way, with Jim inviting union leaders to talk to this agenda. Or we could deliberately dramatise it with you announcing the initiative in the course of a speech and saying that the first meeting (to discuss the agenda) would be chaired by you with the Chancellor and Secretaries of State for Employment and Industry. To ensure maximum trust, a copy of that speech could be handed to key union figures just before delivery (as we did with Geoffrey's "dream world" speech before the TUC last year, delivered to Len Murray at his hotel). Paradoxically, the more dramatic launch would almost certainly make it harder for the initiative to be misrepresented. The more visible it is, the more clear the implicit message will be - that we are not under any circumstances prepared to negotiate with union leaders about Government's economic policy itself.

These are just some first thoughts which I would like to talk through with Jim Prior to see whether they have any merit. I believe that an imaginative initiative, with positive proposals that lead somewhere, rather than empty gestures which merely go through the motions and fool no-one, could put us in a "no-lose" position. If the union leaders respond negatively, they condemn themselves. If they respond positively, three cheers.

By all means, dinners with industrialists, but they must be, and be seen to be, regular affairs, not a one-off gesture which will look like an attack of nerves. At those dinners, your own line on "no incomes policy whatever happens" must be fully developed and put across so that all present, including union leaders, realise there is no possibility of our going that route.

I am copying this minute to Geoffrey Howe, Jim Prior and Keith Joseph, and take it that you have no objection to my talking further to Jim on these lines? - x then report back to you.



JOHN HOSKYNs

Agreed. - but not a  
major series of meetings with I.M.C. on  
that. They would work we have to  
win the battle in public terms first.

and

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Econ PSI

NS



10 DOWNING STREET

cc D/M  
CO

bc Wolfson  
Hoskyns  
Ingham

Marken set

From the Private Secretary

3 June 1980 Econ PSI - NEDC

Relations with Trade Union Leaders

As you know, the Prime Minister held a meeting this morning with the Chancellor of the Exchequer and the Secretary of State for Employment to discuss the Government's relations with trade union leaders. Mr. David Wolfson and Mr. John Hoskyns were also present. They had before them the Chancellor's minute of 27 May and the Secretary of State for Employment's minute of 30 May.

The Prime Minister said that, despite complaints that they had no contact with Government, trade union leaders did seem to have frequent meetings with Ministers on specific issues. She was opposed to formal talks with the T.U.C. as this would give the impression that the Government was treating with them like its predecessor, and they were most unlikely to deliver anything in return. It would be best to continue with the present pattern of meetings on specific issues, the monthly meetings at N.E.D.C., and informal contacts.

The Chancellor and the Secretary of State for Employment said that they broadly agreed. While avoiding formal meetings with the T.U.C. (except at N.E.D.C.), it was important to maintain contact with trade union leaders. Although they were generally opposed to the Government's policies and though they were even less helpful in their public utterances than they were in private, it was nonetheless worth trying to bring influence to bear on them. Moreover, they could

/ still cause great

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still cause great damage if they were to join the extremists, and the Government could help to avoid this by keeping in touch with them. Consistent with this approach, it would be helpful if the Prime Minister could invite trade union leaders from time to time for informal discussions at No. 10. This might best be done by inviting two or three to lunch or dinner along with a few industrialists. Mr. Prior suggested the following names: Sir John Boyd, Mr. Terry Duffy, Mr. Alex Ferry, Mr. John Baldwin and Mr. Gavid Laird. The Prime Minister said that she would try to hold one or two small functions as suggested before the Recess; I shall be in touch with Richard Dykes to discuss further who might be invited.

There was also a brief discussion of the future programme for N.E.D.C.. Mr. Prior said that it was important to keep the T.U.C. interested in N.E.D.C.. The Prime Minister suggested that N.E.D.C. might usefully mount a "productivity campaign": this would not only be desirable in its own right, but it might appeal to the T.U.C.. The Chancellor said that he would follow up this idea with Sir Ray Pennock.

Finally, it was decided that the Prime Minister should not take the Chair at the July N.E.D.C. meeting. In view of the recent speculation about pay talks and now about the July 16 Cabinet, it could cause further misunderstanding about the Government's approach to the trade unions and to pay.

I am sending copies of this letter to Richard Dykes (Department of Employment) and David Wright (Cabinet Office).

**T. P. LANKESTER**

John Wiggins, Esq.,  
H.M. Treasury.

Subject filed in Trade: April 80  
Non-Tariff Barriers



From the Secretary of State

Clive Whitmore Esq  
Principal Private Secretary  
10 Downing Street  
SW1

2 June 1980

Dear Clive

IMPORT CONTROLS: AND CONSULTATIONS WITH THE TUC

My Secretary of State has seen the record of the suggestion put to Sir Robert Armstrong by Sir Arnold Weinstock on 19 May. He has also seen Mr Prior's views in the private secretary letter of 23 May.

X | On import controls, Mr Nott agrees with Mr Prior's thought that no reliable counterweight could usually be expected in return for Government action - action that would be difficult enough to get agreed in the Community and internationally and could not anyway cover imports from the Community itself. But Mr Nott also feels that any idea of temporary control on imports as part of restructuring schemes for particular industries would be very dangerous. Because we should replace a real impulsion on both management and the unions - to seek and agree improvements - by much more comfortable paper planning agreements which could anyway hardly be expected to cover pay settlements over a period of years.

On a dialogue with the unions, Mr Nott would draw a distinction, as does Mr Prior, between consultation with unions on particular problems (unions have been in 1 Victoria Street on a number of occasions recently) and discussions about how the Government should run its policies.

I am sending copies of this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Industry and Employment and Sir Robert Armstrong.

Yours sincerely,  
Stuart Hampson

S HAMPSON  
Private Secretary

2  
Pm: Whitmore

I am sure that  
Mr Nott is  
right on X.

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395



PRIME MINISTER

RELATIONS WITH TRADE UNION LEADERS

This minute summarises our discussion on Wednesday evening, following my minute of 22 May suggesting that we should think very carefully before setting up meetings with trade union leaders.

You will have seen Geoffrey's minute of 27 May and Jim's of today's date.

I suggested at our meeting that we could not decide what to do about relations with trade union leaders unless we first took a view on the main problems ahead and our position with regard to those problems. I therefore put questions to you in order to get our starting point clear.

1. THE MAIN PROBLEM AND OUR POSITION

- 1.1 The problem is that trade union leaders will spend the summer preparing extravagant demands for the next pay round. Their aim - whether or not fully conscious - seems to be to create so much unnecessary unemployment that the Government will be forced to change its policy.
- 1.2 Our position is that there will be no change of policy under any circumstances whatever. We will not consider any form of incomes policy or statutory freeze. A voluntary freeze would not work. In the public sector, we have to achieve the effects of a partially-indexed freeze, to ensure that the private sector does not have to bear the brunt of monetary deceleration.
- 1.3 The process by which trade union leaders advocate settlements at less than the going rate of inflation must, in the end, be revolt by their own members when at the brink - ie when their jobs are at risk. This is what has happened at BL. However, since it only happened long after BL would normally have gone out of business, we have to ensure that the rank-and-file revolt happens early enough to avoid disaster in other companies.

- 1.4 The trade unions' position is at present weak following the Day of Action, Isle of Grain etc. However, the Government's position could weaken (ie we are bound to have setbacks in other areas) and the trade unions' position could thus strengthen, during the summer. The Government faces an immediate problem with MPs' pay which could set the tone for the pay round. The TSRB must be seen as the first in the next round, not the last in this one.

## 2. OUR DEBATING OBJECTIVES

- 2.1 We must further erode the moral and intellectual position of the union leaders. (Jim's paper proposes the opposite, ie the conventional view. This will need discussion, but we believe that leaders like Basnett, Evans, Jackson, Weighell, can deliver nothing. We have to drive a wedge, not between those leaders and their militant executives, officials etc, but between the shop floor on one hand and militant shop stewards, officials and leaders on the other.)
- 2.2 The end result must be that calls for disruption in the autumn and winter get little more response than did the Day of Action. We are under no illusions, however, that people will be much readier to take action for more pay than for political demonstrationa purposes.
- 2.3 We must avoid creating any sense of grievance in achieving 2.1 and 2.2 above.
- 2.4 This debate should also help to create the right climate for the Green Paper.

## 3. THE APPROACH IN OUTLINE

- 3.1 We must raise the profile and the quality of debate. If we are clear on our position as regards freezes or incomes policy, we should say so. The further we stick our necks out, the greater our chances of success. The tone should be sober, not blustering or provoking, but we have to "escalate" deliberately if we are to get people to listen to the debate and take our position seriously. A recent paper by Chris Bauman (Villiers' PA at BSC) shows how long

it takes for people to realise that the other side is not bluffing. "It was not until the Prime Minister's Panorama broadcast of 25 February . . . that it became generally clear that the 'hard-line' (ie in Cabinet) had won. Only from that point did the ISTC and the media believe that the negotiations were between BSC and the unions. Unfortunately by that time the ISTC had isolated itself from the other unions, and had taken up an extreme position from which it took some weeks to dislodge itself." There is a lesson here for the sort of debate we are advocating, in which each side is trying to guess the mix of bluster and determination in the other side's position.

- 3.2 We can consult the union leaders, but it must be on our agenda, an agenda which is relevant and thus itself instructive to public opinion.
- 3.3 We should explain and interpret events, but not exhort. We should get to the key principles and values at issue, examining union leaders' public statements, their claims to speak for their members etc. We should predict the abyss to which companies will be driven by high pay settlements, illustrating continuously with the latest bankruptcies. This can also be done at constituency level.
- 3.4 We can use speeches, possibly PPBs with visuals, also supplementary questions to you in the House.
- 3.5 We should regularly contrast what is happening here with pay settlements and inflation rates in other countries.
- 3.6 We will shortly put forward a paper with this approach spelt out in more detail.

#### 4. WHO DOES WHAT?

- 4.1 Participants. We think that you and Geoffrey should be in the lead on this, with perhaps Michael Heseltine and Keith coming in later. However, it will be difficult to involve anyone except you and Geoffrey if Jim himself does not agree with this approach.

4.2 Who organises? I suggest that, for the time being, the Policy Unit goes ahead with preparing material, liaising with Central Office for constituency examples, and gets examples from Departments.

5. OTHER ACTION

5.1 Geoffrey has asked me to help with a speech he is giving on 9 July, a "thinkers" piece on the role of the unions.

5.2. You will be talking to Edward du Cann to see whether the principle of de-indexing, by a few percentage points, what would have been the full indexation of this year's staged increase would be accepted by MPs. It may be that the nurses' case would apply some moral pressure for a gesture of leadership from Members. We agreed that it was impossible for Government to urge the public to settle for less than the going rate, let alone to try to force similar de-indexation amongst public sector employees, if it started the whole process going by giving a fully-indexed increase (however "special" the MPs' case is) on its own doorstep.

I have not yet discussed any of these ideas with Jim and am copying this to Geoffrey only.



JOHN HOSKYNs

✓  
 Mr. Hughes  
 Mr. Walker  
 MB  
 Mr. Smith  
 JL  
 3/11

PRIME MINISTER

## RELATIONS WITH TRADE UNION LEADERS

We are to discuss this issue at your meeting on 3 June and I have seen Geoffrey Howe's minute of 27 May.

I think it important for that discussion to have clearly in mind the distinction to be made between the TUC as an institution and the role of individual trade union leaders. We must avoid doing anything which appears to recognise the TUC as a partner in determining policies. But at the same time we must not alienate individual trade unionists who can bring useful influence to bear within the TUC or undermine their authority for the conduct of industrial relations.

The authority of the TUC is slight and has indeed declined. But despite evident embarrassment on the response to the call for support for the "Day of Action" on 14 May, there is little doubt that the TUC will be saddled with a series of resolutions at its Congress in September which will deepen its proclaimed opposition to our policies. I am sure that we must not structure any new formal relationship with the TUC which might appear to recognise the strength of that opposition or indeed provide the TUC with a new platform from which it might be proclaimed and developed. In his Granada lecture on 28 May, Len Murray made clear that the TUC sees itself as having the role of "bargaining" with governments to establish areas of agreement. Certainly for the present, there is no prospect of any measure of agreement being possible with the TUC in the area of economic policy.

But we must now seek to do all we can to see that a climate does not develop in which more moderate union leaders, and the TUC General Council as a whole, is unwilling (or even unable) any longer to hold back those who argue for no contacts with Government and outright opposition. We must also avoid inadvertently providing some new emotive cause on which the TUC's opposition could focus and which

might provide an issue on which pressures for industrial action could be mounted through the institutional channels the TUC provides. Although the TUC's position may now be weak, we must not underestimate its ability to provide a skilful institutional focus for discontent with our policies and it would be unwise to ignore the strength of traditional loyalties which could come to be harnessed.

It is vital therefore that existing channels of dialogue are kept open and we must continue to be ready to consult the TUC on all appropriate matters. I very much welcome John Nott's initiative in inviting the TUC to discuss their views on import controls with him. Other specific topics on which a common interest and the possibility of practical change might be established could provide for useful consultation and I am considering the possibility of talks with both the TUC and the CBI on such matters as employee involvement and industrial training.

Above all else, we must endeavour to ensure that the authority of union leadership in the conduct of industrial relations is not eroded still further but is, wherever possible, strengthened. Many of the problems of industry stem from a lack of authoritative leadership in the unions and without it agreements are abrogated, wage bargaining becomes the more chaotic and the risk of industrial action and resultant damage increases. The necessary authority must be won and be responsibly exercised. But we should be seen to be ready to encourage its development and not appear to want to diminish it further in public dialogue with rank and file union membership.

I am copying this minute to Geoffrey Howe, Robert Armstrong and John Hoskyns.

*RTB/JP*

JP

[Approved by Secretary of State and signed in his absence]

30 MAY 1980

30 MAY 1980

10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31



*Cd Mr Lyham*

*Prime Minister*  
*For discussion with*  
*the Chancellor and the*  
*Prime on Tuesday.*

Treasury Chambers, Parliament Street, SW1P 3AG  
 01-233 3000

*26/5*

PRIME MINISTER

RELATIONS WITH TRADE UNION LEADERS

We discussed this recently and I promised a note of my views about the next stage of our relationship with trade union leaders.

2. This is a good moment to give some thought to the TUC generally. There are a good many signs that the influence of the national trade union leadership has been declining. Their influence with their own membership seems to have waned and disputes among themselves have weakened their authority further. Their expressed, although incoherent, desire for talks with the Government is to be seen as evidence of their worry about their own position. So long as the TUC does not have discussions with the Government about economic matters, it is not altogether clear what its role in national affairs is. I think that worry about this situation underlies a number of comments which have been made by national trade union leaders recently. Frank Chappell called on the Government to initiate talks with the TUC. David Basnett, in contrast, has adopted an attitude of bluster - the Government cannot expect the TUC to use its influence for pay restraint unless it discusses economic policy with them. But both seem to be after the same objective, namely, to get the TUC back into something more like the relationship they had with the previous Government and, to a lesser extent, with the last Conservative Administration.

13. I think the





3. I think the substance of all this is moving in the right direction. It must be in the national interest to get entirely away from the assumption that the TUC has some constitutional role, some right to share in the making of Government policies. And the crumbling of their power and influence in the country which seems to have been taking place must also be beneficial. But some might argue that the process has gone far enough and that the moment has come (as I think Arnold Weinstock argued when he spoke recently to Robert Armstrong) for the Government to show magnanimity and make a new move to establish better relations with the TUC.

*See papers  
at Fls A*

4. One question which arises is whether, if we do not do this, the decline in the position of the TUC in the country will continue. I am inclined to think that it might go a good deal further. There is a good deal of evidence of the unpopularity of the national trade union leadership amongst ordinary members. Another question is whether we want that decline to continue indefinitely or whether at some stage we might want a TUC leadership with some authority to play a role. One possible view is that, notwithstanding the steady decline in the power of the TUC, the leaders still retain sufficient influence to damage our cause severely because of the extent to which they can sour the atmosphere at all levels; for this reason alone it makes sense for us to try to neutralize their dangerous capacity to do harm - the question is how best to do that?

5. I believe that even in this negative sense, there may be some role which the TUC could play in the context of pay, at some stage. But there is all the difference in the world between the TUC acting in response to

*/*pressure from its



pressure from its own members and its acting in response to a Government approach. After a year of large pay increases accompanied by rising inflation and unemployment, it is not impossible, I think, that the national union leaders may begin to feel pressures from their own membership for some general move towards good sense and restraint. It is possible to imagine a trade union leadership responding to concern of this kind about excessive pay increases coming from the grassroots and, if that happened, I think we as the Government could hardly fail to give such a move our blessing. But it would be a very different thing for us to approach the TUC and ask them to use their influence to secure pay restraint after some kind of negotiation with the Government. That would be a situation in which they were thought to have some bargaining power and we would indeed be conferring it on them. It would be a situation which encouraged the worst illusion which incomes policies tend to develop, namely the illusion that pay is determined by what can be secured in negotiation with the Government rather than by economic reality.

6. Of course, there is a danger that a situation of the first kind might develop into the second. Something not unlike this happened during the incomes policy of the last Government. In its early stages it did rest to a considerable extent on popular reaction against crazy pay behaviour and very high inflation and the national union leadership was to some extent being pushed from behind. That was the period of its relative success. But as time went on it became a matter of the Government appealing to the TUC to procure restraint and that was the period of the break-up of the policy.

7. We may be



7. We may be not very far from a situation in which, once again, there is a groundswell of popular desire for greater moderation on pay. Our task will be to exploit this without getting into the problems which faced the last two Governments when they embarked on a formal policy for pay. If we are to exploit a mood of this kind, it would certainly be preferable if the TUC leadership felt able to give expression to a similar message from their own membership. To put the same point more negatively, there is a real danger that, the weaker the TUC leadership feels itself to be the less they will be likely to do any such thing. They may increasingly show all the signs of petulance and pique which we have seen recently and, in that spirit, will be more inclined to make aggressive noises about pay even if this has little influence on local behaviour. (We cannot, of course, be sure that their influence will always be so limited).

8. I conclude that there are two things to be avoided. First, we must continue to be very careful not to build up the TUC again by formalising our relations with them. At the same time, we must avoid anything which can be made to look like a policy of 'confrontation'. This would be another way of building up their influence. The Press is all too ready to see us falling off the wall in either of these directions, as the events of the last week have shown. My mildly conciliatory remarks at the CBI dinner were interpreted by some of the Press as a new initiative for talks and Len Murray, reacting to that misinterpretation, rejected the imagined initiative sharply. I think our aim must be to avoid drama of either

/kind and, at the

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kind and, at the same time, to develop reasonable and friendly relations with individual trade union leaders so far as possible, but without building up the national position of the TUC. The more we seek to deal-in practical, public dialogue - with rank and file union membership (and so encourage management to do the same) the more important it is to avoid provoking or giving inadvertent offence to an increasingly ceremonial national leadership.

9. This suggests a policy of three elements, which is in fact close to the approach which we have already adopted. Although we shall always need to respond to initiatives from their side, we should avoid anything that has the appearance of a new formal relationship with the TUC - or any special initiatives of that kind. We should continue to talk in a reasonable and conciliatory manner in NEDC. And we should arrange to meet trade union leaders from time to time informally.

10. As regards what you might do yourself, I am not sure of the wisdom of inviting the NEDC six to No 10 because of the significance that might be attached to your inviting any particular group of union leaders which has any formal existence. Equally I would incline against any formal invitation to the TUC's Economic Committee or the chairmen of TUC Committees. It would be better - if possible - simply to see two or three groups chosen in a rather random way on occasions spread over the next two or three months. Of course there should be no agenda and no formal record and you should be supported only by a few Cabinet colleagues. The meetings should not be kept secret: it would certainly be unwise to try that, but in public explanation a parallel could be drawn with the meetings which you have occasionally with groups of industrialists.

/11. I am sure

CONFIDENTIAL



11. I am sure it's a good idea for you to take the Chair at another NEDC meeting soon. As I said on Thursday, the best occasion might be on 2nd July, but it would be best not to announce this until nearer the time. If it was announced now, I am afraid it would confirm the false impression which some newspapers have put about that we are pursuing the TUC for talks about pay.

12. I am copying this letter to Jim Prior, Robert Armstrong and John Hoskyns.

*R. G. H. L.*

(G.H.L)

27 May 1980

Signed on behalf, and with  
approval, of Chancellor of  
Exchequer.

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27 MAY 1980

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Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

Clive Whitmore Esq  
Principal Private Secretary  
10 Downing Street  
London SW1

23 May 1980

Dear Clive,

CONSULTATION WITH THE TUC

My Secretary of State has considered the suggestion made by Sir Arnold Weinstock to Sir Robert Armstrong and reported in David Wright's letter of 19 May to me.

The Secretary of State regards it as very important to keep the channels of dialogue open with the unions. But he thinks this is best done through consultation on specific topics with the TUC - as indeed has been done so far - and that Departments should be meticulous about consulting the TUC on all appropriate matters. The Secretary of State is himself considering further possibilities of opening up over the next few months talks with the TUC and with the CBI on such matters as employee involvement and industrial training, where there is some possibility of common interests and practical change; and he hopes that his colleagues will also be maintaining their links with the TUC and giving reasonable publicity to the consultations which do take place.

Mr Now's  
idea  
cannot  
be too  
much  
committed  
to  
23w.

As for Sir Arnold's particular idea, the Secretary of State presumes that the Chancellor and Sir Keith Joseph will wish to consider it more closely. His own feeling is against it. It seems to him to be duplicating the sector working parties and to threaten to pull the Government into a quite inappropriate bargaining posture on import policy. In this kind of situation the Government rarely, if ever, finds that the other sides are capable of giving reliable counterweights to the commitment expected from Government.

I am sending copies of this letter to Private Secretaries to the Chancellor of the Exchequer, the Secretary of State for Industry, Secretary of State for Trade and Sir Robert Armstrong.

Yours ever

Richard Dykes

R T B DYKES  
Principal Private Secretary



23 MAY 1968



PRIME MINISTERTALKING TO TRADE UNION LEADERS

You are going to be discussing the possibilities for discussions with trade union leaders, with Geoffrey and Jim next week. I understand Thursday evening is the likeliest time.

This minute is simply to sound a WARNING NOTE.

We have done a lot of thinking about this whole tangle of Government-trade union leader relationship, the next pay round, public sector pay, the "Prisoner's Dilemma" mentioned in my earlier minute.


Our conclusions are that the present situation is a UNIQUE OPPORTUNITY. Government authority, and thus negotiating strength, is at a peak, especially following the Day of Action. Union leaders are desperate to regain some of their authority, be seen to be "negotiating" with Government again, preparatory to the next pay round.

We have worked out a strategy which could, at best, start us on the way to resolving many of these problems. At worst, it could not make the prospects for the next pay round any worse than they already are.

A conventional "good relations" meeting (eg, Geoffrey meets a handful of trade union leaders to show willing, as has already happened on previous occasions) would not be compatible with that strategy, would instantly strengthen union leaders' authority and weaken ours; and could, at worst, make the strategy we have in mind impossible. We should therefore stop and think very carefully before drifting into a meeting which could be a BIG MISTAKE.

I would like to talk through our ideas with you, with David and Norman on Wednesday next week, when you have an hour or so free around the middle of the day. If our ideas make sufficient sense to warrant further thinking, we will then write up a note on them for your box that night, with a copy to Geoffrey, so that you can have them in your mind for your meeting with Jim at Chequers.

I am copying this note, privately, to Geoffrey, at No.11

  
JOHN HOSKYNs

PRIME MINISTER

cc'd. Econ PD: Consumer Credit Act 1974: July 79.

cc Mr. Wolfson  
Mr. Hoskyns

Ind PD

Meeting with the Chancellor, 0900 hours,  
Thursday 22 May

The following are some points for discussion:-

i) Invitation to Trade Union Leaders

You had it in mind to invite the NEDC 6 and wives. This needs careful thinking through - all the more so in the light of the Chancellor's speech to the CBI yesterday (key passage at Flag A) which was widely taken as an olive branch to the trade unions. Any meeting with you is now bound to get a good deal of publicity. We therefore need to have some idea of what we intend to get out of it. Is the purpose simply to talk around our economic problems and explain Government policies in the hope that the trade unions will play a more constructive role in pay bargaining, productivity, etc? Is the intention to persuade them that it is in their members' collective interest to act with greater moderation? Or is the intention to move more explicitly towards some kind of consensus on the level of settlements in the coming pay round?

Whichever of these we aim for (and I am sure you will want to have a longer discussion with the Chancellor on pay generally in the near future), I do not think a lunch/dinner with the NEDC 6 and wives would be a good idea. The trade unionists would infer that they were not being invited for a serious discussion. Nor do I think a meeting with the NEDC 6 alone is necessarily the best approach. It might be better in the first instance to invite two or three trade unionists (say Murray, Chapple and Evans) to a lunch along with three industrialists (say Pennock, Jarratt and Hector Laing or Hodgson).

The Chancellor will have views on all this; but it might be wise also to consult Mr. Prior.

ii) NEDC Meeting

The Treasury are checking whether the agenda for the July meeting is suitable. Subject to this, the Chancellor will advise that you should take the chair.

iii) Contingency Reserve

The Chancellor will have an aide memoire to hand over - indicating, I believe, that over-spends by the nationalised industries are going to put a severe strain on the Reserve.

iv) Consumer Lending

The Chancellor has submitted a minute (Flag B) arguing again against introducing any direct controls on consumer credit. Contrary to what he suggests, there has been a considerable increase in consumer credit in absolute terms. None the less, I do not think controls would be very effective (there would be switching into other forms of credit); and since the real problem is lending to industry and services, it would look as if we were doing it largely for presentational reasons.

v) EEC Budget

There is a Finance Council meeting next Tuesday: the Chancellor may mention this.

12.

21 May 1980



# H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-233-3415  
Telex 262405

**PLEASE NOTE EMBARGO**

NOT FOR PUBLICATION, BROADCAST  
OR USE ON CLUB TAPES BEFORE  
21.00 HOURS, TUESDAY 20 MAY 1980

20 May 1980

Speech by the Chancellor of the Exchequer,  
the Rt Hon Sir Geoffrey Howe, QC, MP, at  
the Confederation of British Industry's  
Annual Dinner held at Grosvenor House, London  
on Tuesday, 20 May 1980.

PRESS OFFICE

H M TREASURY

PARLIAMENT STREET

LONDON SW1P 3AG

01-233 3415

95/80

Your presidency will be remembered above all for the leadership, undemonstrative but strong, which you have provided at a vital stage in the development of the CBI. Building on the foundations laid by Lord Watkinson, you have helped to bring the organisation to the very centre of the national stage. Confident that, at the youthful age of 57, you still have much to contribute to the future of British industry, I offer you, on behalf of this distinguished company, warmest congratulations on a presidency of real distinction.

But you would be the first to acknowledge the debt that you owe to our late, dear friend, John Methven.

As Minister of Consumer Affairs in Ted Heath's Cabinet, it was my great good fortune to appoint John to his first public office, as Director General of Fair Trading. So, from time to time, I used to tease him - and hugely boost my own morale - by claiming that I was the man who invented John Methven.

It was an absurd claim, of course. For, more than anyone else, John was his own man.

And, more than anyone else, he transformed the CBI into a fighting organisation, heeded now with equal respect, by Ministers, by union leaders, by Whitehall - and by the people.

How we shall all miss the candour of his advice, the clarity of his advocacy, the courage of his convictions - and, most of all perhaps, the quiet passion of his patriotism.

That was never more evident than when John Methven told your last annual conference:

"If ever a nation stood poised between remorseless decline and real success, between poverty and prosperity, between disintegration and moral recovery, then it's Britain on the eve of the 1980s. In the starkest terms, I'm saying to you that we are drinking in the Last Chance Saloon."

How is it that Britain, once the world's greatest industrial power, now faces this stark choice? Is it solely because of bad economic management by Government? Because Governments have got their forecasts wrong? Because Governments have made a mess of managing demand? Because Governments have made a mess of fixing the exchange rate? Is it Governments alone that are responsible for 20 years of relative decline?

It would, in many ways, be easier if it was only Governments that were to blame. And, of course, Governments do have crucial responsibilities about which I shall have more than a word to say in a moment.

But as for Governments being alone to blame?

No. On the contrary, it has long been one of the besetting sins of our society to try to shift on to Government responsibilities which properly lie elsewhere. To use Government as an alibi for bad or irresponsible economic behaviour. And then to expect Government to clear up the resulting mess: a task far beyond the capacity of any Government, so long as the underlying causes remain untreated.

In too many respects we have cherished illusions of that kind.

We have acted as if we could have high and ever-rising living standards without paying attention to our ability to compete with other countries, especially in manufacturing.

Some trade union leaders indeed have even argued that the ability of an employer to compete, or even to pay, was none of their business, and that their concern was solely with the living standards of their members.

It reminds me inevitably of an observation by one of my 19th century predecessors, George Canning:

"In matters of commerce the fault of the Dutch was giving too little and asking too much."

Today, that earlier version of the Dutch disease has settled far too widely over here.

We have been giving too little in productivity and asking too much by way of reward. Too often we have allowed profits to be squeezed, on the assumption that Government would help out by printing money, by depreciating the currency or, in the last resort, by nationalising the business so that jobs could continue at the taxpayer's expense. Nationalisation, it has too often been thought, removes the market barrier to wage increases. And the nationalised sector has often set an example that others have followed. The illusion has been that we can make our labour more and more costly, without pricing ourselves out of a job.

And, of course, the charm hasn't worked. How could it? The evidence is before our eyes, in the decline of our living standards relative to those of other industrial countries. We have only to contrast what has happened to living standards in Germany or Japan. They had to enter the post-war world without the luxury of any illusions at all.

And so we have reached the 1980s with an economy in which market forces are too weak. With a nationalised sector and public services which are too large. And with weakened management in the enterprise sector. By many international standards our public services are still good. But the motivation for public service that is critical to an economy with a large public sector has gravely weakened. The consequences were dramatically illustrated in the declining months of the last Government. That is the counterpart of the weakening of industrial management, which has resulted from the wrong kind of trade union activity.

Another facet of these illusions, but perhaps also one of its causes, has been too much loyalty to class and too little identification with national success - too little patriotism. Low key patriotism may have helped us bring an empire successfully to independence. It has made us less than sufficiently ashamed of our relative economic decline.

Despite all the complaints, paradoxically we have one of the most egalitarian, one of the fairest of the large industrial societies. Yet our overseas friends in particular often think our economy is hampered by too much class distinction.



What they mean, I suspect, is that it is hampered by overtones of antique class loyalty. There are, of course, two sides to all that. There is, for instance, far too much determination to remain working class, and not enough of the ambition to become bourgeois to which our foreign critics are accustomed.

The stress on maintaining a local authority tenantry, without the freedom of ownership, and on the fostering of comprehensive schools, not for reasons of educational efficiency but as a piece of social engineering, are all part of this. So too is much trade union solidarity and resistance to change in working practices, and the endless attack on any form of so-called elitism: though if we look at our European neighbours, we see how well other countries have been served by elites of administration, and elites of management. Disdain for elitism has all too often been an excuse for failure.

No less damaging, of course, is all the affectation about having the right accent or the right address. The reluctance, sometimes affected -

all too often very real, to work in industry. What kind of a society is it (and I mean no disrespect to Sir Monty Finniston and his colleagues) that feels obliged, 200 years after the start of the Industrial Revolution, to appoint a committee to improve the public status of the engineer.

Some of the illusions of which I have been speaking can influence our insight into very real problems, simply by the effect they have upon our terminology. For many people, the word "competitiveness", for example, has come near to meaning simply a lower exchange rate.

I fully appreciate, of course, the extent to which the present exchange rate is a source of worry. But I have to advise you that it is not, to any great extent, under my control. Insofar as it is, then it could only be influenced downwards - as Denis Healey found in 1977 - at the cost of undermining the tight monetary policy that is fundamental to success in the fight against inflation. Once the exchange rate begins

to fall the price of imports is bound to rise. All too often in the past this has set off a further inflationary demand for higher wages. In the past Government policies have accommodated this. Production costs have risen. Any gains in competitiveness have been quickly wiped out. Competitiveness must again come to mean getting down costs, improving quality and marketing skill.

Even today, fortunately, many companies are continuing to advance in both home and export markets. Your President-elect, Ray Pennock, told us at NEDC, two weeks ago, that ICI increased the volume of its exports in 1979 by some 10 per cent. The scale of their success enabled them indeed to make a pay settlement that dwarfed the recent changes in the value of the pound. That enables me with confidence to offer congratulations and best wishes to the CBI as well as to Ray Pennock for the two years that lie ahead of him. I don't for a moment suppose that growth in exports was easy or necessarily as profitable as the company would have liked. But if we can get inflation down, more profitability will of course return to both existing and new business.

A  
In that context, let me assure you too that I know very well how strongly you feel about the high interest rates we are having to endure in the first phase of our battle against inflation. I share these feelings. Our Medium Term Financial Strategy makes it clear that we mean to rely less heavily on interest rates in future. But it would be wrong for me to make rash predictions about when they will come down.

True, the figures for monetary growth over the last 10 months are back within the target range.

That is encouraging. But last month's banking figures show that growth of bank lending is still excessive.

Caution now means that the prospect of sustainable lower rates is brought forward - to the benefit of industry, house-owners and the economy as a whole. My caution should not be misinterpreted as pessimism. I have no doubt that it will be possible to reduce interest rates later in the year. And it was to bring forward this prospect that we have cut public spending and borrowing as much as we have.

Let me, in that context, say a word about one final illusion - that this Government is so pre-occupied with monetary policy that we believe, or have ever believed, that pay and pay bargaining are unimportant. On the contrary, large catching-up pay settlements in the public sector promised by the previous Government, for example, have played a major part in determining the level of public services we can now afford. And the levels of pay settlements more generally crucially affect the level of output and unemployment.

During the coming year the rate of inflation will be falling. So we need pay settlements below the rate of increase in the Retail Price Index. Many of those

reported to your data bank are in line with that. That's essential, if we are to keep inflation on a downward trend without continuing increases in unemployment such as that announced earlier today. But while the private sector of industry - and especially manufacturing industry - feels the squeeze, it would be quite wrong if the public sector did not also play its part in the process of bringing the rate of pay increases down. Everyone who works in the public sector must accept that as essential over the coming year.

The Government's responsibility is to reduce the rate of monetary growth, so that inflation comes down. That's a long, hard process. It is for everyone involved in pay bargaining to decide whether their role is to make that task longer and harder or quicker and easier. For moderation in pay demands is not doing a favour to the Government but helping those who work in industry to keep their employment and to prosper.

As you know, Mr. President, that is one of the subjects which we have now discussed several times at the National Economic Development Council. And which we are willing and anxious to discuss, in that forum or any other, with the TUC and with anyone else who is willing to listen.

I don't find it easy to understand the complaints that the Government has slammed the door on the TUC. That we don't consult them. Won't talk to them. I have made it very clear how much importance I attach to those discussions. And that I am always ready - often at short notice - to consult about

specific decisions. My colleagues and I did so, for example, about the economic and social consequences of BSC's difficulties.

One encouraging development at recent NEDC meetings has been the agreement of the CBI and TUC to take important problems away for joint discussion, including your proposed guidelines on the introduction of new technology and your proposed joint examination of alternative economic policies. I welcome these initiatives. For bilateral discussions between the CBI and TUC are an acknowledgement that much of the responsibility for improving economic and industrial performance lies with industry.

That's why I think the work you are doing on communications within industry is so important. For the workforce will understand the company's problems and opportunities - in reality, their problems and opportunities - only if they are discussed with them. And only you can set that under way.

Restoring the health of our economy very largely depends on the help you can give in changing attitudes and restoring a sense of realism throughout industry.

John Methven understood this perhaps better than anyone and devoted much of his considerable energy to putting this message across.

John knew - as Ray Pennock too has often reminded us - that management could only get the message across if it established effective two-way communications with all who work in industry.

And that is a task in which we all must share.  
Let me close by quoting again from John Methven's  
last conference speech:

"It's not good enough to be part of the  
silent majority. It's time to be part of  
the articulate leadership. It's time to  
communicate and evangelise. Yes, evangelise.  
Let us all be evangelists for economic

reality ... for greater efficiency and  
competitiveness ... for creating the  
conditions for wealth and prosperity ...  
and for saner, more humane industrial  
relations."

And let us all say 'Amen' to that.



of Trade - April 88  
New Tariff Bureau

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

B.  
24/5

Ref. A02203

19th May, 1980

Sir Arnold Weinstock spoke to Sir Robert Armstrong on the telephone at lunchtime today.

Sir Arnold Weinstock wanted to get people thinking about a suggestion that, following the fiasco of the "Day of Action" on 14th May, which had left union leaders in disarray and "all over the floor", the Government should take an initiative to open a dialogue with them. He quoted Sir Winston Churchill: "In defeat, defiance; in victory, magnanimity". He thought that they needed to be seen in some sort of dialogue with the Government to avoid losing the remnants of leadership which they still possessed.

He was not thinking about anything at the highest and macro-economic level. The National Economic Development Council was there for that, though it was not a body for which he had much regard. What he had in mind was something on the next level down, where in his view the sector working parties had been ineffective, amateurish and too low level. The object should be to get representatives of sectors or of industries together with the Government at a reasonably high level - nothing lower than a junior Minister - to see if they could agree upon some specific and practical measures.

Sir Arnold Weinstock said that he was personally against import controls in principle; but, if he believed that limited and selective controls for a short period would enable industries to recover efficiency and competitiveness, he would not rule them out. His suggestion was that, if management and in particular unions were ready to enter into solid and practical undertakings to improve efficiency and productivity, then the Government should be prepared to throw into the pot a limited and temporary measure of protection from imports. That measure would be removed the moment there was any strike or failure to achieve the measures agreed by the other parties.

Sir Robert Armstrong said that he would make sure that the relevant Ministers were made aware of Sir Arnold Weinstock's suggestion.

I am sending copies of this letter to the Private Secretaries to the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Industry and the Secretary of State for Trade.

D. J. WRIGHT

R. Dykes, Esq.

(D. J. Wright)

13. 5. 80.

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PRESS CUTTINGS  
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DAILY MAIL 6.

DATE

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R.*

# No right to a say at No. 10 by Jack Peel

CHIEF ADVISER ON  
INDUSTRIAL RELATIONS TO  
THE EUROPEAN COMMISSION

HAVING served on the TUC General Council for six years I know its great traditions. It deserves to be talking quietly to Ministers in Downing Street, not chanting to the masses in Trafalgar Square.

But no pressure group has automatic access to No. 10. It must earn the right to go there by the responsibility of its behaviour and its acceptance of the right of the Government of the country to carry out the tasks for which it was elected.

If the TUC could transfer its ritualised aggression to sorting out multi-unionism, controlling picketing, encouraging secret ballots and bringing shop stewards' functions firmly under the control of union rules, we would see a dramatic improvement in our industrial relations.

The TUC said recently that it was 'falling behind' its Continental counterparts in the use of one-day work stoppages. It is true that Italy, France and Belgium use this technique occasionally.

In Germany, Holland, Denmark and Luxembourg, however, one-day strikes are illegal.

But British trade unionists are falling behind in more important matters. Continental trade unions have higher productivity, legally binding agreements, better fringe benefits, works councils, industrial unionism, good conduct bonuses, worker participation, concerted action programmes, better trade union educational facilities, no closed shops and national minimum wages.

So if the TUC switched off its domestic political campaign and tuned in to some of these positive concepts, everybody would benefit.





Ind 20

Treasury Chambers, Parliament Street, SWIP 3AG  
01-233 3000

*cc Murray*

11th February 1980

*Dear Ian,*

*R  
11/2*

REPLY TO LEN MURRAY

..... Herewith a copy of the Chancellor's reply, delivered today, and to be released to the press today (probably at lunchtime). No doubt our press offices will be in touch.

I am copying this letter to Ian Fair, Bill Burroughs and George Craig, and to Michael Richardson, Tim Lankester, Richard Prescott and David Wright for information.

*Y. aw,*

*MA*  
(M.A. HALL)

Ian Ellison, Esq.



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

11 February 1980

*Dear Len*

Thank you for your letter of 1st February with which you enclosed a memorandum on the steel industry and coking coal imports. You asked for observations and in particular for a reply to the three questions you set out in your letter.

Both the meeting and the memorandum have shown that there is a good deal of common ground between the TUC representatives and the Government. We agree, for example, on the need for financial discipline in the nationalised industries as in the private sector and for BSC's losses to be limited in size and time; that the trade unions can play a big part, though of course by no means an exclusive one, in reducing BSC's costs and improving performance; and that the Government has a responsibility to take action that will help to alleviate the serious unemployment consequences caused by industrial change. You will have seen that the Secretary of State for Wales announced in the House on 4th February that £48 million additional expenditure would be made available in the next two years for the provision of industrial sites and factories in order to provide new jobs in Wales.

The urgency of industrial change is however inescapable. The uncompetitiveness of much of our industry, including major steel-using industries as well as steel itself, is in part a reflection of our inability in the past to face up quickly enough to the need for change and too often the necessary pace of change has been slowed by Government intervention. Uncompetitiveness has often deepened in consequence, further eroding our industrial base and jeopardising jobs which otherwise could have been made secure. The priority must be to use the resources available to us to promote a readier acceptance of change and new jobs. Any alternative course is self-defeating.

/This case



This case is reinforced by the very large sums which are being provided to the NCB and BSC, partly for investment and partly to cover losses. For the NCB the Government is planning to make grants to the Board of some £450 million over the period 1979/80 to 1980/81. In the same period the Government plans to make available loans for investment, either directly or through providing guarantees, of almost £900 million. Over the two years this totals about £1,350 million for the NCB. As for the BSC, the Corporation's modern capital equipment has cost over £2½ billion in the last five years. In 1979/80 and 1980/81 alone the Government is providing BSC with £1,150 million of interest-free money. Thus over these two years the total provision for coal and steel together is no less than £2½ billion.

All these points form the background to the Government's answers to the three questions in your letter:

- (i) We have been assured by BSC that they are anxious for further consultations to take place as soon as possible between themselves and the unions about their proposals and the basis for them. The Government hope that these consultations can proceed just as soon as possible.
- (ii) The Government agree that there should be an urgent joint examination at official level with the TUC on the scope for using more EEC funds to alleviate the problems of the UK coal and steel industries. This study should also in the Government's view cover the use of such funds for promoting new jobs in areas affected by job losses in the coal and steel industries; and the financing of such measures to see whether they offer a net advantage to the UK, which we would not otherwise get. I am glad that the Department of Industry have arranged the first meeting for Monday, 11th February.
- (iii) The Government understands that the NCB and BSC have now reached an agreement which will ensure that BSC will not enter into additional commitments for the import of coking coal in 1980. The two Boards are expected to make an announcement very soon.

/More generally,



More generally, as I said at our meeting on 31st January, my colleagues and I will be ready to have and indeed would welcome further discussions with the TUC Nationalised Industries' Committee on matters of common concern.

Y —

*Howe*

(GEOFFREY HOWE)

111 FEB 1960





hd Bf

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Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000  
6th February, 1980

Chancellor  
initiatives

Prime Minister

To glass: his seems  
a good draft - and  
reasonably forthcoming without  
giving anything of real  
substance. R

Good  
not

R  
gr

Dear Ian,

I enclose a draft reply to Mr. Murray's letter to <sup>7/2</sup> the Chancellor of 1st February. The Chancellor would be grateful if your Secretary of State and the others concerned could let him have comments by tomorrow evening so that the reply can go off on Friday.

The Chancellor is aware that paragraph 4(iii) of the draft reply is not yet true. But he hopes very much that the NCB and BSC will succeed in reaching agreement in time for something on the lines of the attached draft to be said. Otherwise the coking coal issue is bound to become part of the joint study mentioned in paragraph 4(ii).

The aim for the officials taking part in the joint study must be to ensure that any measures emerging from it are compatible with the expenditure totals agreed by Cabinet. The Chancellor thinks that officials will need to meet interdepartmentally before they get down to substantive discussions with the TUC to concert their line. He has also asked me to say that in his view the emphasis should be on remedial measures for job losses rather than additional money for the industries which would conflict with existing policies.

I am sending copies to Ian Fair, Bill Burroughs, George Craig, Tim Lankester and David Wright.

Yours sincerely

John Wiggins

(A.J. WIGGINS)

I. Ellison, Esq.,  
Private Secretary,  
Department of Industry

CONFIDENTIAL

DRAFT OF A REPLY FOR THE CHANCELLOR TO SEND TO MR LIONEL MURRAY'S LETTER OF 1 FEBRUARY

Thank you for your letter of 1 February with which you enclosed a memorandum on the steel industry and coking coal imports. You asked for observations and in particular for a reply to the three questions you set out in your letter.

2. Both the meeting and the memorandum have shown that there is a good deal of common ground between the TUC representatives and the Government. We agree, for example, on the need for financial discipline in the nationalised industries as in the private sector and for BSC's losses to be limited in size and time; that the trade unions can play a big part, though of course by no means an exclusive one, in reducing BSC's costs and improving performance; and that it is the Government's responsibility to take action to alleviate the serious unemployment consequences caused by industrial change. You will have seen that the Secretary of State for Wales announced in the House on 4 February that £48 million additional expenditure would be made available in the next two years for the provision of industrial sites and factories in order to alleviate the effect of the reductions in steel employment which the BSC plans.

3. The urgency of industrial change is however inescapable. The uncompetitiveness of much of our industry, including major steel-using industries as well as steel itself, is in part a reflection of our inability in the past to face up quickly enough to the need for change and too often the necessary pace of change has been slowed by Government intervention. Uncompetitiveness has often deepened in consequence, further eroding our industrial base and jeopardising jobs which otherwise could have been made secure. The priority must be to use the resources available to us for promoting a readier acceptance of change and new jobs. An alternative course is self-defeating.

4. This is the background to the Government's answers to the three questions in your letter:

i) The Government have been assured by BSC that they are anxious for further consultations to take place as soon as possible between themselves and the unions about their proposals for South Wales and the basis for them, as in other cases of this kind. But the Government consider that progress by BSC in cost reduction remains urgent.

ii) The Government agree that there should be an urgent joint examination at official level with the TUC on the scope for using more EEC funds for the UK coal and steel industries. This study should also in the Government's view cover the use of such funds for promoting jobs in areas affected by job losses in the coal and steel industries, and the financing of such measures to see whether they offer a net advantage to the UK, which we would not otherwise get. I am glad that the Department of Industry have arranged the first meeting for Monday, 11 February.

iii) The Government understands that the NCB and BSC have now reached an agreement which would ensure that BSC can buy coal for 1980/81 at competitive prices without resorting to further contracts for imported coking coal.

5. More generally, as I said at our meeting on 31 January, my colleagues and I will be ready to hold discussions with the TUC Nationalised Industries' Committee on specific issues whenever it seems sensible to do so.

*Clarification  
rehabilitate  
part with  
you.  
17.*



7 FEB 1980

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DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
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PS/ Secretary of State for Industry

8 February 1980

M A Hall Esq  
Private Secretary to the  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
London SW1P 3HE

*Dear Martin,*

Thank you for your letter of 6 February with the draft reply to Mr Murray's letter of 1 February to the Chancellor.

We have no comments on paragraphs 1-3. On paragraph 4(i), we suggest the insertion of the following after the first sentence: "Both the Government and the BSC agree on the importance of securing understanding by the workforces of the proposals and the reasons for them".

On paragraph 4(iii), coking coal, we have agreed at official level to a proposal by the Department of Energy that this sub-paragraph should be amended to read as follows:

"iii) NCB and BSC continue to seek a mutually acceptable commercial arrangement which would avoid new commitments by BSC to imports of coking coal. Both sides clearly understand the importance which Government attach to this matter."

It might help if I set out the latest state of play on coking coal, as we understand it from BSC. The picture that Department of Energy receive from NCB may of course highlight different features:

NCB had indicated to BSC that they might be able to freeze prices for 1980 deliveries at the 31 December 1979 level. This would still have meant NCB prices to BSC £6 a tonne higher on average than the world price but BSC were willing to accept this and not make new import contracts, thus keeping their 1980 imports down to 4 million tonnes, provided that the freeze was a step towards NCB quoting BSC the world price level from 1981. NCB estimated the cost of this freeze to them in 1980 as about £33 million but BSC Assessed the benefit to themselves only at £17 million.

On 1 February, NCB proposed to BSC revised and less attractive proposals because they had failed to get any improvement in financial assistance from Government. The new offer was to freeze prices as from 1 April 1980 but at 7 $\frac{1}{2}$ % above the 31 December 1979 level.

/This ....



This is not acceptable to BSC.

However, BSC are now making the following counter-offer, which is designed specifically to help meet the problem in South Wales. On the agreed understanding that this represents a move towards world parity pricing by NCB in calendar year 1981, BSC are prepared not to conclude any new import contracts, thereby keeping imports to 4 million tonnes in 1980, and to pay NCB the proposed 7 $\frac{1}{2}$ % increase as from 1 April, subject to a special discount of £8.30 a tonne on NCB coal for Llanwern and to BSC being entitled to distribute the imported coal amongst their various plants at their own discretion. This would enable BSC to restrict the use of imported coal at Llanwern to 350,000 tonnes during the calendar year 1980, thereby facilitating the use of Welsh coal there.

*Yours ever,  
Pete*

PETER STREDDER  
Private Secretary

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Caxton House Tothill Street London SW1H 9NA

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A J Wiggins Esq  
Principal Private Secretary  
to the Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

12  
7/2  
7 February 1980

Dear John

My Secretary of State has considered the proposed reply to Mr Murray's letter of 1 February to the Chancellor which you circulated yesterday. He is very concerned that it should provide as helpful a basis as possible on which the TUC can continue in its attempts to ward off the threat of a general strike in Wales which has been threatened from 10 March. In particular, he thinks it vital that the reply should be able to say that agreement has been reached between the NCB and the BSC on the co king coal issue. This would be of the utmost importance in helping to defuse the situation in South Wales.

He proposes the following amendments to the draft:-

(a) The final sentence to the second paragraph would read more positively if it ended "... sites and factories in order to provide new jobs in Wales".

(b) In the third paragraph, penultimate sentence, "to promote" should replace "for promoting"; and in the final sentence the first word should be "Any ....".

(c) As for paragraph 4(i), the explicit reference to South Wales might be read as excluding consultation on the BSC proposals for other plants, eg Consett, and the words "as in other cases of this kind" are at best obscure. The final sentence adds nothing to what is said in the third paragraph. The sub-paragraph should therefore read -

"The Government have been assured by BSC that they are anxious for further consultations between themselves and the unions about their proposals and the basis for them. For our part, we hope that these consultations can proceed just as soon as possible".

(d) Paragraph 5 of the draft is somewhat grudging and the reference to "specific issues" could offer a hostage to fortune. It would be better rephrased as follows -



"More generally, as I said at our meeting on 31 January, my colleagues and I will be ready to have and indeed would welcome further discussions with the TUC Nationalised Industry Committee on matters of common concern".

I am sending copies to Ian Ellison, Bill Burroughs, George Craig, Tim Lankester and David Wright.

*Yours sincerely*  
*I A W Fair*

I A W FAIR  
Principal Private Secretary

SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ 211 6402

A J Wiggins Esq  
Private Secretary to the Chancellor  
of the Exchequer  
Treasury Chambers  
Parliament Street  
London SW1

*Page*  
7 February 1980

*Dear Jim,*

CORING COAL AND STEEL CLOSURES : REPLY TO TUC LETTER OF 1 FEBRUARY 1980

My Secretary of State has seen your letter of 6 February and the draft reply to the letter sent by Mr Murray of the TUC on 1 February and has asked me to let you have his comments.

He is content with the joint examination at official level with TUC on the scope for securing more EEC funds for the UK coal and steel industries and does not believe that we need be afraid of extending the study to coal as well as steel. He welcomes the arrangements which have been made for this Department to be represented.

As regards paragraph 4(iii) of the draft reply, Mr Howell spoke to Sir Derek Ezra on Monday and impressed on him the need to give high priority to concluding, within NCB's existing financial limits, an acceptable commercial deal with BSC for quantities of coal which BSC would otherwise import on new contracts. Sir Derek was again pressed on this after the Tuesday meeting at the Treasury. As we understand it NCB have put a proposition to BSC on which the latter have declined to negotiate further before Friday: there is thus no prospect of a deal being reached in time for the Chancellor's reply to the TUC. The two Boards are in any case still some way apart, with BSC insisting on terms which would involve NCB finding the whole of the £33m it would cost to hold prices unchanged at last year's level throughout 1980, and also offering the prospect of matching import prices from 1981.

It is clear that NCB could only bring negotiations to an end this week by surrendering their commercial position. They are especially reluctant to do so because the pressures we are simultaneously exerting on the electricity supply industry's EFL are making it impossible for NCB to look for extra revenue from that quarter which might offset the losses they face on sales to BSC. For his part, Mr Howell does not see how he can reasonably press NCB to go beyond their commercial judgment in meeting BSC's terms while we are simultaneously making it harder or impossible for them to secure extra revenue from sales to the CEGB. Further, such pressure would hardly be consistent with our continuing to insist to NCB on the primacy of their financial limits.

We therefore suggest that the relevant part of the reply to Mr Murray

-2-

should take the following line:

"NCB and BSC are continuing to negotiate for a mutually acceptable commercial arrangement which would avoid new commitments by BSC to import coal. Both sides understand the importance which the Government attaches to this."

I am sending copies of this letter to the other recipients of yours.

*Yours sincerely,*

*Bill*

W J Burroughs  
Private Secretary

CONFIDENTIAL



8 FEB 1960

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cc. Mr Wofm

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## Confederation of British Industry

From the Director-General: Sir John Methven

21 Tothill Street  
London SW1H 9LP  
Telephone 01-930 6711  
Telex 21332  
Telegrams  
Cobustry London SW1

STRICTLY PERSONAL

5 February 1980

*Dear Clive,*

I have thought deeply about the discussion which we had with the Prime Minister this morning: and I would be the first to admit that I came away deeply disturbed, because I could not provide an easy solution to a difficult situation.

Frankly, I know that this Government, and in particular this Prime Minister, provides the last chance that this country is likely to have to preserve economic freedom and therefore personal freedom.

Therefore, my natural inclination is to fall in behind and back what is done. But that is not my job. My job is to help to win: and to predict where individual and commercial opinion will stand.

As an industrial animal, I have seen both Conservative and Labour Governments confront the unions and lose. This Government has great courage and must win opposite the unions. If too great a step is taken at once then there is a real practical danger that the unions will

/continued ...

Clive Whitmore Esq  
Principal Private Secretary to the Prime Minister  
Prime Minister's Office  
10 Downing Street  
London SW1

again confront the Government and win. We cannot afford that.

It is true that the present Employment Bill, if amended to reverse MacShane will only deal with tertiary action (except in respect of picketing where it will deal with secondary action). That will be an imperfect solution - "band-aiding". To say, however, that to deal in one Bill with the closed shop, secondary picketing, and MacShane is "nothing" is, in my view, wrong. I had never expected while I occupied my post as Director General of the CBI even to be able to discuss these things after the disaster of 1971/74.

The question for me is - how much will the union movement take, without erupting totally, for the union movement is still more powerful than public opinion? In spite of this morning, I do not believe that we could, in the absence of a substantial period of consultation, secure the impugning of union funds and the making unlawful of secondary action (apart from picketing) in this Bill without :

- a. the risk of totally unifying the union movement against the Government, or
- b. splitting employers' opinion down the middle.

I am well aware that bodies such as BISPAs might well support such action at this time. But who will enforce it? Not Government, because it is a civil matter. It must be the bigger employers, with highly unionised workforces - that is where the battle will be.

It is much easier to advise you and our Prime Minister that all will be well and that in this Bill she should deal, at one quick blow, with all secondary action and the impugning of union funds: and I have also made it quite clear that I personally will back her decision. But my advice remains, after many hours thought, that she should say that this Bill is "band-aiding", that there is more to do (secondary action/trade union funds) and that that will be, quickly, the subject of a Green/White Paper. Action against these matters strikes at the very core of the trade union movement and, in my book, they are entitled to a reasonable period for consultation.

/continued ...

Clive Whitmore Esq  
5 February 1980

3.

Privately, I do not believe that the trade union movement is totally against this Government. I know that Len Murray is trying to cool the situation in South Wales and yesterday carpeted George Wright (the TUC Wales General Secretary) who is trying to exaggerate a serious situation there. Murray is also making great efforts to get the various trade unions into the same room as BSC. Surely, this sort of effort is still worthwhile?

To recommend a more robust or perhaps dangerous course would be much easier. But in the end I want to secure ground against the unions which is won, consolidated and enforced by employers.

I add one point about the enforcement of the law. It is now clear, from the common law, that the police have the right and duty to control the number of pickets at any one point - and this is quite separate from the point that I made this morning about the "act of picketing". That, in many places, they are not doing. The picketing of steel stock-holders has increased greatly over the last week: and yet we can see on TV (and from evidence which I have available) large numbers of pickets at one point. Why, for a start, is the law not being enforced by the police, in a strict manner, in respect of peaceful picketing, which would make a lot of difference to the current situation?

I do hope that, if you think this note worthwhile, you will show it to the Prime Minister.

*For ever*

*John*



DOWNING STREET

My dear Sir

You asked about  
England/Scotland.

There are no elaborate plans  
for Scotland. For England, Sir  
Keith is planning to spend  
just £1 3/4 million on residential  
houses - £1 million at Cousett,  
£3/4 million at Scurthorpe. He  
doesn't think more can be  
usefully spent because - in  
contrast to S. Wales - the prospects  
for attracting new industries are

simply too bleak.

I don't think the huge  
differences will stand up politically:  
more will have to be done in England.  
Th. 4/2

CONFIDENTIAL Subject file Ind 187

~~Ind Next Ind - Steel - 184~~



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From The Secretary of State for Wales

GWYDDFA GYMREIG

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Oddi wrth Ysgrifannydd Gwladol Cymru

Prime Minister

Deputy Clerk HZ

1 February 1980

*ms*

*Dan Brandon*

SOUTH WALES: STEEL REMEDIALS

My Secretary of State agreed yesterday with the Chancellor and with the Secretaries of State for Industry and Employment that in next Monday's Welsh Day Debate he should announce the package of remedial measures to deal with the job losses at BSC's Port Talbot and Llanwern works, following discussion with the Treasury about the necessary financial provision. I now attach a copy of the relevant section in Mr Edwards' speech. I would be grateful to know whether the Chancellor and Mr Edwards' other colleagues to whose private secretaries this is copied, are content.

Copies go to Ian Ellison (Industry), Ian Fair (Employment) and Alistair Pirie (Chief Secretary's Office) and, for information to Mike Pattison (No 10).

*Yours etc*

*G C G CRAIG*

G C.G.-CRAIG  
Private Secretary

M A Hall Esq  
Private Secretary  
HM Treasury  
Parliament Street  
LONDON  
SW1

The Government have made it very clear that it accepts the responsibility for cushioning the impact of change and that it will seek to do everything possible to encourage and assist the growth of new industries to the area. BSC's plans are still the subject of negotiation with the unions (which has been delayed by the present industrial dispute) and as I have clearly indicated it is not yet possible to assess the full consequences for coal and other industries. It will therefore be necessary to keep the position under review and anything I say to-day is bound to be provisional.

I am, however, most anxious that an early start should be made in providing the infrastructure needed to attract new industries to the area in Wales affected by BSC's plans. I would add that my Rt Hon Friend, the Secretary of State for Industry is urgently considering what may be necessary in the areas affected in England.

The prime need is for the acquisition, preparation and development of Industrial sites together with a substantial programme of advanced factories within the areas most affected, and taking advantage of the excellent communications provided by the M4 and the trunk road and high speed rail networks. I emphasise again that judgements at this stage can only be provisional and there will be need for a continuing programme over a number of years which can be worked out as the situation becomes clearer. What is needed now is to launch the first stage of a programme, so that we can get things under way and give people the assurance that action will be taken.

I can now tell the House that the Government are planning to make available some £48m over the next two years for remedial measures of this kind. The major part of these additional resources will go to the Welsh Development Agency, who are preparing detailed plans for this purpose. I have also asked the Cwmbran Development Corporation to discuss with local authorities whether they could develop industrial land in or around the new town, as a contribution to providing alternative jobs in the Llanwern area, I am also in touch with BSC Industry to see what further contributions they can make.

£48m - for Wales?  
 ? for Ireland/Scotland?



I have discussed the situation with the WDA. My announcement today will enable them to get on without delay with a substantial programme of acquisition and development of industrial sites which will be available for both public sector and private sector development. To give one example, I hope that plans will be brought forward by the West Glamorgan County Council and the Agency for developing the site of Dupont Steel works at Briton Ferry. I would again emphasise as I have before that we are determined to obtain an increasing private sector participation in the development of industrial sites, but this will take time and the programme I am announcing is an essential first stage.

Apart from this new programme the WDA will be spending in the coming financial year about £12 million from their normal programme in the areas affected by the closures including £8.5 million in Ebbw Vale and Cardiff, while I have already announced a programme totalling £13 million for the first year (including BSC Industry's contribution) at Shotton.

I would add that despite the overriding necessity about which I have spoken earlier to obtain public expenditure reductions I have defended the key motorway and trunk road programme including the M4 and A55 which will proceed on the basis already announced.

All this is clear evidence of the Government's determination to tackle on a realistic scale the task of providing the infrastructure that will enable modern industries to develop in Wales.

CONFIDENTIAL

I know that there will be anxiety about Assisted Area Status. The Government has already made it clear that these will be reviewed and if necessary changed to take account of the new situation.

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But we do not yet know just what the relative impact of closures will be on the travel to work areas most likely to be affected. My rt hon friend the Secretary of State for Industry is reviewing the situation and will be making an announcement as soon as final decisions have been taken by BSC, after consultation with the Unions.

Industrial Policy 2 of 2

# TRADES UNION CONGRESS

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Telegrams TRADUNIC LONDON WCI

Para Minis

February 1 1980

I would have thought

best to circulate  
YOUR REFERENCE could be fairly  
OUR REFERENCE following on each  
LM/DL/MV of their request  
DEPARTMENT without exceeding  
Secretary's authority

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
Treasury  
Parliament Street  
London SW1P 3HE

SECRETARY'S

CHANCELLOR	
REC.	- 1 FEB 1980
ACROSS	Mr. Howell
COMES TO	PS/EST PS/FST Sir D. LAD Mr. Atwell Sir G. GIBSON Mr. F. JONES Mr. JONES - Mrs J

PL 1/2

Aut.

Dear Sir Geoffrey

Steel Closures and Coking Coal Imports

After yesterday's meeting the TUC representatives met and agreed to seek from you a considered written reply on the principal issues they had raised.

Mr. Atwell - Mrs J  
Mr. Wickes  
Mr. Jones  
Mr. P. Gibson  
Mr. PATTISON  
Mr. LAURENCE  
PS/PM  
PS/WHIST OFFICE  
PS/D EMBURY

We have therefore drawn up a memorandum, a copy of which is enclosed, on which we would be grateful for your observations by the end of next week, and in particular we would like you to respond to the following three questions:

(i) Recognising the damaging industrial and social consequences if the BSC pursue their current closure and redundancy proposals (notably as regards the August 1980 deadline for radical reductions in manpower in South Wales), will the Government help to facilitate genuine consultations between the BSC and the unions about the basis of the proposals?

Mr Edwards is proposing to announce revised numbers on Monday -

PL

(ii) Will the Government agree to an urgent joint examination with the TUC to ensure that there is the fullest use of EEC funds for the UK coal and steel industries, the examination to include Commission proposals which would help to give Britain a better share of the EEC budget expenditure, entailing such joint representations to the EEC as seem desirable?

Mr Howell is  
meeting Derek Egan  
on Monday to  
consider how much  
more of the existing  
cash limit might be  
used for  
coking coal  
imports.

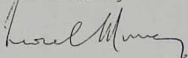
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(iii) Recognising the huge Government subsidies to coking coal in other countries, notably West Germany, and the fact that coking coal imports are exacerbating the problems of South Wales in particular, will the Government agree to consider jointly with the TUC, the BSC and the NCB ways in which projected increases in coking coal imports can be avoided?

I look forward to receiving your reply.

I am sending copies of this letter to your colleagues Sir Keith Joseph and Mr James Prior.

Yours sincerely



General Secretary —

February 1 1980

TRADES UNION CONGRESS

TUC MEMORANDUM TO THE GOVERNMENT ON THE STEEL INDUSTRY AND  
COKING COAL IMPORTS

Background

1 The Nationalised Industries Committee held a special meeting on January 10 in order to discuss the British Steel Corporation's plans to import more coking coal and the statement on BSC's closure plans which had been adopted by the Steel Committee that morning. The NIC decided that an urgent meeting was needed with relevant Ministers to discuss these matters further.

2 Among the points of general application to the nationalised industries the Committee believe:

- that adjustment of cash limits should take account of the time scale of industrial operations and should not encourage a more rapid industrial restructuring by the industries than can realistically be achieved; while industry, public and private, must operate within financial disciplines, it is not part of good commercial practice for these disciplines to be inflexible in the face of changing circumstances;
- furthermore during the recession, there is need to maintain the country's industrial base, not least in order to be able to meet the future upturn in demand without encountering a flood of imports; and
- that there are good grounds for considering investment projects in the public sector of industry as one area over which the Government has some control and which provides some means of maintaining economic activity at a tolerable level.

BSC CLOSURE PROPOSALS

Employment

3 The BSC produced 17.3 million tonnes of liquid steel per annum (mtpa) in 1978-79. In December the BSC announced that it planned to effect a quick reduction in manned capacity from 21.6 mtpa to about 15 mtpa. BSC's plans implied a reduction of its workforce from 152,000 to 100,000 over a short period with 18,000 of this 52,000 reduction being already agreed (mainly through the closures of Shotton, Corby and Bilston). Of the remaining 32,000 job losses 12,000 were to be achieved

through productivity improvements, and about 20,000 through output reductions, mainly by the closure of Consett and Hallside and by radical cuts of output and employment in South Wales. The plants now being affected by the proposals are modern and efficient as a result of investment in the recent past. The announcement of these proposals has been accompanied by, at best, token consultation with unions and workforce and, at worst, by the mere communication of a decision without consultation.

4 The BSC's contraction is in part a function of the worldwide recession. However, world steel demand has increased over recent years, though the increase has generally been taken up by the expansion of steel making capacity in newly industrialising countries. Hence steel making capacity in the EEC countries has contracted. Nevertheless, there are clear signs that the BSC's current proposals are based on very pessimistic assumptions. For a start, in the wake of the high value of sterling, the BSC has virtually abandoned its export markets, which will be difficult to regain in the future. Other EEC countries are much more aggressive in competing for exports. In 1978-79, the UK at 73% of capacity produced 104% of home demand; West Germany at 60% of capacity produced 128% of home demand; and Belgium and Luxembourg at 63% of capacity produced over 400% of home demand. Secondly, it has just been noted that many EEC countries produced much more than home demand, and as is elaborated below, the BSC is contracting below any demands or expectations made of it by the Davignon plan. Thirdly, no action is being taken on the underlying cause of the UK steel industry's problem, namely the flood of imports in the 1970s of steel using manufactured goods (notably cars). Fourthly, the BSC's excessive contraction is likely to open up the home market even further to foreign steel which, sold at highly subsidised prices, will be difficult to dislodge.

5 The BSC's proposed contraction will have a serious and immediate knock-on effect on a range of industries and services. Moreover, it will be concentrated in already depressed areas where a diversified alternative industrial and employment structure will emerge only after a number of years at best. For example, in South Wales the BSC now proposes to shed about 11,250 jobs by August 1980 at Llanwern and Port Talbot alone. The NCB has estimated that about 8,500 NCB jobs at 10 pits in South Wales would be lost immediately. There will also be severe implications for a range of supplying and ancillary industries, such as coking ovens, foundries, the engineering industry and transport; for example, over 75% of the freight carried by British Rail in South Wales is steel or coal, so that BSC's plans will entail greater subsidies, higher prices or further redundancies in another part of the public sector, British Rail. The immediate associated job loss in these other industries in South Wales has been conservatively estimated at 20,000. Taken together then, BSC's

plans suggest a short term job loss in South Wales conservatively estimated at between 40,000 and 50,000 which would take registered unemployment in the whole of Wales to above 10% as compared with the present level of 7.9%. To countenance increased unemployment on this scale is to show a blind unconcern for the suffering that will be caused and to risk severe social and industrial consequences.

- The actions the Government has so far proposed to alleviate unemployment are completely inadequate in the face of an increase in unemployment on this scale.
- The BSC's time scale for contraction is too short, in terms of both the effects on the inhabitants of the areas concerned and the need to encourage alternative employment.

#### Comparisons of Government Support at Home and Abroad

6 During the recession most steel industries received direct and indirect support from their governments in order to preserve capacity for the upturn and to mitigate the social costs of contraction. During the crisis all EEC governments have provided support for their steel industries, and this support is in many cases (eg Belgium and Germany) being renewed, not ended. This support is either direct through capital write-offs, soft loans, deferred interest payments and the provision of equity capital with no expectation of dividends; or indirect, through subsidising coking coal and freight charges.

7 For example, in France the government has taken equity capital in the main steel companies which have been effectively subsidised because the government has no expectations of dividend payments on these share holdings. Moreover, the funding payments on expenditure and revenue losses has been generally done through state financial interests, which have in many cases either written off the debt or waived interest payments. In Belgium, the government has again taken equity holdings with no expectations of dividend payments. More importantly, it has largely financed on soft terms (eg loans at 1% interest rates) the massive investment programme which the Belgian steel industry has undertaken. In West Germany, there have been federal grants and soft loans to the Saar Industry; capital subscription to cover the losses of Peine-Salzgitter; and state government grants for expenditure. Additionally, the major companies in Belgium, France and Italy are not forecasting break even before the end of 1981. Moreover many governments (such as the German and French) contribute to expenses such as R&D, education and training which the BSC has to meet out of its own resources. The total subsidies



paid by the West German government to its steel industry in 1978 have been estimated at £600 million, or about £15 per tonne of steel output. The Industry Secretary has recently argued that wealthy countries such as West Germany have the resources to subsidise their steel industry, whereas the UK does not. This argument completely undermines the Government's industrial policy. Previously the Government argued that subsidies prevented successful industry. Now that the Government has learnt the facts about other countries' subsidies, it is claiming that subsidies are a fruit of successful industry. On the latter argument the Government can have no objection in principle to maintaining support to the BSC.

- In the light of the support given by other Governments to their steel industries, foreign steel industries will be able to charge cheaper prices for their steel.

8 The Government has instructed BSC to break even by 1980-81. In 1978-79, the BSC made a loss of £309 million. This was more than accounted for, however, by £111 million of depreciation charges and £208 million of interest payments. The BSC has not had a capital reconstruction since 1972-73, since when many of its European competitors have had the benefits of a capital reconstruction. The 1978 White Paper on the BSC recognised the need for a capital reconstruction, especially given that the BSC is bearing the charges entailed by the early 1970s investment programme which has not produced the return expected. The lack of a reconstruction is preventing a return to viability at a reasonable output level.

- the BSC is bearing interest and depreciation charges not related to its present output and immediate plans.
- There is a need for a major capital reconstruction which will bring the BSC into line with its European competitors and which will alleviate depreciation and interest charges.

9 The TUC has always accepted that BSC cannot be allowed to make losses on an unlimited scale and for an unlimited time. The Steel Committee have also accepted that the trade unions in the industry can play a major contribution in bringing down BSC's costs and improving performance over a whole range of factors. The unions concerned are prepared to enter into immediate discussions with the BSC on the reduction of costs.

- The Government should acknowledge the fact that the break even target is now unrealistically close and be prepared to provide the finance necessary to allow a constructive approach to the reduction of BSC's costs.

#### EEC Support

10 As already noted, all EEC Governments support their steel industry, directly and indirectly. Moreover, EEC figures suggest that the UK has already been making a more than adequate contribution to the Davignon restructuring plans. For example, in the fourth quarter of 1978, the UK was given a quota of 2.27 million tonnes of finished steel production under the Davignon plan in seven specialised steel sectors, yet produced only 2 million tonnes; this concern to stay within EEC quotas has not been shared by all member states. Between 1974 and 1978, the UK reduced its steelmaking workforce by 15.7 per cent, compared with 13 per cent in West Germany, 16.7 per cent in France and nil reduction in Italy. So, up to the end of 1978 the UK steel industry has been more than keeping pace with the rundown in other European steel industries, and since the end of 1978 the BSC has accelerated out in front with its proposals for a massive and very rapid contraction by August 1980. In the third quarter of 1979, capacity utilisation was 73 per cent in the UK, 70.9 per cent in West Germany, 69.1 per cent in France and 68.6 per cent in Italy; other European countries therefore have a larger amount of unused capacity. Rather than making a disproportionate contribution to the restructuring plans, the Government should seek to release funds from the EEC regional and social funds, which the EEC Commission has recently suggested have not been fully tapped by the UK Government and which would be used to achieve a more acceptable time-scale for cost reduction.

11 There would appear to be three general headings under which EEC funds might be discussed. First, there has been some doubt recently about whether the UK Government has made adequate applications under the existing regional and social funds for help towards the steel industry. Second, a new scheme is in the process of being devised to provide additional help for the steel industry across Europe, and from which the UK could expect to benefit substantially. The scheme has been approved by the Commission and the ECSC consultative committee, but is being held up by the representatives of some member states, including the UK. Third, there is a more long term plan for a special facility for the UK to help offset some of the UK's net budget contribution to the EEC.

12 Two general points seem to emerge out of the EEC aspects. First, part of the Government's reluctance to receive finance from the EEC stems from the fact that aid under certain of the programmes requires the Government to match £ for £ any money received from the

EEC. But under any interpretation, receiving a £ for every £ spent is a cost effective method of committing public finance. Secondly, it is obvious that the UK's net contribution can be reduced only by radical new measures. It is therefore most surprising that the Government has not been more rigorous in pressing aid schemes - such as to depressed regions and basic industries in recession - in areas where the UK would be bound to benefit, especially given its general stance on the EEC Budget, which the TUC supports.

- The Government should pursue the issue of extra EEC funds for the steel industry and steel orders as a matter of urgency.

#### COKING COAL IMPORTS

13 The Committee met BSC and NCB representatives on January 10 and there was a substantial amount of agreement about the facts of the matter and the actions needed to resolve the problem. The BSC has options to import another 1.3 million tonnes of coking coal which it may take up shortly, in addition to the 4 million tonnes it has contracted to import in 1980. Should it do so there would be a major threat to NCB coking coal pits over and above that posed by BSC's closure plans, including about 7 pits employing about 7,000 people in South Wales alone. Moreover, if the BSC becomes captive to foreign coking coal, then BSC's foreign suppliers would be free to raise their prices substantially. The NCB and BSC have agreed that £33 million is enough to offset the need for BSC to take up these options. The NCB can at present provide about £15 million of that from within its own resources, leaving a shortfall of about £18 million. The NCB could provide more from its own resources only if raised prices or cut its investment programme, neither of which

14 France, Belgium and West Germany all subsidise their domestic coal industry which indirectly subsidises their steel industry. Only West Germany is a significant coking coal producer in the EEC besides the UK, however, though France and Luxembourg use heavily subsidised German coking coal. The rules of the European Coal and Steel Community allow member states to subsidise their domestic industries so as to reduce the price for their domestic coking coal to world price levels. Germany is a high cost producer and, therefore, provides a large subsidy to bring prices down to the world price level. In 1978, West Germany provided £11.0 a tonne of subsidies to its coal industry, as compared with the UK's £1 a tonne. It has been estimated that in 1978 the West German government provided its steel industry with £20 million indirect support through subsidised coking coal. The UK is a low cost producer in EEC terms and therefore can provide only a modest subsidy to its industry under EEC rules. However, the UK does not provide even the maximum amount of subsidy allowed under ECSC rules, so that the UK coking coal industry is vulnerable to imports and the BSC has to operate at a disadvantage compared to its EEC competitors. There are also various ECSC aid schemes, such as for marketing, transport and research, which the UK does not seem fully to have tapped.

- Other EEC countries, notably West Germany, subsidise their coking coal to a much larger extent than does the UK.
  
- The Government should be prepared to exert maximum pressure in the EEC to secure financial aid for the coking industry.
  
- The £18 million required to prevent BSC taking up its extra options is a small sum compared with the damage that would be done to the coal industry by additional imports.

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DL/DT/EA

February 1 1980



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*John*

With the Compliments  
of the  
Chancellor of the Exchequer's  
Private Secretary

*Martin Hall*

Treasury Chambers,  
Parliament Street,  
S.W.1.

WITH THE COMPLIMENTS OF THE  
TRADES UNION CONGRESS

Congress House, Great Russell Street,  
London WC1B 3LS

Corrected version, as agreed  
with the Chancellor's  
private office  
4/2/80

GENERAL SECRETARY: LIONEL MURRAY OBE

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TRADES UNION TO CONGRESS

TUC MEMORANDUM TO THE GOVERNMENT ON THE STEEL INDUSTRY AND COKING COAL IMPORTS

M. V. S. S. I. S.  
M. R. U. S. T. A.  
M. P. A. T. H. E. S. S.  
M. L. A. R. I. C. H.  
P. S. / P. A. R. I. S. H. H. A. L. I. S. S. I. A. C.  
P. S. / L. I. B. I. S. H. O. F. F. I. C. E.  
P. S. / S. E. N.

Background

1 The Nationalised Industries Committee held a special meeting on January 10 in order to discuss the British Steel Corporation's plans to import more coking coal and the statement on BSC's closure plans which had been adopted by the Steel Committee that morning. The NIC decided that an urgent meeting was needed with relevant Ministers to discuss these matters further.

2 Among the points of general application to the nationalised industries the Committee believe:

- that adjustment of cash limits should take account of the time scale of industrial operations and should not encourage a more rapid industrial restructuring by the industries than can realistically be achieved; while industry, public and private, must operate within financial disciplines, it is not part of good commercial practice for these disciplines to be inflexible in the face of changing circumstances;
- furthermore during the recession, there is need to maintain the country's industrial base, not least in order to be able to meet the future upturn in demand without encountering a flood of imports; and
- that there are good grounds for considering investment projects in the public sector of industry as one area over which the Government has some control and which provides some means of maintaining economic activity at a tolerable level.

BSC CLOSURE PROPOSALS

Employment

3 The BSC produced 17.3 million tonnes of liquid steel per annum (mtpa) in 1978-79. In December the BSC announced that it planned to effect a quick reduction in manned capacity from 21.6 mtpa to about 15 mtpa. BSC's plans implied a reduction of its workforce from 152,000 to 100,000 over a short period with 18,000 of this 52,000 reduction being already agreed (mainly through the closures of Shotton, Corby and Bilston). Of the remaining 32,000 job losses 12,000 were to be achieved



through productivity improvements, and about 20,000 through output reductions, mainly by the closure of Consett and Hallside and by radical cuts of output and employment in South Wales. The plants now being affected by the proposals are modern and efficient as a result of investment in the recent past. The announcement of these proposals has been accompanied by, at best, token consultation with unions and workforce and, at worst, by the mere communication of a decision without consultation.

4 The BSC's contraction is in part a function of the worldwide recession. However, world steel demand has increased over recent years, though the increase has generally been taken up by the expansion of steel making capacity in newly industrialising countries. Hence steel making capacity in the EEC countries has contracted. Nevertheless, there are clear signs that the BSC's current proposals are based on very pessimistic assumptions. For a start, in the wake of the high value of sterling, the BSC has virtually abandoned its export markets, which will be difficult to regain in the future. Other EEC countries are much more aggressive in competing for exports. In 1978-79, the UK at 73% of capacity produced 104% of home demand; West Germany at 60% of capacity produced 128% of home demand; and Belgium and Luxembourg at 63% of capacity produced over 400% of home demand. Secondly, it has just been noted that many EEC countries produced much more than home demand, and as is elaborated below, the BSC is contracting below any demands or expectations made of it by the Davignon plan. Thirdly, no action is being taken on the underlying cause of the UK steel industry's problem, namely the flood of imports in the 1970s of steel using manufactured goods (notably cars). Fourthly, the BSC's excessive contraction is likely to open up the home market even further to foreign steel which, sold at highly subsidised prices, will be difficult to dislodge.

5 The BSC's proposed contraction will have a serious and immediate knock-on effect on a range of industries and services. Moreover, it will be concentrated in already depressed areas where a diversified alternative industrial and employment structure will emerge only after a number of years at best. For example, in South Wales the BSC now proposes to shed about 11,250 jobs by August 1980 at Llanwern and Port Talbot alone. The NCB has estimated that about 8,500 NCB jobs at 10 pits in South Wales would be lost immediately. There will also be severe implications for a range of supplying and ancillary industries, such as coking ovens, foundries, the engineering industry and transport; for example, over 75% of the freight carried by British Rail in South Wales is steel or coal, so that BSC's plans will entail greater subsidies, higher prices or further redundancies in another part of the public sector, British Rail. The immediate associated job loss in these other industries in South Wales has been conservatively estimated at 20,000. Taken together then, BSC's

plans suggest a short term job loss in South Wales conservatively estimated at between 40,000 and 50,000 which would take registered unemployment in the whole of Wales to above 10% as compared with the present level of 7.9%. To countenance increased unemployment on this scale is to show a blind unconcern for the suffering that will be caused and to risk severe social and industrial consequences.

- The actions the Government has so far proposed to alleviate unemployment are completely inadequate in the face of an increase in unemployment on this scale.
- The BSC's time scale for contraction is too short, in terms of both the effects on the inhabitants of the areas concerned and the need to encourage alternative employment.

#### Comparisons of Government Support at Home and Abroad

6 During the recession most steel industries received direct and indirect support from their governments in order to preserve capacity for the upturn and to mitigate the social costs of contraction. During the crisis all EEC governments have provided support for their steel industries, and this support is in many cases (eg Belgium and Germany) being renewed, not ended. This support is either direct through capital write-offs, soft loans, deferred interest payments and the provision of equity capital with no expectation of dividends; or indirect, through subsidising coking coal and freight charges.

7 For example, in France the government has taken equity capital in the main steel companies which have been effectively subsidised because the government has no expectations of dividend payments on these share holdings. Moreover, the funding payments on expenditure and revenue losses has been generally done through state financial interests, which have in many cases either written off the debt or waived interest payments. In Belgium, the government has again taken equity holdings with no expectations of dividend payments. More importantly, it has largely financed on soft terms (eg loans at 1% interest rates) the massive investment programme which the Belgian steel industry has undertaken. In West Germany, there have been federal grants and soft loans to the Saar Industry; capital subscription to cover the losses of Peine-Salzgitter; and state government grants for expenditure in the Bavarian and the Nord-Rhein West fallen industries. Additionally, the major companies in Belgium, France and Italy are not forecasting break even before the end of 1981. Moreover many governments (such as the German and French) contribute to expenses such as R&D, education and training which the BSC has to meet out of its own resources. The total subsidies

paid by the West German government to its steel industry in 1978 have been estimated at £600 million, or about £15 per tonne of steel output. The Industry Secretary has recently argued that wealthy countries such as West Germany have the resources to subsidise their steel industry, whereas the UK does not. This argument completely undermines the Government's industrial policy. Previously the Government argued that subsidies prevented successful industry. Now that the Government has learnt the facts about other countries' subsidies, it is claiming that subsidies are a fruit of successful industry. On the latter argument the Government can have no objection in principle to maintaining support to the BSC.

- In the light of the support given by other Governments to their steel industries, foreign steel industries will be able to charge cheaper prices for their steel.

8 The Government has instructed BSC to break even by 1980-81. In 1978-79, the BSC made a loss of £309 million. This was more than accounted for, however, by £111 million of depreciation charges and £208 million of interest payments. The BSC has not had a capital reconstruction since 1972-73, since when many of its European competitors have had the benefits of a capital reconstruction. The 1978 White Paper on the BSC recognised the need for a capital reconstruction, especially given that the BSC is bearing the charges entailed by the early 1970s investment programme which has not produced the return expected. The lack of a reconstruction is preventing a return to viability at a reasonable output level.

- The BSC is bearing interest and depreciation charges not related to its present output and immediate plans.
- There is a need for a major capital reconstruction which will bring the BSC into line with its European competitors and which will alleviate depreciation and interest charges.

9 The TUC has always accepted that BSC cannot be allowed to make losses on an unlimited scale and for an unlimited time. The Steel Committee have also accepted that the trade unions in the industry can play a major contribution in bringing down BSC's costs and improving performance over a whole range of factors. The unions concerned are prepared to enter into immediate discussions with the BSC on the reduction of costs.

- The Government should acknowledge the fact that the break even target is now unrealistically close and be prepared to provide the finance necessary to allow a constructive approach to the reduction of BSC's costs.

#### EEC Support

10 As already noted, all EEC Governments support their steel industry, directly and indirectly. Moreover, EEC figures suggest that the UK has already been making a more than adequate contribution to the Davignon restructuring plans. For example, in the fourth quarter of 1978, the UK was given a quota of 2.27 million tonnes of finished steel production under the Davignon plan in seven specialised steel sectors, yet produced only 2 million tonnes; this concern to stay within EEC quotas has not been shared by all member states. Between 1974 and 1978, the UK reduced its steelmaking workforce by 15.7 per cent, compared with 13 per cent in West Germany, 16.7 per cent in France and nil reduction in Italy. So, up to the end of 1978 the UK steel industry has been more than keeping pace with the rundown in other European steel industries, and since the end of 1978 the BSC has accelerated out in front with its proposals for a massive and very rapid contraction by August 1980. In the third quarter of 1979, capacity utilisation was 73 per cent in the UK, 70.9 per cent in West Germany, 69.1 per cent in France and 68.6 per cent in Italy; other European countries therefore have a larger amount of unused capacity. Rather than making a disproportionate contribution to the restructuring plans, the Government should seek to release funds from the EEC regional and social funds, which the EEC Commission has recently suggested have not been fully tapped by the UK Government and which would be used to achieve a more acceptable time-scale for cost reduction.

11 There would appear to be three general headings under which EEC funds might be discussed. First, there has been some doubt recently about whether the UK Government has made adequate applications under the existing regional and social funds for help towards the steel industry. Second, a new scheme is in the process of being devised to provide additional help for the steel industry across Europe, and from which the UK could expect to benefit substantially. The scheme has been approved by the Commission and the ECSC consultative committee, but is being held up by the representatives of some member states, including the UK. Third, there is a more long term plan for a special facility for the UK to help offset some of the UK's net budget contribution to the EEC.

12 Two general points seem to emerge out of the EEC aspects. First, part of the Government's reluctance to receive finance from the EEC stems from the fact that aid under certain of the programmes requires the Government to match £ for £ any money received from the

EEC. But under any interpretation, receiving a £ for every £ spent is a cost effective method of committing public finance. Secondly, it is obvious that the UK's net contribution can be reduced only by radical new measures. It is therefore most surprising that the Government has not been more rigorous in pressing aid schemes - such as to depressed regions and basic industries in recession - in areas where the UK would be bound to benefit, especially given its general stance on the EEC Budget, which the TUC supports.

- The Government should pursue the issue of extra EEC funds for the steel industry and steel areas as a matter of urgency.

#### COKING COAL IMPORTS

13 The Committee met BSC and NCB representatives on January 10 and there was a substantial amount of agreement about the facts of the matter and the actions needed to resolve the problem. The BSC has options to import another 1.3 million tonnes of coking coal which it may take up shortly, in addition to the 4 million tonnes it has contracted to import in 1980. Should it do so there would be a major threat to NCB coking coal pits over and above that posed by BSC's closure plans, including about 7 pits employing about 7,000 people in South Wales alone. Moreover, if the BSC becomes captive to foreign coking coal, then BSC's foreign suppliers would be free to raise their prices substantially. The NCB and BSC have agreed that £33 million is enough to offset the need for BSC to take up these options. The NCB can at present provide about £15 million of that from within its own resources, leaving a shortfall of about £18 million. The NCB could provide more from its own resources only if raised prices or cut its investment programme.

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- Other EEC countries, notably West Germany, subsidise their coking coal to a much larger extent than does the UK.
  
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NOTE OF A MEETING WITH A SPECIAL DELEGATION FROM THE NATIONALISED  
INDUSTRIES COMMITTEE OF THE TRADES UNION CONGRESS: HM TREASURY:  
2.45 P.M., THURSDAY, 31ST JANUARY, 1980

Present:

Chancellor of the Exchequer	Rt. Hon. Lionel Murray OBE
Secretary of State for Industry	Mr. Frank Chapple
Secretary of State for Employment	Mr. Moss Evans
Secretary of State for Wales	Mr. David Basnett
Parliamentary Under Secretary of State for Energy	Mr. Hector Smith
Mr. Ryrle	Mr. Bill Sirs
Mr. Monck	Mr. Joe Gormley
Mr. P.G. Davies	Mr. David Lea
Mr. Wiggins	Mr. Bill Callaghan
Mr. M.A. Hall	Mr. D. Delay
Mr. P. Ridley - Department of Industry	Mr. D. Thomas
Mrs. J. Cohen - Department of Industry	Mr. B. Barber
Mr. G. Craig - PS/Secretary of State for Wales	
Mr. D. West ) Department of	
Mr. D. Smith ) Employment	

The Chancellor of the Exchequer welcomed the TUC, and introduced his colleagues. He invited Mr. Chapple to expand on Mr. Murray's letter of 23rd January.

2. Mr. Chapple thanked Ministers for the speed of their response to the TUC's request for a meeting. Mr. Murray had enclosed with his letter two unanimous statements by the General Council, one on steel closures and run-down, the other on coking coal. The delegation had sought a meeting because of the urgency of these issues. They were central to the economy as a whole. The TUC shared the concern of the Nationalised Industries Chairmen that the financial objectives being set for the nationalised industries were in fact deepening the recession. The external financing





limit for the British Steel Corporation had been reduced from £700 million in 1979-80 to £450 million in 1980-81. The Government was directly responsible for the social and industrial consequences of this sharp cut. No other Government in Europe was trying to turn round its steel industry so fast. The Germans in particular were subsidising steel to the tune of hundreds of millions of pounds per year. The ECSC permitted subsidies to domestic European coking coal industries. European Governments were trying to protect their industries against the recession and protect their home market against imports. Steel would be a vital industry in the 1980s.

Not true  
Some make  
mistake

3. BSC had announced their closure proposals and their timing through press notices. There had been no consultation with the unions concerned. The operative dates in the case of Llanwern and Port Talbot were as early as March. This unilateral action was entirely against the co-operative spirit which had been built up over the years between management and unions in the steel industry. Wales would be hard hit, but other areas of the country were affected too. The challenge faced by the Government was on the scale of problems in the 1920s. The Government must be prepared to oil the wheels. In doing so, it must take advantage of everything the EEC had to offer. The TUC shared the Government's view on the absurdity of the Common Agricultural Policy and our disproportionate contribution to the EEC Budget. Why then was the Government not maximising its receipts from available funds? Emphasising that the TUC regarded this meeting as a vital one, Mr. Chapple invited Mr. Murray to develop the argument further.

4. Mr. Murray laid stress on the gravity of the situation. There was a growing sense of outrage, frustration and resentment in the union movement. South Wales was the most conspicuous example. The TUC had had only partial success in restraining their Welsh colleagues' militancy. But the sense of deep wrong was not confined to Wales. The TUC and the Government shared a responsibility to cool things down. Otherwise there was a



risk that things would get out of control, with unpredictable consequences. This worried the TUC. They could not be confident of maintaining order and discipline.

5. He felt a growing sense of apprehension at the extent and speed of the steel closures. The effects would be widely felt. The Government acknowledged their responsibility to take account of the economic and social implications of such a rapid rundown programme, and the unions must have a proper opportunity of responding against that background, to the BSC's proposals. Mr. Murray appealed to Ministers to take seriously the TUC's concern. The mood of outrage in South Wales, could easily spread. An orderly means had to be found of dealing with the consequences of the present problems in the coal and steel industries. Time was of the essence.

6. The Chancellor of the Exchequer said that the speed of the Government's response underlined their own concern over the steel industry and for South Wales. The gravity of the problem had been heightened by past failures to tackle these problems soon enough. As regards financial targets for nationalised industries, there was no escape from setting targets in either the private or public sector. Achieving those targets depended on maintaining competitiveness. He readily accepted the distinction between providing external finance for productive investment, and subsidising losses. But targets were still needed.

7. The Chancellor accepted that the Government had a responsibility to help people to cope with the consequences of economic change.

8. As far as the EEC was concerned, to the best of his knowledge the UK had applied for all the help which was available from existing facilities. For the most part, however, the position was that under ECSC rules Member States were themselves allowed to provide subsidies, i.e. aid from the Community took the form of a permissive regime on subsidies.



9. The right level of productive capacity was a matter for discussion between the BSC management and the unions concerned. It clearly depended on the level of demand for British steel. This was not a decision for the Government. Mr. Chapple asked why the British Government was not prepared to protect the domestic industry up to our own potential consumption or the permitted ECSC limit (21 million tonnes per year). Sir Keith Joseph said that also though world demand had risen during 1979, UK demand had fallen. There had been import penetration because of problems over the quality, price, and reliable delivery of British steel. The result was a falling market for the British industry. BSC's plant was modern. Once the present problems were overcome, he envisaged an exciting and profitable future for the industry, based on high pay and high output. Unless we put our house in order now, we would eventually have to face our competitors with an even smaller industry. We could not escape the fact that they were accelerating away from us.

10. Mr. Chapple said he did not accept the Secretary of State's assessment of BSC's competitiveness. This unhelpful comparison derived from the way in which BSC allocated its costs. Mr. Prior said that steel users liked to have an alternative source to the BSC. There was a need to examine scope for more second sourcing from British producers. No-one wanted 4-5 million tonnes of steel imports if this could be avoided. Mr. Moss Evans wondered why second sources were required if demand was so low.

11. Mr. Sims argued that if productive capacity were reduced to 15 million tonnes per annum we should be unable to supply our own demand. 20.2 million tonnes (in 1977) was the lowest ever total British production. The taxpayer was funding new investment, not subsidising steel workers. The ISTC had given full co-operation to streamlining the industry over the years. Investment had been massive. He could not accept that steel was imported on grounds of quality. He had himself seen very poor steel plate on the docks. We had four excellent plate mills, all on short time and all ready to deliver



promptly. The fact was that imports were gaining a hold because of price advantage. Other countries provided trading subsidies - on coking coal, on other fuel, and on transport. BSC's competitors could sell more cheaply because of these subsidies. The Corporation should not have to carry investment costs on its balance sheet. British labour costs were the lowest in the world.

12. The Corporation's plant was new. Wages had fallen from 33 per cent to 28 per cent of production costs, the manning of productive processes was low compared with our competitors, and hitherto the industry had been free of labour disputes. (He was greatly distressed at his involvement in the present one.)

13. At present the BSC was operating at 73 per cent of a capacity which could supply 104 per cent of national needs. Germany, at 66 per cent, of a capacity which covered domestic demand by 136 per cent. Yet the Germans were not, as we were, closing down effective plants. Previous Governments had laid the foundations for an efficient British steel industry. But time was needed for the investment to come good. Not all the new investments had been successful.

14. The Chancellor said he did not for one moment doubt the earnestness of the TUC's representations. But looking at industry as a whole, it was vital to lower interest rates. This in turn meant reducing the PSBR. £4½ billion had gone into the steel industry over the 4-5 years, including public dividend capital, on which interest was not paid. The £600 million combined deficit of the coal and steel industries was worth something like £1 per week on the retirement pension or on child benefit. It was not in the Government's power to control the size of the UK market. Mr. Sirs disagreed. By giving operating subsidies Governments could influence markets. Of the £450 million external financing limit in 1980-81, £287 was earmarked for closures. Why not on operating subsidies instead, to hold up our home market?



15. Mr. Gormley said that in 1960s the coal industry had faced a similar challenge. It had emerged successfully. The speed of restructuring was a crucial factor. The steel closure programme was being conducted with "indecent haste". The coal industry had been able to rundown successfully because of job opportunities elsewhere. Now there were no alternative jobs. There must be consultation with the unions over the speed of closures.

16. Mr. Murray agreed that we must face the facts, but we must face all of them. New international competitors and the worldwide recession were clearly having an adverse effect on the steel industry. The Government faced a problem. He accepted that resources were limited. But the Government had to make judgements, and must take account of the social and political consequences of such a rapid closure programme. Why for instance was the BSC required to break even by 1980-81, a more ambitious target than was set for any of the steel industries in Europe? Sir Keith Joseph said that the BSC board had originally said they would break even in 1979-80, and Mr. Varley had concurred in this target. The Germans and Dutch industries had moved from loss to breakeven or profit over the last two years.

17. Mr. Basnett noted that the Government accepted the need for consultation over the present problems, and its role in "lubricating" the painful transition. The Government must also ensure that the unions were properly consulted about the timescale. There are also other things the Government could do. They should, for example, take full advantage of EEC rules in subsidising coking coal. They should look carefully at the availability of existing EEC aids. The cost of BSC's capital was a problem susceptible to solution by the Government. He accepted that targets were necessary. But they need not be inflexible. No private company would adopt such a rigid target as nationalised industries were obliged to accept. Redundancies in steel would have repercussions throughout industry, and on all trade unionists. 10 per cent of coal workers, 20 per cent of boiler makers, 3 per cent of mechanical engineering workers, and 10 per cent of rail freight



depended on steel. Failure by the Government to act would store up problems for the Government.

18. The Chancellor said that parallels with other countries were misleading. Germany was very much richer than the UK and hence had more resources to alleviate recession. He repeated that the Government was claiming to the maximum on all available EEC funds. And he still felt that discussion on the timing of closures should be between the BSC management and unions. The Government was happy to discuss the underlying facts with the TUC, since there appeared to be some disagreement e.g. on productivity. Mr. Sirs commented that the previous Conservative Government and the Labour Government had been involved. No Government could escape some degree of involvement. The Chancellor, referring to the remedial measures taken over Shotton, said he accepted the Government's responsibility in this area; but the Government was not concerned with decisions over e.g. price and quality.

19. Mr. Gornley again appealed to the Government to "put the brake on" and Mr. Chapple again urged Ministers to take seriously the TUC's warnings about the social consequences in South Wales of the closure programme. Sir Keith Joseph noted that the BSC had in fact discussed the three South Wales options with the unions. They had acted on the unions' choice, i.e. to keep both Port Talbot and Llanwern operating at reduced capacity. Mr. Sirs said there had nevertheless been no consultation at national level. Mr. Evans noted that the three options had respectively entailed 15,000, 13,000 and 11,000 lost jobs. The local unions had naturally chosen the option which would destroy fewest jobs. Any of the options would have a devastating effect on South Wales. The social and political consequences of BSC's plans had to be faced up to. Time was needed to discuss possible alternatives. Alternative employment and retraining were needed. It was no help at all to rush. It was not only the trade unions who were worried about the impending chaos. The Government must not take a purely economic view. People, jobs, and the environment were equally important.



20. The Secretary of State for Wales noted that the problems were now more serious because of earlier Government interference. He had himself argued with colleagues many of the points put by the TUC today. But would delay help? The central issue was future production levels, not the timing of closures. The Chancellor denied taking a narrowly economic view. The human implications were of obvious relevance. There clearly was room for sensible talks to take place about the future structure of the industry and about remedial measures. But he too did not see how delay could help.

21. Sir Keith Joseph noted that some 18 months ago five-and-a-half thousand jobs were lost at East Moors and Ebbw Vale. Now there were less than one-and-a-half thousand unemployed. This was far from ideal; but it showed that much could be achieved. Mr. Murray thought the figures gave little cause for satisfaction.

22. Mr. Hector Smith said that the BSC had lost many orders through systematic denigration of the workforce by management. Only 10 years ago there had been talk of reducing capacity to 38 million tonnes per annum by 1980. Now we were talking about 15 million tonnes. His faith in British steel and British steel workers was untarnished. The Government should "remove the incompetent managers" of BSC. And they should stop imports of coking coal. South Wales produced the best in the world. Mr. Chapple agreed. He noted that the EEC permitted subsidies to coking coal. If Germany was richer than we were, there was all the more reason for us to be subsidising our coal and steel industries. Had we put enough pressure on the EEC to do more for our coking coal industry? And was the Government prepared to give a £18 million subsidy to enable the NCB to sell coking coal to the BSC at an economic price?

23. The Parliamentary Under Secretary of State for Energy said that at the last tripartite meeting on the coal industry the Government had agreed to retain a very large investment programme in the coal industry as a whole. They had also agreed to



a coking coal grant, and the increase in oil prices should now give NCB enough room to subsidise coking coal. The way was open to the NCB to provide this subsidy from their own resources, if they considered it commercially advantageous. He did not think the Government should be expected to provide further funds to the NCB. Mr. Gormley defended the NCB's refusal to use its own funds for the purpose. This would be eating the "seedcorn". It would be tragic to lose the South Wales pits which produced coking coal. We should be quite unable to respond to any upturn in world demand.

24. Mr. Prior suggested that Mr. Gormley was concerting pressure on the Government along with Sir Derek Ezra to extract the £18 million. Sir Derek was well aware that he could not in any case close the South Wales pits. He suggested that the TUC speak jointly to Sir Charles Villiers and Sir Derek Ezra.

25. Mr. Murray pressed Ministers on whether the Government was doing everything it could within ECSC rules to help the coking coal industry. He then put four questions to the Government:-

(i) was the Government prepared to consider urgently how time could be bought to ease the social and economic consequences of the closures programme?

(ii) Was the Government prepared to foster genuine consultations between the BSC and the TUC on closures?

(iii) Was the Government prepared to join the TUC in a rapid exercise to identify possible sources of EEC funds?

(iv) Would the Government consider what might be done on coking coal, including "banging the heads together of Sir Charles Villiers and Sir Derek Ezra".





26. Mr. Chapple said the TUC needed to make a statement to the trade union movement in order to keep control of the situation.

27. The Chancellor said this had been a useful exchange, and both sides had a better understanding of each other's points of view. They had a common appreciation of the economic, social and political aspects of current problems in the two industries. Some of the points discussed had been fundamental. He would like to consider the TUC's arguments with his colleagues. Sir Keith Joseph said he appeared not to have convinced the TUC that the interests of the workers in the steel industry were best served by improving competitiveness. He did not want to give the TUC the false impression that the Government would press BSC to alter the timing of its closure plans. He understood that consultation over the method and scale of the rundown, and on compensation, would resume when the strike finished. He also understood that discussions were in progress between Sir Charles Villiers and Sir Derek Ezra over the quality and price of coking coal to be supplied to the BSC.

28. On the third of Mr. Murray's questions, the Chancellor said that the Government agreed to a joint study with the TUC to establish the facts on whether the UK was maximising its take from existing Community programmes. Mr. Murray pressed for the inclusions of "potential" programmes, and the Chancellor agreed. From the discussion which followed, it seems likely that in the course of this study the Government will be pressed to explain why it voted against the Vredeling proposals on steel closures, including short time working arrangements, at a recent meeting of the Council of Ministers. Ministers were also questioned by Mr. Gormley about their attitude towards the Economic and Social Committee's "own initiative" opinion on industrial restructuring (September 1979).

29. On Mr. Murray's fourth question, on coking coal, Ministers said they would do what they could to secure discussion of the subject between the Boards of the BSC and NCB.

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30. There was some discussion of Mr. Murray's second question, on consultation over closures. Sir Keith Joseph said that it was not his duty as Secretary of State to interfere with the management of the industry. But he did accept responsibility for dealing with the social consequences of major decisions by management. He hoped that consultation would resume as soon as the strike was over. The trade union side argued that he had a statutory duty to ensure that consultation takes place. Exercise of this duty would not constitute interference in management. Mr. Sirs referred to the injunction he had taken out against the BSC management to enforce consultation. The Chancellor said that the Government would remind the BSC of their statutory obligations, in the light of their concern for the competitiveness of the industry, for the taxpayer, and for the social consequences.

31. Closing the meeting, the Chancellor said that the two sides should look for other ways of clearing their minds on the facts. The Government was willing to meet the TUC "on any issues that made sense". He suggested further meetings to take the discussion further. Mr. Chapple confirmed that the TUC had no objection to a further meeting. No date was fixed.

32. The meeting ended at about 5.15 p.m.

*M.A. Hall*

(M.A. HALL)  
1st February, 1980

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3111

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

30th January 1980

Dear Ian,

.....  
I attach the briefing for Ministers meeting with the TUC Nationalised Industries Committee on Thursday, 31st January at 2.45 p.m. It has been prepared here with contributions from officials in the Departments of Industry, Energy and Employment. The marginalia are the Chancellor's.

I am copying this letter with enclosure to Ian Fair, Bill Burroughs, George Craig, to the Private Secretary to Mr. John Moore (who will be coming to the briefing meeting this afternoon), and to Tim Lankester and David Wright for information.

Yours ever,

ME

(M.A. HALL)

Ian Ellison, Esq.,  
Private Secretary to  
Sir Keith Joseph

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STEERING BRIEF FOR MINISTERS' MEETING WITH MR MURRAY & THE TUC NATIONALISED NATIONALISED INDUSTRIES COMMITTEE AT 2.45 p.m. ON 31 JANUARY

1. The origins of the meeting lie in the Welsh TUC's reactions to BSC's plans for reducing output and manning in South Wales and to the threat from imported coking-coal to Welsh pits. The Department of Employment's note at Annex A explains the situation and concludes that although anything approaching "a general strike" is certainly not foreseeable, a risk of disruptive strike action remains. If this happens, it might have a wider geographical coverage than the South Wales day-of-action on 28 January.

2. Mr Murray's letter of 23 January to the Chancellor and the attached statement of 10 January on steel closures suggests that the subjects set out in para 3 below will be raised. In paras 8 & 9 of the statement the TUC Steel Committee urges that discussions should be started either with the Government or BSC with the:

"objective of maintaining Port Talbot and Llanwern as integrated works, and . . . Consett on a similar basis".

The statement goes on to say that this, together with coking-coal imports, constitutes "a continuing agenda" to be pursued "at TUC level", in view of:

"serious industrial consequences if a TUC General Council did not consider the talk led to any reasonable accommodation".

3. The list of subjects probably includes:

- a) general nationalised industry policy and financial problems;
- b) financial basis of BSC's operations (including comments on the financing of similar industries in other ECSC countries);
- c) steel closures and de-manning;
- d) employment consequences and remedies;
- e) coking-coal imports and subsidies for South Wales coal from the Community or the Government.

It is suggested below that you should touch on (a) in your opening remarks. Mr Murray and his colleagues are likely to raise (b) to (d). The following paragraphs cover some salient points on these subjects and refer to fuller briefs in the Annexes listed/ at end of steering brief.

No concessions of substance are recommended, though Ministers could be forthcoming on remedial measures (para 16 below).

#### The TUC Nationalised Industries' Committee

4. The Chairman is Mr Frank Chapple and the other members are listed at the end of Annex A. As the Committee covers highly profitable industries like gas, where pay negotiations are currently going on, it would be preferable to avoid suggesting that the size of pay increases should reflect the profit/loss position of each industry. This should not be difficult, as your letter to Mr Murray has already ruled out discussion of the steel pay dispute. Another subject best avoided is any comparison of the time-scale for reaching break-even for the steel industry (1980/81) and the coal industry (1983/84). The Committee is likely to argue that the Government's cuts in finance for the nationalised industries, particularly as expressed in cash limits, damage output, investment and employment, raise prices, and add to imports (e.g. coking coal), and play an undesirable part in pay negotiations. Like the Chairmen they think the Government is giving excessive importance to the objective of reducing the PSBR.

5. The TUC Nationalised Industries' Committee has occasional meetings with the Nationalised Industries' Chairmen's Group. If Ministers reject the proposals of the Nationalised Industries' Committee but do not want them to go away entirely empty-handed, we suggest that Ministers should consider offering to have meetings with the Committee from time to time just as they do with the Chairmen's Group. There would of course be no question of the Government accepting any obligation to consult the Committee before taking decisions on nationalised industry policy but some agreement on future meetings would be at least a positive point to give the Press at the end of this meeting.

OPENING REMARKS

6. You might open by saying:

- a) You have been glad to accept the TUC's request for this discussion which will ensure that Ministers and the TUC Nationalised Industries' Committee are fully aware of each other's views.
- b) You hope we can start from the common ground that nationalised industries ought to be efficient, competitive and profitable and not protected from the pressures which bite on the private sector if they are to make the best contribution to the national economy.
- c) As Chancellor you are inevitably concerned with the total finance provided to the industries, though you recognise the important distinction between their borrowing for profitable investment and subsidies to meet losses. (This picks up a point on which the TUC Nationalised Industries' Committee and the Chairmen both feel very strongly.)\*
- d) The Government is anxious to remove or reduce subsidies (over £1 billion in 1979/80 including British Rail and £600 million excluding BR). The problems of the loss-making industries are as bad and deep-seated as they are because they have not been tackled firmly in the past. Progress towards eliminating these subsidies would of course mean less pressure on other and more desirable forms of public expenditure, whether on social services or on investment finance for the nationalised industries. Annex B contains figures on total external finance for the nationalised industries in recent years and their total losses and gives examples of other and preferable things that the money now spent on subsidies could buy.

6A. The examples given are for broad illustrative purposes only, necessarily being based on broad-brush assumptions rather than detailed economic analysis of alternative situations in which the industries would not have turned in losses. In particular it is hard to be precise about what alternative tax policies might have been followed in such circumstances.

7. You could then invite Mr Chapple or Mr Murray to open for the TUC.

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\*both bodies have rejected Mr Adam Butler's speech on 14 December in which he argued that the sum of the external financing of the nationalised industries (excluding the Exchequer inflow from gas) was £200 million or the equivalent of sixpence on standard rate of income tax.

FINANCIAL BASIS OF BSC'S OPERATIONS (& SIMILAR INDUSTRIES ELSEWHERE IN ECSC)

8. This subject will mostly be for Sir Keith Joseph to deal with.

Among points which Ministers will want to get across are the following:

- a) It is not true that BSC is anywhere near making a profit before interest.
- b) BSC has invested more than any European competitor in recent years. Its capital charges per tonne (depreciation plus interest) in 1978 were well below those of its European competitors. On interest alone (per tonne) it was near the middle of the range. Since April 1978 its interest burden has fallen and BSC has been entirely financed by "soft PDC" - more than £1½ billion of it - on which no dividend is paid. It is effectively "free money" though that is not our public posture vis-à-vis the Commission or the USA.
- c) Some European companies are either in profit or reducing their losses. BSC's losses are not improving.
- d) BSC's prices are higher than its competitors' <sup>and</sup> / its loss per man is about £1,800 a year.

Annex C illustrates points (a) to (c).

9. It is true that some European companies benefit from grants or subsidised loans directly and also indirectly from subsidies to railways and domestic coking-coal (down to import prices). It is extremely difficult to obtain hard and comparable facts and officials do not have a comprehensive table of comparisons. Their strong impression is, however, that European subsidies qualify the comparisons made above in degree but do not reverse them. NEDO have started work on a full comparison which will in due course be available on the usual tripartite basis. Some facts on coal subsidies are in Annex G.



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BSC's CLOSURES & DE-MANNING PROPOSALS

10. BSC's intended cutbacks in capacity and manning are not the result of any EEC directive but of its need to eliminate operating losses in the face of low demand and uncompetitive costs. The Commission is encouraging the restructuring of the Community steel industry so as to bring its capacity more in line with expected demand and to improve its ability to face international comparison, but has made no specific proposals to the UK, although it would no doubt question State aids to the industry if they were not accompanied by measures to restore viability.

cf. EEC

11. BSC's statement about reductions in capacity last December made it clear that its proposals were not a short-term reaction but based on its view of market prospects and the Corporation's viability in the medium term.

12. Its proposals are described in Annex D. Now that closure of the heavy-ends at Corby and Shotton have been agreed, the main proposals are for South Wales, Consett and Scunthorpe. CONFIDENTIAL: Ministers have told Mr Sirs that they are prepared to back disposal of Consett to the private sector, but BSC do not know about this and DOI think this point cannot be used on this occasion. 7

Points to Make

13. Ministers will no doubt acknowledge the severity of the unemployment effect of BSC's proposals and the need for remedial action (para 16 below). But they can emphasise that the BSC Board's decision announced on 18 January - see back of Annex D - to concentrate further consultation and discussion on a "slim-line option" at both works in South Wales was in line with union preferences - not closing either Port Talbot or Llanwern but keeping "both . . . as integrated works" as the Steel Committee ask in their paper of 10 January. If this option were adopted, it would add to the spare capacity already available to the Corporation elsewhere (3 million tonnes of liquid steel), though demand that BSC can meet profitably does not at present seem likely to exceed 15 million tonnes.

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14. Ministers will not, however, want to intervene in the discussions about closures and de-manning which were going on before the strike between BSC and the unions (let alone agree to tripartite discussions or to a two-year postponement as the Welsh TUC propose). If pressed on the question of timing, Ministers could say that this would no doubt be covered in the discussions with BSC but they will want to stress the need for these discussions to be resumed quickly if the slim-line option, as opposed to complete closure of one or other of the plants, is to have a chance of remaining commercially viable.

15. If the TUC ask for further discussions with Government of the closures or de-manning proposals, and seem to attach great importance to this, Ministers might agree to a further meeting and exchange of views after the strike is over and talks which BSC and the unions have re-started. [BSC want the slim-line proposals to be the basis of the lump-sum payments in South Wales.]

EMPLOYMENT CONSEQUENCES & REMEDIAL MEASURES

16. A working party of officials is conducting an urgent review of possible remedial measures in Consett, Scunthorpe, Llanwern and Port Talbot. This will take another week or two to complete, but it is already clear that any package of measures will be on broadly similar lines to those for Corby and Shotton (see Statements of 7 & 13 November last at Annex E). This round of closures or de-manning raises a new problem - are the English areas being as fairly treated as South Wales (for which Mr Edwards is likely to make a substantial bid for additional funds)? The position of Consett is particularly difficult, because it already has the top Special Development Area status and no upgrading of regional status is available. The position on Community finance for remedial measures is described in Annex F.

Line to Take. Remedial measures are primarily for Sir Keith Joseph. Points for Ministers to make are:

- a) The Government are examining urgently a package of remedial measures on the lines of those already announced for Corby and Shotton.
- b) A major element in such a package is likely to be some upgrading of assisted area status where this is feasible.
- c) A programme of Government advance factory building in all 4 areas is also being examined.

IMPORTS OF COKING COAL

17. Detailed briefs by the Departments of Industry and Energy are in Annex G and the TUC note (right at the back of Mr Murray's letter of 23 January) summarises the situation.

18. It is the Government's policy that BSC's purchases of coking coal should be made on commercial grounds. On average the NCB's coking coal costs are about £8 a tonne more than imports and BSC argue that because of lower quality the real cost to them of NCB coking coal is double this amount. (The highest average costs of production are in South Wales and their coal unlike other NCB coking coal is not of suitable quality for diversion to the electricity market.) BSC has raised its imports of coking coal at a time when its total requirements are falling from about 10 million tonnes last year to about 9 million tonnes or less this year as a result of reduced iron and steel-making (not of reduced capacity).

19. Negotiations are now going on between the BSC and the NCB over the price of about 2 million tonnes of coking coal which would otherwise be displaced by imports. The Department of Energy Ministers have agreed that within the finance being provided under the financial strategy for the Coal Board recently approved by Ministers there should be a grant for coking coal. But the Coal Board claim that it will cost them some £33 million to reach an arrangement satisfactory to the two Boards, that they can only find £15 million of this within their financial provision and that they need a further £18 million either from the ECSC or from the Government. The former is not likely to be a runner and the latter would be in conflict with Ministers' financial strategy for coal. CONFIDENTIAL; BSC say that they need to agree contracts for imports for this year by the end of next month.]

Points to Make

20. a) It is common ground that BSC's own problems and finances should not be made worse by the uncompetitiveness of NCB's coking coal in terms of quality and price. Geology is of course partly to blame but as a country we must face up to it that uncompetitive activities must either be made competitive or stopped. We need to break the habit of trying to solve such problems by relying on public expenditure - other people's money - rather than facing reality.
- b) It is true that Germany and other countries in the ECSC provide very large subsidies for coking coal. But it is just not possible for this industry to match every subsidy provided by countries that are overall more competitive and consequently richer than us.
- c) In the Government's view an approach to ECSC for subsidies to coking coal would be most unlikely to succeed and if it did the UK would probably be a net loser financially; such a scheme would be extended to Germany and Belgium and the cost would fall on member Governments. Such an outcome would undermine

our attempts to reduce the great inequity of the size of the UK's net contribution to the Community budget and to move towards a better balance of receipts and contributions.

d) The Government has shown its commitment to the coal industry and provided large sums of finance. A financial strategy has been agreed by Ministers and the industry. Department of Energy Ministers have accepted that coking coal subsidies should be provided within that total. It is now up to the NCB to reach agreement with BSC out of the finance already provided by Government or available from the market for coal which is so much stronger than the market for steel.

e) There are several reasons for the fall in demand for NCB coking coal. BSC's proposed closures are not the only reason. There is the problem of quality and price; too often the geology is not working in our favour. It would therefore be misleading to ascribe all the job problems in the coking coal pits, whether in South Wales or elsewhere, to BSC's proposed closures.

Conclusion of the Meeting & the Press

21. On the basis of this brief Ministers and the TUC might agree on:

a) Both sides had a useful chance to put across their points of view on some major industrial and economic questions. (Each side will no doubt amplify their line to the Press.)

b) This improved understanding but did not produce any "agreements" except on the need for remedial measures (see para 16 above) where major closures or de-manning are planned

In the Government's view many of the issues discussed are for the nationalised industries and the unions to resolve. But this is not true of remedial measures and Ministers will be bringing forward positive proposals.

And perhaps:

c) Ministers and the Committee will reflect on what has been said and in future there will be further exchanges of view from time to time, just as there are exchanges between the Government and the Nationalised Industry Chairmen.

ANNEXES

- A South Wales Strike Threat (D/E)
- B External Financing and Losses of the Nationalised Industries  
and Alternative Uses of the Money for Losses (Treasury)
- C Finances of BSC and other Steel Companies (attached, mainly DOI)
- D BSC Closure and De-Manning Proposals (DOI)
- E Statements on Corby and Shotton (Hansard)
- F EEC Help with Remedial Action (DOI note)
- G Coking-Coal (DOI and D/En material)

## SOUTH WALES STRIKE THREAT

Note by Department of Employment

On 17 December a meeting, arranged by the Wales TUC, of the main unions concerned agreed to urge their union executives to approve a continuing strike from 21 January seeking the suspension of the BSC's closure programme for 2 years, the dismissal of the BSC's Chairmen and chief executives, a public inquiry into the industry and an acceptable solution to the threat to Wales pits from imported coking coal. The pressure for this decision came from the South Wales Area Executive of the National Union of Mineworkers (NUM).

2. Constitutionally, the Welsh TUC cannot authorise strikes; authority is vested in individual unions in accordance with their rules, generally requiring a national executive decision. NUM Areas are however able to authorise area strikes by a decision of their executives and without a ballot.

3. The Wales TUC was formed in 1974, replacing the TUC's own Regional Advisory Committees in Wales. The TUC was opposed to its formation. Under the TUC's rules it is no more than a "talking shop", although able to represent Welsh concerns to the Government, industry, etc. Its call for a strike in Wales was ill-received both by the TUC and the General Secretaries of all the unions concerned and antipathy has developed against the publicity which George Wright (General Secretary of the Wales TUC and Regional Secretary of the TGWU) has attracted.

4. The TUC's own Steel Committee (the chairman being Bill Sims) and Nationalised Industries Committee (chairman, Frank Chapple) defused the threat of a strike from 21 January by adopting the closure programme as a national issue. The Committees, reflecting the views of the unions represented, were unsure of their ability to instruct union members in Wales against a strike and came to practised union device of elevating the issues to national level. In doing so, they came to speak of "serious industrial consequences" if their representations to the Government were unsuccessful. As a whole, the union movement is well aware of the dangers to be courted in what could be accounted a "political" strike and very anxious to avoid such a confrontation. Hence the endorsement of the Committee's views by the TUC General Council on 23 January and the approach to Ministers.

5. The Committees' decisions persuaded the Wales TUC on 14 January to postpone the threat of a continuing strike from 21 January and to threaten instead that

it was being deferred until "on or about 10 March". It was however decided to urge a one-day strike on 21 January unless the BSC gave an undertaking not to contract for further imports of coking coal. In the event, this objective will be subsumed with the issues of steel closures and pay.

6. It might be expected that once the steel pay strike is ended steel workers will be reluctant to contemplate another continuing strike on the closure issue, particularly if generous severance terms for the redundant are more clearly in prospect. There is no very strong tradition of loyalty between steel workers and miners and union members in many other industries, eg the railways, will not generally be at all enthusiastic for a strike on an issue which affects them less directly, if at all. The NUM however foresee the inevitability of pit closures and the Wales Area was successful in securing at national strike threat from the NUM annual conference in 1979 against the threatened closure of one exhausted pit in Wales. There is therefore a danger that support for industrial action could be successfully canvassed in other coalfields, eg Yorkshire and Scotland, and it is not possible to be sure that the NUM national executive would not come to contemplate national action. An attempt might also be made to build on political influences in the trade union movement in Wales. The TUC is exposed to pressures by the posture it has been forced to adopt, however unwilling it undoubtedly is to advise unions on a course of industrial action. Anything approaching a "general strike" is certainly not foreseeable, but a risk of disruptive strike action remains.



TUC SIDE:

Len Murray

Frank Chapple (Chairman)

Bill Sirs

David Basnett

Moss Evans

Joe Gormley

Gavin Laird

Hector Smith

plus

David Lea,

possibly

Bill Callaghan

Alternative uses of the government finance for nationalised industries

1. The total external financing of the industries is expected to be about £2.4 billion in cash terms in 1979-80 and about the same for 1980-81. The attached tables give a longer run of figures, which cover both grants and loans.
2. It is difficult to give a firm guidance on the other purposes to which such sums could have been put. Investment of resources would have been required even if the industries had been in private ownership and so it would be misleading to carry out calculations purporting to show that all the <sup>external finance</sup> ~~government assistance~~ could instead have been used to finance big tax cuts or large increases in spending on social services.
3. On a rough and ready basis the trading losses of the industries are probably the best starting point for an assessment of the extent to which government assistance to the industries has in some sense been at the expense of other policy objectives. Over time a poor profit performance will mean a higher external financing requirement for a given investment programme. To make room for the higher external financing requirement there have to be lower levels of public spending on other programmes or higher taxes.
4. For 1979-80 the NCB and BSC trading losses, before allowing for government grants, are together expected to be nearly £600m in cash terms [which is about £500m at 1979 Survey prices]. As a rough illustration this sum represents the cost of:
  - 170 comprehensive schools (each with 1200 places)
  - OR 17 general district hospitals
  - OR 30,000 old people's flats in wardened blocks
  - OR 160 miles of motorway

As another way of looking at the position, £600m represents the revenue from roughly a 1p change in the basic rate of income tax or a 1 percentage point change in the rate of VAT.
5. If in addition to the losses of the NCB and BSC we incorporate those of the British Railways Board - estimated at another £660m in cash terms in 1979-80 (again before allowing for government grant) all the figures in the preceding paragraph can be roughly doubled.

NATIONALISED INDUSTRIES

ANNEX B (cont'd)

1. Total external finance - *gross, loans etc.*

	£m outturn prices					£m survey prices (1978/79)				
	1976/77	1977/78	1978/79	1979/80	1980/81	1976/77	1977/78	1978/79	1979/80	1980/81
National Coal Board	316	328	604	607	834	390	358	60	520	616
Electricity Council and Boards	69	23	-102	-68	187	85	25	-102	-58	877
British Gas Corporation	-204	-495	-429	-450	-400	-251	-541	-429	-386	-295
British Steel Corporation	946	806	752	700	450	1168	880	752	600	332
Post Office	216	-138	-72	150	-160	266	-151	-72	129	-118
British Airways Board	17	87	66	172	230	21	95	66	147	170
British Railways Board	501	532	620	713	750	619	581	620	611	554
All nationalised industries	2243	1415	2020	2403	2402	2270	1545	2020	2059	1774

## 11. SELECTED NATIONALISED INDUSTRIES

ANNEX B (cont'd)

Profit/(loss) before receipts of grants

	£m outturn prices					£m constant prices (1978/79)				
	1976/77 <sup>1</sup>	1977/78 <sup>1</sup>	1978/79 <sup>1</sup>	1979/80 <sup>2</sup>	1980/81 <sup>2</sup>	1976/77	1977/78	1978/79	1979/80	1980/81
National Coal <sup>5</sup> Board	(27.3)	(54.6)	(191.4)	(273)	(227)	(34)	(60)	(191.4)	(234)	(168)
Electricity Council and Boards	206.5	132.8 <sup>3</sup>	251.4 <sup>3</sup>	188 <sup>3</sup>	351 <sup>3</sup>	255	145	251.4	161	259
British Gas Corporation	31.5 <sup>3</sup>	103.9 <sup>3</sup>	172.3 <sup>3</sup>	395 <sup>3</sup>	660 <sup>3</sup>	39	113	172.3	338	487
British Steel Corporation	(95) <sub>3</sub>	(443) <sub>3</sub>	(309) <sub>3</sub>	(324) <sub>3</sub>	0	(117)	(484)	(309)	(278)	0
Post Office	290.6	367.3	375.1	213	466	359	401	375.1	183	344
British Airways Board	35.1	32.5	77.3	20	56	43	35	77.3	17	41
British Railways <sup>4 &amp; 5</sup> Board	(333.7)	(347.4)	(443.3)	(662)	(641)	(412)	(450)	(443.3)	(567)	(473)

(1) Post depreciation, interest, tax etc.

(2) Estimated outturn - post interest and depreciation but pre-tax

(3) After supplementary depreciation

(4) Calendar year figures

(5) After deducting grants



## ANNEX C

a) It is not true that ESC is anywhere near making a profit before interest.

	<u>£Million</u>	
	1977/78	1978/79
Receipts from sales (Turnover)	3,154	3,288
Costs of Sales	<u>3,343</u>	<u>3,317</u>
Loss before depreciation interest and other adjustments	- 189	- 29
Net Depreciation	<u>- 98</u>	<u>- 111</u>
Trading Loss after depreciation	- 287	- 140
Interest	- 180	- 208
Other adjustments (tax, exchange gains income from associates etc.)	<u>+ 24</u>	<u>+ 39</u>
LOSS	<u>443</u>	<u>309</u>

Receipts from sales in both 1977/78 and 1978/79 did not cover the immediate costs of production, and the position will be repeated in the 1979/80 results.

Before the strike ESC announced a loss for the first half of 1979/80 of £15Million and stated that the result in the second half was not expected to be any better. Because of the strike the second half results are almost certain to be worse. ESC's interest payments will be about £27Million less in 1979/80 than in 1978/79 because £209Million of interest bearing loans were repaid in 1978/79 and replaced with capital ~~at present~~ at present.

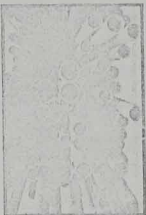
*on which dividends are not required*

26 Jan

	BSC LOSSES				fm
	1975/76	1976/77	1977/78	1978/79	
Loss for theyear	(255)	(65)	(443)	(309)	(300+)
Loss before charging interest, tax or extraordinary items	(129)	69	(275)	(137)	(160+)

	Man hours needed to produce one tonne of crude steel (Unpublished NEDC figures)				
	W. Germany	France	Italy	Bel. Lux.	UK
1977	6.5 hrs	7.2	5.4	6.2	6.1
1978	5.9 hrs	6.4	5.2	5.2	4.8
% Improvement 77-78	9%	11%	4%	16%	20%
				8%	



JOHN TORODE on official views of the crisis

## Whitehall's steel case

THE GOVERNMENT'S decision not to intervene in the steel strike or to increase its planned £50 million subsidy to the industry is political. But it is backed by controversial interpretations of equally controversial facts and figures. Sir Keith Joseph and Mr Bill Sirs clashed bitterly last weekend about the true state of BSC finances and productivity.

This article, based on authoritative sources in Westminster and Whitehall, is an attempt to present the figures as they were presented to Ministers and endorsed by them.

Ministers insist that, even before deducting interest, BSC made substantial trading losses in the past three years and is heading for an even worse loss this year in spite of reduced interest charges (see top table). They dismiss as "simply not true" the claim by Mr Sirs that "BSC is trading at a profit... (that) is hit by crippling interest charges." Every other commercial concern has to pay interest on its capital. In any case, since April 1978, all money provided for BSC—more than £1.5 billion—has been provided interest free under section 18 of the Iron and Steel Act 1975.

Put differently, Ministers argue that the charges for depreciation and interest taken together are much the same as those borne by BSC's European competitors. The value added by BSC is no more, if anything a little less, than the total wage bill, the government claims. So steelworkers are contributing nothing to the national wealth while the taxpayer makes heavy contributions to maintaining the industry.

Ministers dismiss the claim

that other European steel companies make massive losses and receive massive subsidies. They point out that the trend on the Continent in 1979 was in the right direction. The Dutch State company Edel is now operating profitably. So is the German State Klockner. The Belgian State company Cockerill and its Luxembourg counterpart, Arbed, are moving towards profit. French losses continue but strenuous efforts are being made to sort things out.

Only Italy, in the view of government, still looks bad.

In contrast BSC's losses are getting no better and perhaps are becoming slightly worse (from £392 million for 1978/79 to something over £300 million in 1979/80 when interest repayments had dropped by £28 million).

As for the level of state aid to steel, Whitehall advisors put it at around £3,100 million over the five accounting years 1974/5 to 1978/80. This represents £21 for each family in the country or £50 per family in the current accounting year alone. Even this pales before a subsidy of £40 million for the year beginning in April (to be spent solely on investment and redundancy payments but not to subsidise wage increases) means £32 from each and every family in the country.

"Do the taxpayers really want to pay more than this so that BSC can continue to make losses?" Ministers ask with brutal directness.

Where has all the money gone? About half the £3,100 million has been invested in what Ministers call "some of the most modern plant and equipment in the free world." (They add that the

taxpayer now expects the steel worker to put it to efficient and profitable use.) The other half—over £1,500 million—has evaporated as annual losses.

The Government remains confident that—on a strictly comparable basis, comparing like with like—BSC workers produce 140 tonnes per annum, French workers 180 tonnes and German workers 247 tonnes.

These figures come from an NEDC joint working party report on steel in Europe, which, Ministers point out, was signed by Mr Sirs.

Mr Sirs claimed last week that the true comparison is BSC 192 tonnes per man against a German figure of 200 tonnes. Mr Sirs challenged the Government to check his figures with NEDC Ministers say they have checked and NEDC does not recognise the figure of 192 tonnes as coming from any of its documents.

Ministers also quote the NEDC figures on man hours needed to produce one tonne of crude steel (see bottom table). The rise in productivity in 1978 was the result of plant closures and the loss of 20,000 jobs. In all, productivity has risen by 16 per cent but remains 13 per cent below 1973 levels. But the crucial point, according to the Government's advisors, is that the man hours gap between BSC and its major European competitors is widening.

So the Government position remains that in terms of finance and labour productivity we are improving less slowly than our competitors. And we are starting from a worse position.

If that is correct then steel's troubles start—not end—when the strikers finally go back to work.

Table 1

## BSC AND COMPETITION (1978)

£ per tonne

	1978		
	Depreciation	Interest	Total
BSC	6	12	18
THYSSEN (G)	18	6	24
KLOCKNER (G)	10	11	21
ESTEL (Neth/G)	14	9	23
USINOR (F)	12	15	27
ITALSIDER	14	30	44
COCKERILL (B)	8	11	19
ARBED (Lux)	6	8	14
MEMO:			
BETHLEHEM (USA)	10	3	13
NIPPON STEEL (J) (1977)	12	11	23

## Notes:

- Thyssen's figures include depreciation and interest on non-steel activities (amount to some 50% of business <sup>which</sup>).
- Usinor and Cockerill interest charges reflect partial reconstruction during the year. 1979 levels should be lower.

Profitability of Steel Companies of the WorldEurope

Isotel, whose 1978 loss per tonne was about a third of that of USS, made pretax profits in 1979 Q2 and Q3 of Fl 10m and Fl 12m respectively.

Thyssen made a 1978 profit of £27m.

Bois-Franciller In the 1978/79 financial year the steel making subsidiary made its first positive contribution to group earnings for four years.

(Report from Frankfurt in Financial Times 16 November 1979 - no details given)

Knockner Chairman has said that they returned to profitability during the 1978/9 financial year.

(Extract from company magazine quoted in 'Metal Bulletin' 2 November 1979)

Arbed The company reduced their loss per tonne figure from \$37 per tonne in 1977 to about \$6 per tonne in 1978. The progress has been maintained: first half losses in 1979 were Lux Fr 429.9m compared with Lux Fr 1920m in the corresponding 1978 period. CONFIDENTIAL: Although there has been no statement on record, our Embassy report that there is optimism in the company that the full year figures may reach breakeven. Despite the prospect of a downturn in demand in 1980 there is satisfaction over progress with the industry's restructuring.

Japan Major steelmakers including Nippon, the world's largest, had record profit in the first half of the 1979/80 financial year as:-

1979/80 First Half Results

	<u>Sales</u>	<u>Profits</u>	
Nippon Steel	+16%	4453%	Y 59,190m
Kawasaki Steel	+20%	4436%	Y 49,590m
Sumitomo			
Yatai Industries	+30%	+503%	Y 23,480m

USA In the first 9 months of 1979 Bethlehem Steel's profits rose to \$77.1m (57% up on the corresponding 1978 period). A similar comparison shows US Steel's profits up 82% to \$268.7m for the 9 month period.



CHANCELLOR OF THE EXCHEQUER'S MEETING WITH THE TUC  
BSC CLOSURE PROPOSALS - Note by Department of Industry

On 11 December BSC announced plans to reduce capacity from 21.6 million tonnes to 15 million tonnes in 1980/81, while reducing iron and steelmaking manpower from 152,000 to 100,000. BSC said that even with the closures already agreed at Shotton (6,300 jobs to be completed by March), Corby (5,500 mainly by March) and Cleveland (1,200 already completed), there would still be too much capacity in terms of present and projected demand.

1 Impact on South Wales

Part of these plans was the reduction of capacity at Llanwern and Port Talbot from its present combined level of around 5 million tonnes to 2.75 million tonnes. How best this might be achieved was left to the BSC's Welsh management to discuss with the unions by the BSC Board meeting on 17 January (see Annex). At their meeting the BSC Board decided that future discussions with the unions should centre around a 'slimline' operation of both plants, producing approximately 2.8 million tonnes between them. This would entail redundancies at Port Talbot of 6,883 (out of a workforce of 12,584 and 4,954 at Llanwern (present workforce 9,353). The operation is designed to tailor BSC's total output of strip (for use in cars, domestic appliances etc), to the level of UK demand for BSC's product. Strip is also made at Shotton (scheduled to close by March), Lackenby and Ravenscraig. Because of low demand for strip products (partly as a result of the problems of the UK car industry), BSC has been left with overcapacity in this product sector. This is one of the reasons the Corporation wishes to close Shotton iron and



steelmaking (using the obsolete open hearth steelmaking process) and reduce operations in South Wales. They hope that in this way all their 'ongoing' plants (including the new facilities at Ravenscraig) can be loaded in such a way as to exploit the cost advantages of these plants' high output potential.

## 2 Other closures planned

In their paper, the TUC also mention BSC plans for closures at Consett and Hallside and cutbacks at Scunthorpe and elsewhere. The BSC announcement in December involved:

- (a) closure of Consett integrated steelworks in Co Durham (4,000 jobs)
- (b) closure of Hallside electric arc plant (600 jobs)
- (c) reduction in iron and steelmaking activities at Scunthorpe (2,800). This comes on top of a phased closure of ironmaking at the Redbourn works within the Scunthorpe complex involving 1,200 redundancies
- (d) cuts at (unspecified) rolling mills (2,500 redundancies)
- (e) manning reductions at 'ongoing' plants (12,000 redundancies). BSC hope to complete these by August this year.



### 3 Discussions with the unions in S.Wales

Although the larger unions (ISTC,NUB) had participated in discussions on the implementation of the plans to reduce capacity announced in December, ( it was the unions who pressed for the 'slimline' approach to capacity reductions at Llanwern and Port Talbot ), no further discussions have taken place since the BSC announcement on 17 January that the Board had decided on the 'slimline' approach as the most feasible basis for discussion. Because of the strike, the union representatives involved have simply not been available at the plants for any negotiations on implementation of the capacity reduction plans.

## ANNEX D (cont'd)

STATEMENT BY BSC BOARD - 17th January, 1980

SOUTH WALES

A month ago BSC announced its plans for reduction of steelmaking to 15 million tonnes per annum capacity, manned by not more than 100,000 people.

Looking at the market prospects for strip mill products, BSC stated that the overcapacity of plant was unsustainable and that it would be necessary to begin consultation at Port Talbot and Llanwern on how to reduce costs and bring capacity down to around 2.75 mtpa in the financial year 1980/81. The reductions in manning would have to be radical to allow South Wales to compete internationally and yet retain a base with a possibility of future expansion. BSC emphasised that there was little time for this to be settled and that the limited money available demanded utmost urgency.

This operation would be designed to tailor BSC's total strip mills output to the level of home trade demand on BSC, taking account of new capacity at Ravenscraig.

BSC is considering in detail the options available to achieve this reduction in capacity and manpower. The Board has decided, at this stage, to concentrate further consultations and discussions with the unions and workforce on one of those options, namely a 'slimline' operation at Port Talbot and Llanwern producing approximately 2.8 mtpa of liquid steel between the two works. The commercial basis on which these discussions take place will, of necessity, have to be reviewed after the strike.

Compared with closure of a whole or part works, this operation would produce the least interference with existing supply routes, customer choice and technology. It would provide the technical capability at the two works to meet the needs of the market. It would keep the benefit of the Concast machine, now being built at Port Talbot, and provide for rapid expansion when and if market factors permitted.

Of all the options open, 'slimline' would involve the least severe reductions in manning. However for this option to be realistic, trades union cooperation in achieving internationally competitive manning levels is essential.

On the basis that good working practices and good performance in quality and yields can be established at this level of operation, the two South Wales Works would each have the potential to achieve lower costs. This would allow for increased production from the South Wales plants as soon as the market justified it. Substantial reserve capacity in strip mills products would still remain for any major upturn in demand.

The 'slimline' operation, therefore, would offer South Wales the opportunity to improve practices and performance, and the possibility of higher tonnage in the future. However, if practices and performance achieved did not justify this combined operation, then BSC would inevitably be faced with the necessity of a total works closure.

The social implications of 'slimline' would still be serious, but these would be less than the consequences of a total works closure. The proposal would involve a manning reduction of 6,883 at Port Talbot from the current 12,584 to 5,701, and 4,454 at Llanwern from the current 9,353 to 4,899.

Meanwhile, BSC is very closely in touch with the Welsh Office as to remedial action and BSC (Industry), which has been effective in helping to create new jobs in Wales, will step up its activity.

Given the present market conditions in which BSC has to operate, agreement with the unions must be reached by 31st March, 1980 so that the 'slimline' operation could be operational by August, 1980.

17th January, 1980

and to take what action they think fit in the light of them.

I have now to make a statement on the remedial measures that the Government propose in connection with the announcement by the BSC last Thursday of its decision to close iron and steel making at Corby.

In order to attract new employment for those affected by the steel closure, I intend, subject to the necessary approval of the European Commission (HON. MEMBERS: "Shame.") Once again, we are carrying out the same policy as the previous Government—on which we expect an answer from the Commission within a matter of weeks, to make the Corby employment office area a development area. Firms there would then be eligible for the full range of regional incentives, including regional development grants on buildings, works, plant and machinery and regional selective financial assistance under section 7 of the Industry Act 1972. As a development area, Corby would be eligible for assistance from the European regional development fund towards infrastructure and industrial projects and, as a steel closure area, from proposed measures under the non-quota section of the fund and from the European Coal and Steel Community.

The Corby development corporation has a substantial advance factory programme in hand and is also making efforts to attract private development. The Secretary of State for the Environment—the Minister of State is on the Front Bench—is making funds available for infrastructure and consolidation for an additional 70 acres at Earlstrees industrial estate. The corporation is investigating the suitability of another 200-250 acres of land at Weldon, in the Corby employment office area.

It is proposed that the Commission for the New Towns will take over from the development corporation next year, when it would inherit its industrial assets and be given the resources necessary to continue site development work. The commission will be asked to devote priority to Corby within its responsibilities for other new towns. The commission is already participating in arrangements with the corporation and the local authorities to co-ordinate industrial development and promotion in Corby.

The Government have also announced recently that they are going ahead with the A1-M1 link along the route that can be completed most quickly. This means that firms in Corby will then have ready access to a high-quality trunk road connecting them to the industrial Midlands and the expanding East Coast ports.

All these measures, taken together with Corby's favourable location in the East Midlands should mean that the town will prove more attractive to private investors, and this will thus improve the employment prospects of those affected by the closure.

Mr. Peter Fry (Wellingborough): Will my right hon. Friend note that there will be much relief and satisfaction in Corby and Northamptonshire at the fact that the Government have made this announcement? It is the first time that concrete proposals have been brought forward by any Government to assist Corby. But will he point out to the other competing authorities nearby—Peterborough, Northampton, Daventry and other expanding towns—that there is a regional as well as a national obligation towards Corby? Will he ensure that his Department will watch closely applications for firms to move to other parts of Northamptonshire and will efforts be made to attract them to Corby, where the jobs are so badly needed?

Sir K. Joseph: I think that Corby has attractions, even without development area status, and that towns in the neighbourhood may themselves feel anxious about their capacity to attract investment with Corby now having been given, or about to be given, development area status—particularly since skilled labour may be released by the closure, and skilled labour is in scarce supply in many parts of the country.

Mr. Dennis Skinner (Bolsover): Is the right hon. Gentleman aware that for him to make a statement about improving infrastructure, giving incentives and using Government intervention, supposedly to help the people of Corby, is the height of hypocrisy when one considers that only three months ago he told the House and the nation that what this country needed was the dismantling of the regional aids and of Government intervention? Why should the people of Corby listen to him now?

Sir K. Joseph: The hon. Gentleman does me the compliment of attacking me almost as fiercely as he attacks his own side.

Mr. Skinner: And it paid dividends with that lot as well.

Sir K. Joseph: The hon. Gentleman assumes that we are able to move straight away from the oversubsidised, overtaxed and overspent economy that has existed for some time. He seems to believe that we can move straight from an excessive level of Government intervention to no Government intervention. I never maintained that. I hold out the prospect of much less Government intervention, which will come by a transitional route.

The Government's regional policy, announced in our manifesto and carried through by me, is to reduce regional incentives by one-third. We do not intend to abolish them; we intend to take them away from areas where economic conditions do not justify them. We wish to concentrate them precisely on those areas where, if they have a value, they can be effective. That gives us the greatest scope and authority to use those incentives—for what they are worth—in an area such as Corby, where people will be released from their existing jobs.

Mr. Bill Homewood (Kettering): What is the time scale for the provision of new jobs? The British Steel Corporation intends to close the Corby iron and steelworks in March next year and to pay off the money until November. There is no factory ready for occupation. It is estimated that it will be three and a half years before the first new jobs materialise. Does the Secretary of State really believe that the population of Corby, with 6,000 men out of work, will sit around waiting for him to bring in the jobs?

Sir K. Joseph: Indeed, I do not. With other possibilities within reach many people released from jobs in Corby will seek work elsewhere in the sub-region. Surely it is right to assume that firms and investors will find Corby an attractive place in which to invest. Places more remote from London may fear the competition that will come from Corby because of the labour force availability and because of its inherent attractions, quite apart from the incentives that will be provided.

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Mr. Marlow: My right hon. Friend mentioned the M1-A1 link. Many people look upon Corby as being almost commercially inaccessible. How long will it be before this link road is in operation?

Sir K. Joseph: I cannot give my hon. Friend information on that today but I shall write to him. The right hon. Member for Deptford accused me and the Government of compartmentalising our views on the economy. Could it not be that it is he who is doing that? He assumes that the Government can, if they wish, and without any ill consequences, continue a subsidy at a given level, or even expand it. The right hon. Gentleman surely knows that if the subsidy to BSC is not reduced the extra money has to come from elsewhere in the economy, thus destroying other jobs and prospects in industries in other parts of the country.

Continuing a subsidy at the present level is not without consequences. It is not without consequence to carry the costs of all the new steel investment, and Corby as well, on the backs of the taxpayers. The benefit to the country will come only when the steel industry subsidy can be reduced and when the industry can pay its own way. The Government propose that next year the steel industry will be helped by the taxpayer with capital investment and related costs. We rely upon the board of BSC to carry out its own proposals, approved by the last Government, to operate at a profit during the financial year 1980-81.

Mr. Leighton: Has the right hon. Gentleman got his arithmetic right? Has he worked out what it will cost the State in loss of tax revenue from the workers who, he says, will be released from employment? What will be the cost of paying those workers unemployment benefit? What will be the loss of rates to the local authorities? When the Minister has worked that out he will find that he has not saved very much money at all. Would it not be far better to follow the Continental example? At Limburg, where the authorities proposed to shut down coal mines and steelworks, they waited until alternative jobs were available. Under these proposals the right hon. Gentleman will make no savings at all, but merely cause human misery.

Sir K. Joseph: The hon. Gentleman assumes that everyone who loses his job



The Secretary of State for Wales (Mr. Nicholas Edwards): With permission, Mr. Speaker, I should like to make a statement on Shotton.

ANNEX E(cont'd)

The British Steel Corporation announced its decision last Friday to end iron and steel making at Shotton. All concerned will want to do everything possible to provide alternative employment opportunities throughout the area affected by the closure.

The Government have decided that, subject to the necessary approval by the European Commission, the Shotton travel-to-work area will be upgraded to special development area status as soon as possible. My right hon. Friend the Secretary of State for Industry will be making the

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necessary arrangements. This will be of substantial benefit to the area, and firms in the area or to be located there will now be eligible for the highest rates of regional incentive as are firms in the Wrexham travel-to-work area, where about 9 per cent. of the Shotton work force reside and which was upgraded to special development area status last July.

As a special development area Shotton would continue to be eligible for assistance from the European regional development fund towards infrastructure and industrial projects and also, as a steel closure area, from the non-quota section of the fund and from the European Coal and Steel Community.

The Manpower Services Commission has made contingency arrangements drawing on experience gained at earlier major steel closures in Wales. These will be put into immediate effect and include the provision of a special jobcentre in the works with augmented advisory and counselling services. For workers seeking retraining, over 4,500 training places in a wide variety of TOPS courses are available at skillcentres, colleges and on employers' premises in Clwyd, Cheshire and Merseyside.

The area has already benefited from substantial investment for the provision of infrastructure and industrial estates by the Welsh Development Agency, local authorities and BSC (Industry) Ltd. In particular, the Welsh Development Agency and BSC (Industry) Ltd. have spent or committed over £6 million on the development of 300 acres at the Deeside industrial park. A start on factory building has already been made; 17 factories are under construction or completed—15 of these have been formerly allocated—while work is going ahead on further site preparation. On present information nearly 1,000 jobs are expected to arise over the next three years or four years in the Shotton travel-to-work area from projects under way or planned and over 2,000 in the Wrexham travel-to-work area. In addition, the area has been chosen, as my hon. Friend the Under-Secretary of State for Energy said last Thursday, for a major oil-from-coal pilot project at Point of Ayr colliery. This is a welcome development for the area, which in the medium-term will add to the range and number of job opportunities in Deeside.

Communications in the Shotton and Deeside area will be substantially improved by schemes in the Department of Transport and Welsh Office trunk road programmes. In particular, work is under way on the extension of the M56 motorway westwards, which will bring the motorway very close to the Deeside industrial park. Opportunities will be taken for upgrading communications between the Shotton area and Wrexham and the Midlands.

Every effort will be made to attract and establish new industrial developments in the area. I see it as a main task of the Welsh Development Agency to complete the site infrastructure and services on land in its ownership at the Deeside industrial park and to make an early start on the building of advance factories in the area affected by closure. I am therefore making additional resources available to the Agency. But I also see it as essential to engage private sector support, and the course and scale of public expenditure will depend on how quickly this can be obtained. Meanwhile, I am asking the Agency to plan its provision of sites and factory space on the basis of further expenditure of up to £15 million over the next three or four years. Work is already under way in the job of obtaining private sector finance, which will enable new development to take place on the scale required while reducing the cost to the taxpayer.

A substantial and sustained effort will be required to attract new business into the area and encourage existing businesses to expand, but the strategic locational advantages of Deeside, the enhanced regional incentives available from special development area status, the provision of serviced industrial sites and factories and the availability of a willing, adaptable and responsible labour force provide the basis for the successful regeneration of the wider Deeside area.

Mr. Alec Jones: Irrespective of the contents of the statement, does the right hon. Gentleman accept that if 7,000 unemployed Shotton steel workers join the dole queue next March, the Government will bear the ultimate responsibility? I welcome that part of the statement which is, in fact, a catalogue of the achievements of the previous Labour Government and the plans that they had in that

[Mr. Jones.]  
area. I also welcome the decision to grant special development area status, which is essential if any area such as Shotton is to deal with the problems that it now faces.

However, on its own, as the right hon. Gentleman said, that will not be enough. It will need a rapid mobilisation of resources, both financial and physical, from a variety of organisations such as local authorities, the Welsh Development Agency, the British Steel Corporation, the Government and many Government agencies. The most disappointing part of the statement is the miserable sum of £15 million to be allocated over three or four years. It is a pathetic contribution when we bear in mind the size of the problem facing not only Shotton but the whole of North Wales.

I trust that the right hon. Gentleman will make it quite clear that the £15 million is a first instalment and that more—in the order of £50 million—will be needed. Will he confirm that the additional money will be extra Exchequer money and will not be filched from other Welsh programmes or areas?

Our experience in Ebbw Vale clearly demonstrated the need for a special organisation, such as our monitoring committee, to supervise and co-ordinate the activities of those involved in attracting new industry and training to Shotton. Will the Secretary of State establish such an organisation and ensure that it is chaired by a Minister from the Welsh Office?

Local authorities will lose rateable value as a result of the Shotton closure. Considerable rate income will be lost. What assessment has the Secretary of State made of those losses and what steps will be taken to compensate local authorities?

**Mr. Edwards:** I note the comments of the right hon. Gentleman about the responsibilities of this Government. I also note that the former Secretary of State for Industry on 22 May 1978 said that the policy of the then Labour Government was that the British Steel Corporation should break even by the financial year 1979-80. That undertaking was repeated in the Labour Government's public expenditure White Paper in January 1979.

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This Government have carried that undertaking forward for a year and we are doing no more than the previous Government asked of the Corporation.

In the last two years of the Labour Government nearly 24,000 jobs were lost in the steel industry as a result of closures. I am grateful for the welcome given to the work and the contribution of the WDA, though I agree with the right hon. Gentleman that we shall need the contribution of a variety of agencies. He talked about a miserable sum of money and put in a bid 50 per cent. higher than that made by Clwyd county council. That authority's bid was based on assumptions that I do not entirely accept and on expectations of an increase in population carried forward to 1991.

I must make it absolutely clear that the £15 million is additional to resources already available from the budget of the Welsh Development Agency and from the resources of BSC (Industry) Ltd. I have also emphasised the very important contribution that we believe can be made by the private sector. It is not true to suggest, as the right hon. Gentleman did, that the £15 million indicates a limit on what is possible if all these agencies and the private sector are combined. I assure him that the money has not been filched from other programmes. The £15 million is additional to the resources made available to the WDA, and though I expect the WDA to concentrate its efforts on areas with the greatest problems—the SDAs and the development areas—I would also expect it to maintain its programme in existing steel closure areas.

The right hon. Gentleman asked about a task force. We are in the closest possible contact with all organisations involved, including the local authorities. I have seen them, and I and my officials will continue to see them. I am taking a close personal interest in every development and I do not think that much will be gained, at present, by the creation of a task force. I will continue to keep an open mind on that point however.

Concerning rateable values, the right hon. Gentleman will be aware that there is an adjustment mechanism in the rate support system, though I acknowledge that it takes a year or so to take full effect. My judgment is that it is right to concentrate public expenditure on the

creation of infrastructure and new factories rather than in the direction suggested.

**Sir Anthony Meyer:** Is my right hon. Friend aware that the measures that he has just announced will alleviate some anxieties and demonstrate that the Government are accepting their responsibilities for a very large number of lost jobs as a result of the closure of a State enterprise? Is he further aware that the problem is essentially a short-term one, in that the area is extremely attractive to incoming industrialists, but that there is urgent need of first-aid measures? Will orthodox Treasury methods of controlling local government expenditure inhibit the ability of local authorities to finance industrial development by methods other than recourse to central borrowing agencies, which some local authorities have recently been successfully employing in the creation of jobs in the area?

**Mr. Edwards:** I agree that the area will be very attractive for other industries. No work force in the country has enjoyed a higher reputation, over many years, than that at Shotton. I believe that that will be an attraction. There is also a notable improvement taking place in communications. Shotton will be very close to the end of the M56. The links through Cheshire and on through the Chester southern bypass and the Hawarden bypass will further improve communications. As to my hon. Friend's specific question, I believe that the proposals that the Government are putting forward for the control of capital expenditure will give greater freedom to local authorities, within overall totals, to decide how they spend their capital.

**Mr. Barry Jones:** An appalling risk has been sanctioned by the Government in their proposal to put 6,300 workers on the dole within three months and I still hope that the Government will rethink their position. Will the Secretary of State return to the request for a task force, which should be led by one of his Under-Secretaries, so that day-to-day supervision may be exercised? Will he tell the House specifically how many new factories, with guaranteed new jobs, are planned for next year? His three-to-four year estimate of 1,000 jobs is pie in the sky for the thousands of workers who will be on the dole next year. This was a

weakness—though a crucial point—in his statement. Whilst welcoming the special development area status, I believe that the right hon. Gentleman's proposal falls well short of the demand of the local council for a £38 million package and over 1,500,000 square feet of advance factory space.

How safe is the Wrexham to Birkenhead railway line? Will the Wirral motorway be linked with the A55? I support the view of my right hon. Friend the Member for Rhondda (Mr. Jones) that the package is disappointing. Did the Secretary of State fail to push all his measures through Cabinet?

**Mr. Edwards:** We shall continue to listen to proposals for a task force. It may not be as welcome, from the hon. Gentleman's point of view, as having one of my Under-Secretaries doing the job, but at the moment I am doing the job myself and giving the operation the closest personal attention. Though I think that the task forces in Ebbw Vale and East Moors undoubtedly had an impact as far as confidence was concerned I do not know that they have made all that much difference in relation to the developments that have taken place, but we are certainly prepared to look at the proposal.

I cannot give the hon. Gentleman a precise figure for the number of jobs during the coming 12 months, but it is encouraging that in the two travel-to-work areas most affected there are 3,000 jobs in the pipeline from current projects before any new efforts are made. That suggests that the area is attractive. As to the money being well short of the figure proposed by the local authority, that authority put forward two figures. The first figure was £28 million, excluding the fifth phase of the factory building programme. The second figure was £33 million, including that phase. I have announced planning permission for an additional £15 million.

The Welsh Development Agency and BSC (Industry) Ltd. will allocate further resources. We believe that a major contribution can be made by private investment, by making use of the Agency's existing assets and by disposing of factories to tenants as they are built. In the long run this will have a major impact on the scale of what is achieved.

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I shall write to the hon. Gentleman about the rail link, since that is a matter for the Minister of Transport. We are pressing on with the completion of the M56 link and a number of important improvements are taking place near the Queensferry interchange, which will improve the links there. We are progressing with the statutory procedures for the Hawarden bypass, which should begin early in 1981. The link between the M56 and the A55 is scheduled, but I cannot give a date. That is the responsibility of the Minister of Transport and I shall write to the hon. Gentleman about it.

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**Mr. Edwards:** I have no doubt that the most important aspect for the future of the steel industry, not least in Wales, is that the steel industry should be fully competitive. I welcome the notable improvement in recent months at Llanwern, where there has been a sharp upturn in productivity. I also welcome the similar pattern that is emerging at Port Talbot. Such progress represents the best solution for the steel industry.

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**Mr. Porter:** Does my right hon. Friend not find it ironic that the £15 million and the further sums from other sources to be spent in the next few years is about the same as the capital investment required to make Shotton profitable? Will he consider carefully any serious propositions to take over Shotton that are made by private interests? If there is a serious interest in taking over Shotton, will my right hon. Friend bring to the attention of his colleagues the fact that there must have been something wrong with BSC's attitude towards Shotton in the last few years?

**Mr. Edwards:** It is unrealistic to suggest that investment on the scale suggested would have made Shotton profitable, Shotton is likely to lose about £40 million in the current year. The British Steel Corporation envisages that an investment of £40 million would improve profitability by only £7 million. We shall examine any proposals from the private sector.

**Mr. Geraint Howells:** Is the Secretary of State aware that last week's announcement by the BSC came as a severe blow to the Welsh people, especially those living in the Shotton area? Is the Secretary of State aware that although I welcome many of the proposals, I am a little worried about the future of the young people in the area? What plans has he to safeguard the interests of the school leavers in the next five years? Has he any plans to meet those in the private sector who are interested in purchasing the whole works? If such a proposal is made, will he postpone the closure?

**Mr. Edwards:** We all share the hon. Gentleman's anxiety about the future of the young people. I have outlined some of the measures that we intend to introduce to attract fresh jobs to the area. I emphasise that Shotton has much to offer. It is an ideal site, it has good communications, and a work force with a high reputation. Those are the aspects that we must sell. I know of no specific proposals by the private sector, so I am unable to meet anyone in that connection.

**Mr. Wigley:** Does the Secretary of State accept that about 10,000 new jobs are necessary to meet the jobs lost by the closure of Shotton, taking into account the direct and indirect effects of the closure? Does he accept that the 3,000

jobs in the pipeline are already needed because of the high unemployment in the area? Does he agree that about £100 million investment is needed, albeit not all from the public sector?

Will the Secretary of State undertake to provide more than £15 million if he finds that that is not enough? Does he accept that an area wider than the Shotton travel-to-work area will be affected by the closure and that large areas of Clwyd and Gwynedd will be affected? Will he examine the full effects of the closure throughout the area?

**Mr. Edwards:** On the best advice that I can obtain, I believe that the hon. Gentleman's estimates are too high. Indeed, they are higher than those produced by the Clwyd council. Experience at East Moors and Ebbw Vale tends to confirm that the estimates are too high. I accept that the consequences will be widespread. We shall give consideration to them. The fact that we have been willing to upgrade demonstrates that we are prepared to respond to changing circumstances. We shall always consider the circumstances as they develop.

**Mr. Parry:** The Merseyside group of Labour Members, which has always supported my hon. Friend the Member for Flint, East (Mr. Jones) in his long and valiant battle on behalf of the Shotton workers, will be disappointed with the total package. Does the Secretary of State realise that although we fully support the upgrading of Shotton to special development area status the area will be competing with Merseyside, where there is already a serious unemployment problem?

**Mr. Edwards:** I understand the hon. Gentleman's fears. I do not believe that a successful regeneration of the Shotton area will harm Merseyside. I take a contrary view. If we have a successful and healthy economic area close by, the reverberations will spread out. As I have said, the Shotton work force has an enviable reputation. Areas can sell themselves on the qualities and facilities that they have to offer. In the long run that applies to Merseyside as much as to Shotton.

**Mr. Alan Williams:** Is not this rag-bag of non-events another example of the right hon. Gentleman's failure to win any meaningful battle for Wales

[Mr. Williams.] Does not he realise that the Government's abandonment of the industrial development certificate control already condemns to failure the proposals that he has put forward? If any marginal value is achieved from his proposals, is it not a fact that that will inevitably be at the expense of the areas of need to the west of Shotton and of Merseyside?

Is it not the cruelest of deceptions to pretend that the Government are willing to contemplate a solution through the private purchase and production of steel at Shotton, when the Secretary of State for Industry has indicated that no funds would be available for that purpose—even those that would normally be available for alternative job creation in a special development area, and that if a proposal came forward it would have to be subject to the approval of the BSC? Is the right hon. Gentleman aware that only two weeks ago the Prime Minister told the Welsh TUC that in her opinion Shotton had to close because the saving of Shotton would have adverse repercussions that would be unacceptable, in the Government's view, for the rest of the Corporation?

Mr. Edwards: My hon. Friend the Minister of State, Department of Industry made it clear yesterday that the Government would consider representations on their merits. My hon. Friend did not indicate that there would be a veto from the Corporation, although it is necessary to take into account overcapacity in the steel industry. It would be madness for any Government to fail to do so.

The right hon. Gentleman's suggestion was characteristically unconstructive. He

argued that any success that we may have from what he described as our rag-bag of measures will have an unfortunate effect on neighbouring areas. Presumably if we had put more money into Shotton the effect on neighbouring areas would have been even greater. I am not sure what the right hon. Gentleman is suggesting. He also referred to industrial development control. The high level of inquiries, interest and new companies coming to Wales suggests that what he is saying is completely untrue.

#### ~~WELSH AFFAIRS~~

*Ordered.*

That the matter of the Economy of Wales, being a matter relating exclusively to Wales, be referred to the Welsh Grand Committee for their consideration.—[Mr. Nicholas Edwards.]

#### ~~STATUTORY INSTRUMENTS, &c.~~

Mr. Speaker: By leave of the House, I shall put together the Questions on the four motions relating to statutory instruments.

*Ordered.*

That the Gas Hereditaments (Rateable Values) (Amendment) Order 1979 be referred to a Standing Committee on Statutory Instruments, &c.

That the draft Housing Corporation Advances (Increase of Limit) Order 1979 be referred to a Standing Committee on Statutory Instruments, &c.

That the draft Building Regulations (Northern Ireland) Order 1979 be referred to a Standing Committee on Statutory Instruments, &c.

That the draft Nursing Qualifications (EEC Recognition) Order 1979 be referred to a Standing Committee on Statutory Instruments, &c.—[Mr. Cope.]

EEC ASPECTS - Note by Department of IndustryCommunity Financial Assistance

1. The ECSC pays up to 50% of the cost of resettlement grants to redundant coal and steel workers within the terms of Article 56 of the Treaty of Paris. The UK Iron & Steel Employees' Readaptation Benefits Scheme (ISERES), which provides various types of weekly income support benefits to eligible steel workers (benefits take the form of make up of earnings in new employment, enhanced unemployment payments, retraining allowances and, for older workers, the option of commuting this to an early pension) takes full advantage of the ECSC aid available. In 1980, the UK expects to receive at least 21.5 MEUA (£14 million) of the 67 MEUA (£43.5 million) provided under this heading (coal and steel combined).
2. Under Articles 54 & 56 of the Treaty of Paris, ECSC loans, which may include an element of interest subsidy, can be made for modernisation projects in the steel and coal industries and for projects (re-conversion projects) in other industries that provide jobs for redundant steel and coal workers. These loans use money borrowed on the market by the Community but the interest subsidies are financed from the ECSC budget. In 1979 the estimated total of the interest subsidies to UK re-conversion projects was 11 MEUA (£7 million) or 40% of the Community total of 27.4 MEUA (£18 million). In 1980 the high proportion of such expenditure going to the UK is expected to be maintained. Although BSC is currently not receiving Article 54 investment loans, in 1979 the UK received an estimated 1.7 MEUA (£1 million) of interest subsidies on such loans out of the Community total of 19.6 MEUA (£13 million). The UK Government has an exchange risk cover scheme to encourage use of re-conversion loans which are additional to UK Regional Development Grants. The UK also benefits from Research Grants from the ECSC budget.
3. The ECSC budget is normally financed mainly by the Community levy on the steel and coal industries, but because of the heavy demands on it under Articles 54 & 56, member States, including the UK, made special ad hoc contributions

totalling 28 MEUA in both 1978 and 1979. A proposal for a further contribution in 1980 is under consideration in the Council framework.

CONFIDENTIAL

[We expect shortly to recommend to Ministers that a further contribution be made in 1980. The Commission has recommended that the total of the supplementary contributions be increased this year to 43 MEUA,\*but there are indications that some member States may oppose such a rise.]

4. It should be noted that the total expenditure throughout the Community under the ECSC budget in 1980 will be 188 MEUA or £122 million.

Proposed "Social Measures"

5. The proposed European social measures for the re-structuring of the steel industry may be mentioned in connection with European aid for the steel industry (particularly in view of Commissioner Vredeling's much publicised comments). The UK Government views them with misgiving. It thinks it would be counter-productive to subsidise jobs in order to put off inevitable redundancies. The resources could be better used for creating new jobs. Only Belgium, who have already implemented some of the measures, clearly supports the proposals which are still under discussion in the ECSC working group. The resources for the new measures have not been secured either; there are legal objections to their proposed funding from the EEC general budget. (See also attached briefing for PM's enquiries)

28 January 1980

\*monetary European unit of account

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CONFIDENTIAL

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28 January 1980

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PRIME MINISTER *Question Time*  
*Article in the Guardian*

Background Note

In an article in the 'Guardian' today Commissioner Vredeling has repeated his allegations that the UK is not using all the European resources available to its steel industry.

There is considerable surprise that no official or unofficial contacts established any complaint prior to Commissioner Vredeling's remarks to the European Parliament and the UK press.

General outlines of BSC's plans were quickly sent to the Commission (on 12 December) and we understand that officials in the Commission told the Commissioner about these. Applications for readaptation benefits for individual plants are submitted as soon as possible - recently the Commission allocated £7.7m for Shotton, and the allocation was signed by Commissioner Vredeling.

It is most likely that at the back of the Commissioner's remarks is the unenthusiastic reception given to his proposed 'social measures' involving early retirement and work-sharing in the steel industry. Commissioner Vredeling may be seeking to use the UK as a whipping boy because it considers work-sharing would be counter-productive. But other member states are equally opposed to the measures. We continue to seek details of Commissioner Vredeling's remarks.



## QUESTIONS AND ANSWERS

Q Has the Prime Minister seen Commissioner Vredeling's remarks about the UK not using available European aid and will she confirm them?

A In the absence of details of what Mr Vredeling is saying, it is difficult to ascertain what substance there may be in his assertions. For example, since 1973 there have been 100 applications from the UK under the Iron and Steel re-adaptation Benefit Scheme. One of the latest has been the application for Shotton where the Commission has already accepted that its contribution will be nearly £8 million. The Department of Industry informed Commission officials on 12 December of BSC's proposals for redundancies in 1980/81."





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# Run-down policy baffles Brussels

From John Palmer,  
European Editor in Brussels

The Government and the British Steel Corporation have been bitterly criticised by a Common Market Commission vice-president for their handling of the proposed closure of steel factories involving more than 50,000 redundancies.

The commissioner, Mr Henk Vredeling, who is responsible for social policy, said he was amazed that the Government was apparently trying to get rid of so many jobs so quickly.

Mr Vredeling also said that he could not understand why the British Government had still made no approach to the Commission for EEC financial help in handling the steel redundancies.

Generous sums were available in Brussels to help the British Steel Corporation and the Government to find the men alternative work and for retraining, he said.

"When I look at the 50,000 or so redundancies which the Government wants, as it were,

overnight I am fearful for the social consequences," Mr Vredeling said.

"The impact of these redundancies on some communities in Britain, such as South Wales, will be very serious. I cannot understand how one can attempt this as a social policy in 1980, and it is not my idea of social policy planning."

Speaking to the Guardian in his Brussels office, Mr Vredeling said he accepted that there had to be some run down of steel-making capacity involving loss of employment. But this should be phased over a much longer period than the Government appeared to be considering.

He drew attention to the commission's proposal for a special three-year fund to aid workers affected by steel rationalisation throughout the EEC.

Mr Vredeling's remarks are bound to be seized on by the leaders of the steel unions, who have always insisted that BSC can and should be helped

Turn to back page, col 7

Continued from page one  
financially to slow the speed of planned closures.

British Government officials here admit that the Government has not yet made formal application to the EEC social fund for help with the retraining and relocation of unemployed steel workers.

"The fact that we have asked for nothing as yet should not lead you to assume that applications will not be made," one commission official said.

Apart from the commission's concern about the social impact created by the speed with which the BSC is pursuing its closure plan, some officials here also believe that the pro-

posed cutbacks in steel-making capacity go further than is justified in terms of the steel outlook.

There is puzzlement in Brussels at the alleged reluctance of the British Government to discuss its detailed financial needs with those in the commission responsible for the steel industry.

This is contrasted with the attitude of the French, Belgian, and Luxembourg authorities, who kept the commission informed at every stage of their rationalisation measures.

One suspicion is that the British Government may not want to indicate what money is available in Brussels in order not to weaken the stand taken by BSC on the pay claim.

Guardian

Tuesday 29 January  
1980

## THE COAL INDUSTRY

Points to Make

(i) The Government is fully committed to securing an expanding and commercially viable coal industry. That is why we have sanctioned £600m investment this year with a similar sum for next. We are also making £255m grants available to the industry in this financial year with some £ m for next. The general outlook for the coal industry is good and will remain so for the rest of the decade provided that the industry keeps control of its costs.

(ii) But I accept that there are real problems for the coking coal industry especially in South Wales. This is not solely a result of the planned BSC closures. NCB coking coal is currently some £8/tonne above coking coal which BSC can import. There are also the problems of quality. The plain fact is that too often the geology is against us. In these circumstances it would be a mistake for the Government to try to prop up parts of the industry which are not viable in the longer term. The Government - that means the taxpayer - has not a limitless purse. We have already announced that we are making £834m available to the industry next year. A colossal sum. It would be wrong to hold out the prospect of any more. In these circumstances the NCB itself must decide how to allocate the available funds. It is their decision, but it would surely not be in the industry's longer term future if money was diverted from investment in the profitable parts of the industry.

(iii) If asked about the Government's financial strategy for the NCB: Mr Howell told the Coal Industry Tripartite meeting on 22 October that the Government thought it right for the industry to stand on its own feet and continued financial assistance would therefore be on a declining scale. Some of the financial limits for support set in the Coal Industry Act 1977 are now being reached and no doubt new legislation will be required. Any announcement necessary will be made in due course.

(iv) Department/Energy Ministers have already stated their willingness to consider special assistance for coking coal within the very large amount of money which the Government have already set aside for the coal industry and within existing ECSC rules and other guidelines. The NCB have already diverted some 4m tonnes of coking coal to power stations, primarily from the North East coalfields. It may be possible to switch some coking coal to other markets, with less loss of revenue than might have been expected.

(i) The NCB have not yet evaluated the full effect of the BSC's proposed closures, but after taking account of all possibilities of switching coking coal into different markets, they foresee being left with some 1m tonnes per annum, for which they have no obvious market. This would be bound to increase the number of pit closures, but the Board have not yet identified candidates. Because of the possibility of switching the output of pits or transferring coal to different markets, the pits which might be closed are not necessarily those in the past supplying BSC. [STRICTLY CONFIDENTIAL]: The only indication of the number of possible closures in South Wales is the NCB's local area Director's view that 8-10 pits might have to go.]

(ii) NCB areas most affected by a reduction in BSC coking coal demand would be Staffordshire (but nearly all the coal affected could be transferred to other markets), the North East, Kent and above all South Wales. South Wales is particularly affected because

a) As the Tripartite study made under the last Administration showed, the area faced formidable problems even before BSC closures were in prospect.

b) The area produces about 3.5m tonnes of coking coal (about 25 per cent of total NCB output) from 18 pits employing 14,500 men. There is no obvious outlet for this coal other than BSC - its low volatility prevents it from being burned in English power stations.

The press has reported the NCB's Area Director for South Wales as saying that the trimming of iron making in South Wales could threaten 21 pits out of 37 in the area, employing in total 14,000 men. The context suggests that this is the number of pits whose position would be reviewed; not all of them would be closed. A figure of a <sup>BSC</sup> loss of 14,000 jobs has also been quoted, but this would occur only if/ took no South Wales coking coal, which is scarcely credible.

(iii) BSC say that the new blast furnace at Redcar can only use 45 per cent from domestic sources of its total coking coal requirement (2½m tonnes per annum at full output). The BSC and the NCB

differ about the extent to which blends of British coking coals can be used in the new blast furnace and tests are still in progress to determine whether a high proportion of British coals can be used. BSC consider that they may have to have two years' experience before being able to give a definitive answer.

(iv) NCB coking coal is now selling at around £40/tonne as against an average imported price of around £32/tonne. Their coking coals are generally of a lower quality than imported coals, penalising BSC in terms of efficiency and output of steel. The cost of production of NCB coking coal in 1979-80 is as follows:

Coal Field	Total Cost per tonne	Average Loss per Tonne for purpose of assessing coking coal production subsidy
	£	£
Scottish	44.00	7.21
North East	50.27	12.67
Doncaster	33.75	1.55
Western	38.98	2.34
Kent	48.45	5.04
South Wales	51.28*	7.39

\* Cost of production range from £65/tonne to £45/tonne.

The table does not include those coalfields, ie other Yorkshire areas and Midlands, which do not make losses.

(v) Subsidies for coking coal given by other EEC States are:

a) Germany: subsidised to the extent of just under £14/tonne, selling at £30/tonne in Germany. In turn the German steel industry takes all its requirements from domestic sources. But NB German coking coal is of good quality <sup>the indemnity</sup> so is not disadvantaged from using domestic coal.

b) Belgium: similarly subsidised as in Germany, but the Belgium steel industry can import half its requirements.

c) France: not subsidised to any significant extent since coking coal from Lorraine is competitive. But the bulk of requirements is imported.

In all these cases the money for support comes not from EEC funds but from the Member States' own resources.

(v) Figures for coking coal supply and demand etc are attached.

(vi) Ministers have agreed to give NCB coking coal aid this year within existing grant limit amounting to £8.5m with effect from 1 January (ie no retrospection). The NCB do not yet know of this decision and it should therefore not be mentioned at the meeting. The TUC are seeking a further £55m next year, of which they suggest the NCB should find £15m within existing grants, with the remaining £18m being additional public expenditure.

(vii) There is no ready Community source of mechanism to enable the Community to provide production aid to the NCB for coking coal - the existing sales aid scheme, payable on delivery to places remote from the point of production is not relevant. A UK proposal for new provision would probably require us to contribute to the existing sales aid scheme <sup>from</sup> which we do not (cannot) benefit and which at present is financed only by the six founder States. If this happens the UK might find itself a net loser in financial terms from any new scheme. A request to the EEC from HMG for special coking coal aid could prejudice considerations of our much more important coal production investment proposals. Furthermore, the existing public expenditure controls would suggest that if the NCB gained more money from the EEC, the Board's cash limit would be reduce pro tanto so that it was not better off.

## COKING COAL SUPPLY AND DEMAND

ANNEX G (cont'd)

	1977-78	1978-79	1979-80	1980-81	1981-82
	(Actual)			(Estimated)	
Supply:					
Total NCB output	120.9	119.9	121	122	123
Of which to coke oven market	16.4	14.7	11	11 - 9	11 - 9
Demand:					
BSC coking coal requirements:					
NCB	9.37	8.53	7.80	7.2 - 5.0	-
Imports	1.12	1.62	2.80	3.3 - 5.5	-
<b>TOTAL</b>	<b>10.49</b>	<b>10.15</b>	<b>10.60</b>	<b>10.5</b>	<b>-</b>
*NSF	5.1	4.6	4	4	4

## COKING COAL BY SUPPLYING AREA

	1978-79 (Actual)	As % of Deep Mined Output of Area	1980-81 (Estimates)	BSC Import 3.3mt	BSC Import 5.5mt
Scottish	0.8	10	0.7	0.1	0.1
North East	1.3	10	1.0	0.1	0.1
Yorks/Midlands	3.0	4½	2.9	2.9	2.9
North West	0.4	10	0.3	0.3	0.3
Staffs	0.4	10	0.1	0.1	0.1
Kent	0.3	10	0.2	-	-
South Wales	2.3	35	2.0	1.5	1.5
<b>TOTAL</b>	<b>8.5</b>		<b>7.2</b>	<b>5.0</b>	<b>5.0</b>

## IMPORTS INTO SOUTH WALES

1977-78	1978-79	1979-80 (Estimate)	1980-81 (Estimate)
0.6	0.7	1.0*	1.7 <sup>±</sup>

\* Includes an additional 0.3m tonnes of US coking coal for Llanwern.

<sup>±</sup> Port Talbot may accept an additional 0.2m tonnes (of which about half would replace Staffordshire coking coals) (but more may be at risk) and Llanwern a further 0.3m tonnes which would displace South Wales coking coal.



CHANCELLOR OF THE EXCHEQUER

cc PS/Chief Secretary  
PS/Financial Secretary  
Sir Douglas Wass  
Mr Lyric  
Sir Kenneth Couzens  
Mr F Jones  
Mr Middleton  
Mr Jordan-Hoss  
Mr Hedley-Miller  
Mr Lavelle  
Mr Monck  
Mr Umwin  
Mr FER Butler  
Mr PG Davies  
Mr Patterson  
Mr Wicks  
Mrs Case  
Mr J Thompson

MEETING WITH TUC : SUPPLEMENTARY BRIEFING

The attached contingency brief for Thursday's meeting provides the answers you requested to the ISTC document which featured in the press earlier this month. It is mainly about BSC productivity and wages and is unlikely to be an issue with the TUC as such, although Mr Sims may of course raise these matters.

WJEN

W J E NORTON  
29 January 1980

ANSWERS TO ALLEGATIONS BY ISTE IN  
THEIR MEDIA BRIEFING DOCUMENT  
"THE TRUTH ABOUT THE STEEL STRIKE"

1. "16% improvement in productivity since 1975"

True, but productivity is still 13% below 1973 levels; and the productivity gap between UK and other EEC steel producers is widening. According to an NEDC report of December 1979, signed by Mr Sirs as a member of the Sector Working Party, on a comparable basis it takes BSC twice as many man hours to produce a tonne of steel as its major European competitors.

2. "BSC production manning at Scunthorpe steelmaking plant is only 75% of that at the Dutch plant, IJmuiden. BSC's labour costs per tonne are significantly lower".

Production manning may be only 75% of the Dutch level but maintenance manning is 20% higher and production at the Dutch plant is 45% higher; labour costs per tonne are lower because employment costs are half those in the Dutch plant, but labour output is much lower. Overall, the comparison is to our disadvantage.

3. "BSC are using figures for productivity that are prepared on a different basis from continental figures : if like is compared with like the UK productivity figure is 192 tonnes per man against the German 200".

NEDC do not recognise these figures. On a strictly comparable basis, BSC say that their workers produce 140 tonnes per annum, French workers 180 tonnes, and German workers 237 tonnes.

4. "Hourly labour costs for UK manual steelworkers are still the lowest in the EEC. The British steelworker has slipped in the earnings league table".

British pay is low, but so is British productivity. By national comparisons the average BSC worker is well paid: £110 per week compared with £104 for the average worker in manufacturing industry, and £101 for the average worker in the economy as a whole.

5. "No other group of workers has been asked to take such a dramatic cut in its standard of living. Pay rises of 13-20% have been gained in other parts of the public sector".

Mr Sims is thinking of coal. The two cases are not comparable: there is a strong demand for coal and NCB can sell all it produces, while steel is in surplus and BSC is uncompetitive. If the BSC productivity schemes are successful, their workers will get well above 12%, more than some public sector workers.

6. "BSC is trading at a profit"

Not true, unless you ignore depreciation and interest - and you can't, on any normal definition of "trading". Depreciation and interest taken together are much the same as BSC's European competitors'.

7. "If the Government were to subsidise coking coal to the same extent as other EEC Governments, BSC would save £135m a year, more than enough to pay the claim in full".

It is true that BSC have said that the cost penalty attached to exclusive use of NCB coal is £135m per annum. However the penalty is due not only to the price of NCB coal, but also to its inferior quality, which creates problems especially for BSC's big new blast furnace at Redcar: hence their recent decision to switch to imports for around half of their supplies. The NCB have now been told by the Government that they may subsidise coking coal provided they can find the money within their cash limit. It will then be a purely commercial decision for BSC where they buy their coking coal; but it is clear that any savings at issue in their choice of supplier for the marginal coal must be only a fraction of the £135m. [Further briefing on coking coal, from the NCB angle, is at Annex G to Mr Monck's brief.]

30 JAN 1960



RESTRICTED



*Inde Pel*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

28th January 1980

*MBM*

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*Der km,*

MEETING WITH TUC: THURSDAY 31st JANUARY  
2.45 P.M.

The TUC have now confirmed that the time we offered them in the Chancellor's letter of 25th January to Len Murray is acceptable. The Chancellor would be grateful if your Secretary of State and the Secretary of State for Employment could come. In the light of discussion in Cabinet, he has decided that, despite the subject matter, it would be better not to increase the size of the Ministerial team. All Ministers will, however, be supported by officials. We are already too many for the Chancellor's room, and are therefore content for Sir Keith and Mr. Prior to bring two each. It would also be helpful to have one official each from the Welsh Office and the Department of Energy. We have fixed a preliminary briefing meeting for 4.30 p.m. on Wednesday in the Chancellor's room at the Treasury. Our officials are in touch on the preparation of briefing for all the Ministers.

I understand from David Lea that the TUC side will comprise the following:- Len Murray, Frank Chappell, Bill Sirs, David Bassett, Moss Evans, Joe Gormley, Gavin Laird, Hector Smith, plus David Lea himself and possibly Bill Callaghan.

I am copying this letter to Ian Fair, Bill Burroughs and George Craig, and to Tim Lankester and David Wright for information.

*Yours sincerely,*  
*ME*  
(M.A. HALL)

Ian Ellison, Esq.

29 JAN 1960



CONFIDENTIAL

Ind Pol



*Ami*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

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2570

28 January 1980

*Ind*

Thank you for your letter of 23rd January, in which you said that the General Council had decided that their Nationalised Industry Committee should seek a meeting with the Secretaries of State for Industry and Employment and me. I am sure we are agreed that the meeting would not be concerned with the current pay dispute in steel, but with wider questions to do with financial problems affecting nationalised industries; these include the financial basis of these industries in other countries belonging to the European Coal & Steel Community and the possible role of EEC finance in relation to the problems involved, including NCB sales of coking-coal to the BSC.

I agree that it would be useful to exchange views at such a meeting. I understand that 2.45 p.m. on Thursday, 31st January is convenient to Keith Joseph and Jim Prior, and should be very happy to offer that time. If your Committee cannot manage it, I fear the meeting may have to slip into the following week, as I know Keith is abroad on the Friday, and the earlier part of the week is very crowded.

*Howe*

(GEOFFREY HOWE)

The Rt. Hon. Lionel Murray, OBE

25 JAN 1980





# TRADES UNION CONGRESS

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Telegrams TRADUNIC LONDON WCI

hd fl

CHANCELLOR	
REC.	23 JAN 1980
RECEIVED	MR. MONCK
COMS	MR. JORDAN - Mrs
YOUR REFERENCE	Mrs. HEDLEY - Mrs
OUR REFERENCE	Mr. WICKS.
LM/DL/MV	MR. TOWFORD
DEPARTMENT	

January 23 1980

YOUR REFERENCE

OUR REFERENCE

LM/DL/MV

DEPARTMENT

Secretary's

The Rt Hon Sir Geoffrey Howe QC MP  
 Chancellor of the Exchequer  
 Treasury  
 Parliament Street  
 London SW1P 3HE

PS / INDUSTRY  
 PS / EMPLOYMENT  
 PS / CST  
 PS / PST  
 SIR D. WASS  
 MR. RYRIE  
 SIR K. COUZENS  
 MR. F. JONES

Dear Sir Geoffrey

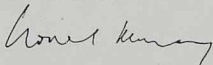
The TUC General Council today endorsed the statements on steel closures and coking coal drawn up by the TUC Steel Committee and TUC Nationalised Industries Committee. These are attached.

The General Council decided that their Nationalised Industries Committee should seek a meeting with you and the Secretary of State for Industry and the Secretary of State for Employment on the financial problems affecting nationalised industries, with special reference to the financial basis of the BSC's operations, and in particular the financing of an arrangement to stem the rise in the imports of coking coal by the BSC at the expense of output by the NCB.

Among other matters the Committee would like to discuss with you are the EEC aspects of both issues, including the financial basis of these industries in other countries belonging to the European Coal and Steel Community and the possible role of EEC finance in helping to deal with the difficult problems involved.

I hope that it will be possible to arrange an early meeting to discuss these issues.

Yours sincerely



General Secretary

## THE STEEL INDUSTRY

1 On December 10, the BSC Board announced that they intended to reduce "quickly" their current manned liquid steel producing capacity from 21.6 to 15 mtpa, and the workforce from some 150,000 to 100,000. This would be done by closures and de-manning at on-going works. Some of the works closures entailed have already been agreed, amongst them those at Shotton, Corby and Cleveland. However, further massive closures lie ahead in early 1980 under these proposals.

2 With the closures completed, BSC would load the lowest cost works to the maximum. Social employment considerations will play no part in these decisions. The Corporation take the view that they are discharging any obligations which they may have under that heading through the work of their job-seeking subsidiary, BSC (Industry) Limited.

3 The Government have, ostensibly, contracted out of the situation, declaring that the Corporation's problems are no concern of theirs, while in reality they have created the problem and are perpetuating it by their policies. They say that they accept that the social-employment consequences which will follow from the Corporation's actions are a Government responsibility. But they give no real indication that they intend to

discharge it or, indeed, are capable of doing so.

4 Turning to the proposals themselves, it is clear that BSC regard their three most competitive complexes as being Ravenscraig, South Teesside and Sheffield. These will therefore escape further major closures, and the level of steelmaking and rolling would be built up during 1980-81. Scunthorpe, Port Talbot and Llanwern, however, are proposed for major cutbacks. Outside the complexes, Consett, in North East England, and Hallside, in Scotland, are both proposed for completed closure, before September 1980. New investment would continue in concast equipment at both Port Talbot and Normanby Park.

5 The Government and BSC are both aware that the Steel Committee are opposed to the closure proposals. The Committee have put forward, in general terms, alternative proposals to both parties. These were contained in a statement which they discussed with the Industry Secretary on December 13. They were to the effect that there should be tripartite discussions, involving representatives of the Government, BSC and the Committee, to resolve BSC's problems by agreement.

The Committee asked BSC to support this approach. Regrettably, the Government specifically rejected the idea and BSC refused to support it. The Committee also proposed that, within the context created by these discussions, bilateral negotiations should be held between the Committee and BSC about steps which both parties could take, separately or jointly, to improve efficiency, against an agreed timetable.

6 The Committee remain of the view that the proposals set out in their December statement remain the best way of tackling the present structural problems in the steel industry. Only a reconsideration by Government and BSC of their dogmatic policies will prevent irreparable damage being done to the industry.

7 Under the terms of the Steel Act the unions have not been fully consulted regarding the details of the proposals being put forward by the Corporation and we demand a suspension of the proposals until they have been fully discussed. Moreover, the Government have in no way been prepared to accept the responsibility for the devastating social and regional consequence of its abrogation of responsibility. We do not believe that the British people would in any way support this policy if they were given a full account of these consequences. There is not much time left for a change of course.

8 The Committee take the view that discussions should start at the earliest possible moment, with the objective of maintaining both Port Talbot and Llanwern as integrated works, and retain Consett on a similar basis, taking into account the social and employment effects of closure proposals (eg, on the coalmining industry and local authorities).

9 The Steel Committee are prepared to meet representatives of the Government or BSC, or both, at any time to discuss these proposals. This, along with the proposals being considered on the issue of coal imports, constitutes a continuing agenda of discussion on which the TUC, through the Nationalised Industries Committee and the Steel Committee, are fully involved. We therefore recommend to the General Council that these matters continue to be pursued as a matter of urgency, at TUC level, recognising the most serious industrial consequences which would follow if the TUC General Council did not consider the talks led to any reasonable accommodation being reached.

-----

January 10 1980

## COOKING COAL AND STEEL

### Points of Agreement

- (i) In many areas the NCB can supply BSC with coking coal of the quality it requires.
- (ii) There may however, according to the BSC, be problems about the quality of coal needed for the Redcar furnace and this is the subject of continuing discussion and investigation between the BSC and the NCB.
- (iii) Because the price of coking coal from some overseas sources is below the price of coal produced by the NCB, the BSC states that it is obliged to increase its imports of coal; if however BSC exercises its options to increase its imports there will be catastrophic implications for the mining industry in South Wales, with severe knock-on effects for other industries and local services.
- (iv) As a long-term objective there should be alignment of the cost to BSC, taking account of the value in use, of imported and domestic coking coal. This will require Government or EEC assistance to the coal industry as is the practice in some of those European countries which are our main steel making competitors.
- (v) The details of such a scheme will require attention. To provide a breathing space the NCB and the BSC should be willing to agree on a scheme for 1980 which will enable BSC not to increase its imports in 1980. The minimum cost of this will be £33 million of which £15 million will be provided by the NCB. The remaining £18 million should be part of general public expenditure.
- (vi) All parties should approach the Government to grant the £18 million subvention from UK or EEC sources with a view to working out a more long-term scheme.

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January 10 1960



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

23rd January 1980

*Dr Ti,*

*to lead  
seem.*

INDUSTRIAL PROBLEMS IN SOUTH WALES

Further to my letter of earlier this morning, I should now report that David Lea of the TUC telephoned a few minutes ago to say that the TUC would indeed be seeking a meeting with the Chancellor to discuss various financial issues related to steel and coal. The request would be announced to the press at the end of the meeting of the General Council this morning.

I am copying this letter to Ian Ellison, Ian Fair and George Craig.

*Yours,*

*M.A.*

(M.A. HALL)

T. Lankester, Esq.,  
No.10, Downing Street

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

23rd January 1980

*Dear Tim,*

INDUSTRIAL PROBLEMS IN SOUTH WALES

Mr. Len Murray telephoned the Chancellor early this morning, to warn him of pressures likely to come to a head at this morning's meeting of the General Council in connection with the complex of problems arising in South Wales. He was not seeking an immediate response from the Chancellor; but thought it would be helpful to warn him in advance.

Mr. Murray said his main objective at General Council would be to try to avert next Monday's day of action proposed by the Welsh miners, and to cool down the Welsh as far as possible. An important strand in achieving this objective was to keep the issues - notably steel closures, coking coal, and steel pay - as far as possible separate. He emphasised that he was not telephoning the Chancellor about the steel strike.

The Welsh TUC, and to a greater extent the TUC's own Nationalised Industries Committee had so far been a restraining force on the Welsh miners. It was important to avoid using steel pay as a trigger for more generalised industrial action. There were strong voices on the General Council in favour of a day of action next Monday as a means of allowing the Welsh militants to let off steam. He himself could not accept this point of view; he said that the effect may simply be to give the militants a "taste of blood". He was worried that generalised action might be more difficult to control, once the technique had been tried.

Some of his colleagues favoured a request from the TUC to see the Prime Minister to discuss steel closures. He saw no point in this, and thought it would be much more useful to seek a meeting with the Chancellor, and possibly other Cabinet colleagues, such as the Secretary of State for Industry, and possibly the Secretary of State for Employment, to discuss a broader range of financial problems, focusing on,

/but not

T. Lankester, Esq.





but not confined to, the steel industry - perhaps touching on EEC aspects. He was thinking of suggesting such a meeting, in the hope that it would avert next Monday's day of action (though he was not over-optimistic that this objective would be achieved). Some of his colleagues - he named specifically Sidney Weighell and Joe Gormley - were coming under great pressures to take more militant action. He would like to involve them in such a meeting. It was very important to drive home to the Welsh that their own difficulties were part of much wider national problems.

The Chancellor said he would need time to give a considered reaction to Mr. Murray's suggestion. He thanked Mr. Murray for telephoning, and said he would await the outcome of the meeting of the General Council with interest.

The Chancellor's impression was that Murray really is under a great deal of pressure. He sounded distinctly worried on the telephone. The Chancellor's preliminary view is that it might well be worth agreeing to such a request if it comes; but clearly Ministers' response will depend very much on the terms and context of any proposal for a meeting. I doubt therefore whether there is any point in treating this letter as anything more than for information at this stage.

I am sending copies of this letter to Ian Ellison, Ian Fair, and George Craig.

*L aw,*

*ME*

(M.A. HALL)

23 JAN 1960

