

PREM 19/308

Part 3

Confidential Filing

The Steel Industry.

NATIONALISED

INDUSTRIES

Part 1 : June 1979

Part 3 : January 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
8.1.80							
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PREM 19/308

PART

3

ends:-

Silkin

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22.1.80

PART

4

begins:-

Hansard

22.1.80

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

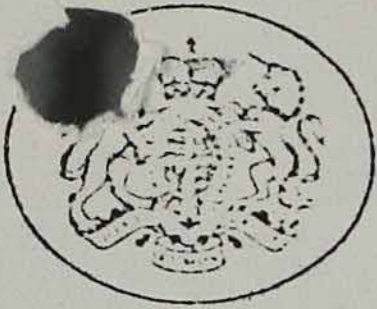
House of Commons Hansard 14/01/80
Steel Industry Columns 1208-1221

Iron and Steel SWP Progress Report 1980
National Economic Development Council
(ISBN 0 7292)

Signed Wayland Date 29 July 2010

PREM Records Team

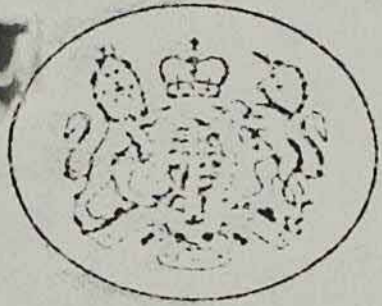
Nat Ind.



Mr John Silkin (by private notice) to ask the Secretary of State for Industry to make a statement on the results of the discussions the Government has had with the trade unions and the Chairman of the BSC.

The Secretary of State for Employment and I met Mr Sirs and Mr Smith on Saturday. Together with the Secretary of State for Employment and myself, the Prime Minister saw trade union leaders and BSC management at separate meetings yesterday.

The Government welcomed the meetings which allowed those concerned to explain their views to Ministers. All concerned clearly understood that Ministers were in no way involving themselves in negotiation - and Ministers emphasised that there was no taxpayers' money available to fund a settlement. ACAS continue their contacts to see whether they can help.



BACKGROUND NOTE

1 The Secretary of State and the Secretary of State for Employment saw Mr Sirs (ISTC) and Mr Hector Smith (NUB) on Saturday morning, 19 January.

2 The Prime Minister, accompanied by the Secretary of State and the Secretary of State for Employment, had separate meetings yesterday (21 January) with Mr Sirs and Mr Smith, and with Sir Charles Villiers and Mr Scholey of the BSC.

IS1

22 January 1980

ACTION THAT CAN BE TAKEN BY ACAS IN INDUSTRIAL DISPUTES

- 1. Collective conciliation: Section 2 of the Employment Protection Act allows for ACAS to conciliate between parties if either both or one request them to do so or if they feel it will help the situation.

- 2. Independent Arbitration: Section 3 of the EP Act allows for ACAS to arrange Independent Arbitration, subject to the consent of all the parties involved. The arbitration can be by one or more persons depending on the circumstances.

- 3. Independent Mediation: ACAS can arrange for the appointment of Independent Mediator(s) with a view to assisting the parties to reach a settlement. Again the agreement of all parties is required.

- 4. Committee of Inquiry: ACAS can, under Section 5 of the EP Act, set a committee of inquiry to look into a dispute. The findings of the committee are not binding on the parties, but they must be consulted and their views taken account of.

PART I

MACHINERY FOR PROMOTING THE IMPROVEMENT OF
INDUSTRIAL RELATIONS*Advisory, Conciliation and Arbitration Service, etc.*

Advisory,
Conciliation
and
Arbitration
Service.

1.—(1) There shall be a body to be known as the Advisory, Conciliation and Arbitration Service, in this Act referred to as "the Service".

(2) The Service shall be charged with the general duty of promoting the improvement of industrial relations, and in particular of encouraging the extension of collective bargaining and the development and, where necessary, reform of collective bargaining machinery.

(3) The provisions (so far as applicable) of Parts I and III of Schedule 1 to this Act shall have effect with respect to the Service.

Conciliation

2.—(1) Where a trade dispute exists or is apprehended the Service may, at the request of one or more parties to the dispute or otherwise, offer the parties to the dispute its assistance with a view to bringing about a settlement.

(2) The assistance offered by the Service may be by way of conciliation or by other means, and may include the appointment of a person other than an officer or servant of the Service to offer assistance to the parties to the dispute with a view to bringing about a settlement.

(3) In exercising its functions under subsection (1) above, the Service shall have regard to the desirability of encouraging the parties to a dispute to use any appropriate agreed procedures for negotiation or the settlement of disputes.

(4) The Service shall designate officers of the Service to perform the functions of conciliation officers under any enactment (including any provision of this Act or any Act passed after this Act) in respect of matters which are or could be the subject of proceedings before an industrial tribunal, and accordingly any reference in any such enactment to a conciliation officer is a reference to an officer designated under this subsection.

Arbitration.

3.—(1) Where a trade dispute exists or is apprehended the Service may, at the request of one or more parties to the dispute and with the consent of all the parties to the dispute, refer all or any of the matters to which the dispute relates for settlement to the arbitration of—

- (a) one or more persons appointed by the Service for that purpose (not being an officer or servant of the Service);
or

(b) the Central
section 10

(2) In exercising Service shall consider by conciliation and procedures for negotiation refer a matter for settlement unless those procedures in a settlement or unless special reason which as an alternative to

(3) Where in any under subsection (1) the arbitrators to act

(4) An award by (1)(a) above may be the parties consent.

(5) Part I of the arbitration under the

(6) In the application of an arbitrator shall

4.—(1) The Service shall, in accordance with the provisions, workers and appropriate on any matters employment policies

- (a) the organisation of collective
(b) the recognition
(c) machinery of employment
(d) procedures workers' groups
(e) questions relating to and workers
(f) facilities for
(g) procedures
(h) disciplinary
(i) manpower planning
(j) recruitment, of workers
(k) payment systems pay.

(b) the Central Arbitration Committee constituted under section 10 below.

PART I

(2) In exercising its functions under subsection (1) above, the Service shall consider the likelihood of the dispute being settled by conciliation and, where there exist appropriate agreed procedures for negotiation or the settlement of disputes, shall not refer a matter for settlement to arbitration under that subsection unless those procedures have been used and have failed to result in a settlement or unless, in the opinion of the Service, there is a special reason which justifies arbitration under that subsection as an alternative to those procedures.

(3) Where in any case more than one arbitrator is appointed under subsection (1)(a) above the Service shall appoint one of the arbitrators to act as chairman.

(4) An award by an arbitrator appointed under subsection (1)(a) above may be published if the Service so decides and all the parties consent.

(5) Part I of the Arbitration Act 1950 shall not apply to an arbitration under this section.

(6) In the application of this section to Scotland, references to an arbitrator shall be construed as references to an arbiter.

4.—(1) The Service shall, if it thinks fit, on request or otherwise, provide, without charge, to employers, employers' associations, workers and trade unions such advice as it thinks appropriate on any matter concerned with industrial relations or employment policies, including the following—

- (a) the organisation of workers or employers for the purpose of collective bargaining ;
- (b) the recognition of trade unions by employers ;
- (c) machinery for the negotiation of terms and conditions of employment, and for joint consultation ;
- (d) procedures for avoiding and settling disputes and workers' grievances ;
- (e) questions relating to communication between employers and workers ;
- (f) facilities for officials of trade unions ;
- (g) procedures relating to the termination of employment ;
- (h) disciplinary matters ;
- (i) manpower planning, labour turnover and absenteeism ;
- (j) recruitment, retention, promotion and vocational training of workers ;
- (k) payment systems, including job evaluation and equal pay.

PART I

(2) The Service may publish general advice on any matter concerned with industrial relations or employment policies, including any of the matters referred to in paragraphs (a) to (k) of subsection (1) above.

Inquiry.

5.—(1) The Service may, if it thinks fit, inquire into any question relating to industrial relations generally or to industrial relations in any particular industry or in any particular undertaking or part of an undertaking.

(2) The findings of any inquiry under this section, together with any advice given by the Service in connection with those findings, may be published by the Service if—

(a) it appears to the Service that publication is desirable for the improvement of industrial relations, either generally or in relation to the specific question inquired into; and

(b) after sending a draft of the findings to, and taking into account the views of, all the parties appearing to the Service to be concerned, the Service thinks fit.

Codes of Practice.

6.—(1) The Service may issue Codes of Practice containing such practical guidance as the Service thinks fit for the purpose of promoting the improvement of industrial relations.

(2) Without prejudice to the generality of subsection (1) above, the Service shall, in one or more Codes of Practice, provide practical guidance on the following matters in relation to the application of the following provisions of this Act, that is to say—

(a) the disclosure of information, in accordance with sections 17 and 18 below, by employers to trade union representatives for the purpose of collective bargaining;

(b) the time off to be permitted by an employer—

(i) to a trade union official in accordance with section 57 below; and

(ii) to a trade union member in accordance with section 58 below.

(3) When the Service proposes to issue a Code of Practice, it shall prepare and publish a draft of that Code, shall consider any representations made to it about the draft and may modify the draft accordingly.

(4) If the Service determines to proceed with the draft, it shall transmit the draft to the Secretary of State who shall—

(a) if he approves of it, lay it before both Houses of Parliament; and

(b) if he does not approve of it, publish details of his reasons for withholding approval.

(5) In the case of a draft of practical guidance on the matter mentioned in subsection (2) above, the Secretary of State shall lay the draft before each House of Parliament in the form of the draft on such day as the Secretary of State thinks fit.

(6) In the case of a draft of practical guidance, if the Secretary of State does not lay the draft before either House of Parliament, he shall lay it before the House of Parliament with the later of the two Houses, and the further proceedings shall be taken in relation to the laying before of the draft.

(7) In reckoning the time for the purposes of subsection (6) above, no day on which Parliament is adjourned shall be counted as a day on which the Houses are adjourned.

(8) If no such resolution is passed by either House of Parliament, the Secretary of State may, after consulting the Service, withdraw the draft and the Code of Practice.

(9) Without prejudice to the generality of subsection (5) or subsection (6) above, the Secretary of State may, if he thinks fit, make such amendments to the draft as he thinks fit, and such amendments may be necessary or expedient for the purpose of giving effect to the Code of Practice thereby brought into effect.

(10) The Service may, if it thinks fit, revise any part of a Code of Practice, and the revised Code, and any amendments made to it (with appropriate modifications), shall apply to the first issue of the Code of Practice.

(11) A failure on the part of the Service to comply with any provision of a Code of Practice shall not be a ground for any proceedings; but if the Service fails to issue a Code of Practice issued under this section, or if any provision of a Code of Practice is not brought into effect, the Secretary of State or a Committee to be appointed by him for the purpose shall be liable to a question.

7.—(1) The Secretary of State may, if he thinks fit, appoint an Officer of the Service, and may terminate the appointment of an Officer.

With Compliments

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Chairman's Office
22/1/80

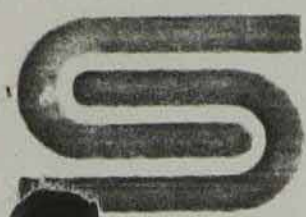
A handwritten signature in black ink, appearing to be 'M. S.', written in a cursive style.

British Steel Corporation

Head Office

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Head Office

Grosvenor Place

Prime Minister

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To glance

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From
Dept.
Office No.
Tel. Ext.
File Ref.

G. H. SAMBROOK

To
Dept.

CHAIRMAN
MR. R. SCHOLEY
MR. F. HOLLOWAY

R

W/

7 401

Date

22nd January, 1980.

Subject

Meeting with C.B.I. - Monday, 21st January

(CBI)

The meeting was chaired by Mr. Brian Rigby in the absence of Sir John Methven and again there was a full turn out. Items of interest are:

(1) Brian Rigby opened the meeting by saying that he met during the day with Director Generals of all the Trade Associations and Employers' Organisations affiliated to the C.B.I. There was "a complete lack of pressure asking B.S.C. to settle the dispute quickly" unless a satisfactory agreement can be negotiated. Rigby said this was the case even though some customers of B.S.C. were afraid that they were beginning to lose orders. He reported that the same reaction was coming in from all the C.B.I. regions and there were no exceptions. This general attitude was confirmed by everyone present at the meeting and therefore is, to a small extent, in conflict with the sort of thing Sir John Methven was saying during his meeting with the Chairman yesterday.

ie. private sector position

(2) Alec Mortimer reported on the BISPA position and handed out a press release, a copy of which I am attaching to this note. He said that the I.S.T.C. is being given one more chance to consider its position after which BISPA will seek "recourse to further actions" which he left undefined. BISPA have rejected an I.S.T.C. request that they should put pressure on both Government and B.S.C. to find a settlement to the strike. I formed the impression that we shall hear more from BISPA during the latter half of this week. Alec explained that the decision not to load out from BISPA works was taken by I.S.T.C. Regional Officers and not by Bill Sirs. He claimed that the majority of BISPA members were still producing although not all were despatching to customers.

continued....

National
association of
steel stockholders

(3) NASS reported that the situation had not changed from last week and stockholders were still delivering to customers at higher than the normal rate. Scotland is the area most affected by picketing but the North East is becoming a little easier.

Iron and Steel
Consumers Council

(4) John Safford reported that 3 - 5 weeks of steel stock was still reported as available to most of his members although there were major hold up problems, example, Metal Box at Neath where although I.S.T.C. pickets had been withdrawn the T. & G. pickets had not.

(5) John Porter for the E.E.F. confirmed the position amongst his members was no worse than a week ago, in fact, they now seemed more confident about their ability to keep going for a further 6/8 weeks. He suggested that some had even managed to keep up their stock levels but they would obviously be affected adversely by both secondary picketing and the BISPA close-down. He commented that reports from E.E.F. members showed them to be "surprisingly unaffected and unworried".

(6) The Road Haulage Association representative reported a picture much as a week ago but with drivers showing more willingness to cross picket lines - no doubt reflecting a wish to protect their own livelihoods.

(7) British Rail said they were still moving a small tonnage of steel and there was no sign that the N.U.R. had responded strongly to the recent I.S.T.C. request not to move any more steel.

(8) The Port Employers' representative reported that not much steel was arriving but only Manchester amongst the major ports was reporting steel congestion at its wharfs. There is no sign however that much steel is leaving the docks and only the roll on roll off ports are really handling steel at this time.

(9) Brian Rigby summarised the meeting as follows:

(a) Pressure certainly no higher than a week ago and there seems a good deal of support for B.S.C. holding out for what management consider to be a satisfactory settlement.

- (b) They look to a more aggressive response from BISPA members during the latter part of this week.
- (c) The C.B.I. will continue to play a low-key role although will "leak" the news to the press that generally speaking steel users still have good stocks to work at.
- (d) He drew attention to the enormous amount of publicity now being put out by the I.S.T.C. and N.U.B. and asked B.S.C. to consider whether it was really doing sufficient to counter this barrage.
- (e) There will be a further meeting next Monday.

A. L. W.
pp G. H. S.

BISPA

The British Independent Steel Producers Association

5 Cromwell Road · London SW7 2HX

Telephone: 01-581 0231

Telegrams: Bispalon London SW7
Telex: 262134

21st January, 1980.

STEEL STRIKE: PRESS RELEASE

Mr. John Paterson, President of The British Independent Steel Producers Association said today:

BISPA member companies are deeply angry at the decision of the steelworkers' union, the Iron and Steel Trades Confederation, to call for a strike of their members in the private steel sector from 27th January. Immediately attempts were made to impose a ban on the movement of steel to and from their works.

The private sector companies are not in dispute with their employees; they have entirely separate bargaining arrangements from the British Steel Corporation.

We were belatedly informed by the union of the strike call. The union admits the breach of procedures and agrees that it has no dispute with private sector companies. It says that the call was made "because of the political intervention".

At once local union officials attempted to halt independent works by issuing instruction to ISTC members not to load or unload steel.

As we told the ISTC beforehand, jobs will be lost for ever if there is a strike. Let it be clear that the currently profitable companies in the UK steel industry are unsubsidized and that if they sustain prolonged losses must close their plants. The main beneficiaries would be the foreign producers with whom the private companies successfully compete.

All this is a political move by representatives of the British Steel Corporation employees to exploit for their own purposes the loyalty of their independent sector colleagues. Official ISTC disregard for the interests of these colleagues is callous and cynical. It will undermine the good relations constructed over years by private sector employers and employees and is apparently contrary to the advice of the union's general secretary.

Our member companies are aware of the dilemma their employees face. Divided loyalties, the prospect of lost jobs and future bitterness stare them in the face. Management is determined to provide facilities for work to continue for as long as

Contd.

possible, but the resolution of the dilemma lies in the hands of the union. Times are hard enough in the European steel industry without these misguided irresponsible pressures on the UK independents.

The union has the arrogance to suggest that we protest to the government. Our protest is to the union against its shortsightedness and lack of regard for the welfare of our employees. Let it reconsider immediately.

~~_____~~

Enquiries to Mr. Selwyn Williams: Tel. Nos. 01 581 0231
04912 4883

NOTE FOR EDITORS

The British Independent Steel Producers Association has over one hundred member companies - virtually the whole of the private sector of the UK steel industry. These independent companies operate without subsidy and compete in the UK, European and world markets over a wide range of steel products.

Private steelmakers account for about 17½% of Britain's crude steel production. The contribution of re-rollers and further processors in the membership brings the independent sector's UK market share of semi-finished and finished steel products to about 25% - a figure maintained during recent years against strong import competition.

There is competition with the British Steel Corporation over part of the product range - for example, billets, hot rolled bars, rods and sections. There are also products where the private sector does not make products competitive with BSC, for example, sheet and tinplate; and there are also areas where it makes virtually all the UK production, like high speed and tool steels and bright bars.

The private sector is also both a customer of and supplier to the BSC.

Exports of private producers account for about 15% of their total sales.

Total annual turnover of BISPA companies is in the region of £1,500 million. Despite the harsh market conditions of the last five years, profitability overall has been preserved.

There are nearly 20,000 Iron and Steel Trades Confederation members employed in at least fifty of BISPA's member companies. Other unions recognized include the National Craftsmen's Co-ordinating Committee, representing nine craft unions, and TGWU and G&MWU. Total work force in the independent sector is approximately 60,000.

There are no members of the National Union of Blastfurnacemen whose Executive Council joined in the strike call, employed in the private sector.

Pay and other negotiations with ISTC and its members are conducted at company level and through three employers' organizations with whom ISTC has procedure agreements. None of these three employers' organizations is in dispute with ISTC.

The Director General of BISPA, Mr. A. H. Mortimer, and the Independent Steel Employers Association, one of the employers' organizations involved, sent telegrams to Mr. W. Sirs, general secretary of ISTC on 15th January 1980. Mr. Sirs replied in a letter dated 17th January 1980. A copy of each of these communications is attached.

21st January, 1980.

COPY OF TELEGRAM SENT BY MR. A.H. MORTIMER, BISPA, TO
MR. W. SIRS, ISTC AND COPIED TO MR. L. MURRAY, TUC, ON
15TH JANUARY 1980

It is reported that union consideration is being given to intensifying secondary action against the operation of independent steel producers, even to a strike call to employees who have no dispute with their employers.

Such action would be contrary to the wishes of the clear majority of the thousands of work people in these companies.

Such a strike would not only be against proper practice, it would also gravely imperil the viability of independent steel producers and the job opportunities they offer.

The future viability of these companies depends today on continued normal working. They do not wish to take advantage of the current situation, only to hold their hard won positions in a harsh financial climate, and tough European trading conditions.

If they are prevented from operating normally, some will close their doors permanently.

Make no mistake, most of the lost production would soon be taken up by foreign producers.

You have often said that it is the unions' policy not to impede normal operation of independent steelworks.

Unless this policy is confirmed and maintained, many vital jobs will be lost - and lost forever.

COPY OF TELEGRAM SENT BY MR. K. HALE, INDEPENDENT STEEL
EMPLOYERS ASSOCIATION, TO MR. W. SIRS, ISTC, ON 15TH JANUARY 1980

The Association notes with dismay reports that ISTC public sector membership is asking ISTC private sector membership to withdraw labour in support of the dispute with BSC.

ISEA members have no dispute with their employees and deplore that this suggestion is even considered. Please confirm that ISTC will observe the procedure agreement at all times. Closure of works due to strike action will lead to permanent loss of jobs.

TEXT OF LETTER DATED 17TH JANUARY 1980 FROM MR. W. SIRS, ISTC
TO MR. K. HALE, INDEPENDENT STEEL EMPLOYERS ASSOCIATION

"I refer to your telegram and that of Mr. Alec Mortimer received yesterday. These telegrams were read to the members of my Executive Council who, after a full and detailed discussion on the position of the Steel Strike with the Corporation, and whilst agreeing that there is no dispute with any independent steel employer, were firmly of the opinion that this dispute is becoming politically stage-managed by the Conservative Government.

We feel that with not being made an offer of any new money, that we are being singled out for a direct Government and British Steel Corporation attack.

It is because of the political intervention that my Executive Council feel that we should now take the action of involving the private sector in the public battle against the Government attitude. Therefore a recommendation will be confirmed next which states as follows:-

"That in the event of the dispute with the British Steel Corporation not being settled by Saturday, 26th January, 1980 instructions are being given to all of our members in the private steel industry to withdraw their labour."

I recognise the fact that our procedure agreements do exist and we do not have a dispute with you, nevertheless these points have been made to our Executive, who have ultimately taken this decision. I did manage to extend the period of time before the action will be taken. This will give us the opportunity to try and resolve the dispute.

I would suggest that it could be very helpful if you and all of your affiliated organisations could write to the Government complaining about their role in this matter which leaves a lot to be desired. Perhaps also pressures upon the Corporation to settle the issue would be helpful now not only to the B.S.C. but to the private sector. "



77 JAN 1980



PA

MS

BRITISH STEEL CORPORATION
ARBITRATION AGREEMENTS

1. ISTC

ISTC have had procedural agreements with BSC on disagreements etc covering their "staff" members (24,000) since 1969 but not with their manual members (55,000).

Under the agreements either side can seek arbitration if it is seeking resolution of a disagreement and the arbitration awards are binding. The format and membership of arbitration has to be agreed between the two parties, or in the case of disagreement by the Department of Employment (in practice a request from one party would lead to ACAS approaching the other for agreement to proceed). The arbitration award being binding. Any claim for arbitration for the manual workers could therefore be resisted but "custom and practice" would be against. In any case, it would be difficult for BSC to accept arbitration for one part of ISTC (staff) but not the other (industrial grades).

2. NUB have had an agreement since 1946, made originally between the Employers Association and the union but taken over by the Corporation. Either side can request disagreement be considered by a "National Joint Conference". In the absence of agreement there the "matter shall be referred to arbitration". Both parties agree to abide by "Settlements or Awards".

3.0 NCCC have had an agreement since 1958 originally between Employers Association and the unions but taken over by the Corporation.



Arbitration can only be sought if the two sides agree but is then binding.

4. Present Position

Mr Sirs (ISTC) has said so far that he is not interested in arbitration. None of the other unions have mentioned it.

IS3
January 1980



BRITISH STEEL CORPORATION: THE MAKE UP OF THE £450 MILLION CASH LIMIT FOR 1980/81

The Secretary of State fixed the cash limit for BSC at £450 million in June 1979 although it was not publicly announced until November. However, the Secretary of State told Parliament on 3 July 1979 that he intended the cash limit to cover fixed investment, working capital and other capital needs (by which he meant redundancies) but that it was not intended to cover operating losses. After the cash limit is fixed, BSC can switch spending between fixed capital, working capital and redundancies at their discretion but cannot use the money for covering operating losses. As their financial prospects have changed over the year, BSC have changed the proposed allocation of finance between the various headings as shown below. The September figures were the latest available when the White Paper on Public Expenditure was being prepared.

for 1980-81

£ million

BSC: Estimated External Finance Requirement and Breakdown

	<u>June</u> <i>estimate</i>	<u>September</u> <i>estimate</i>	<u>December</u> <i>estimate</i>
EXPENDITURE			
Fixed Assets & Investments	435	385	250(e)
Working Capital	90	90	70
Redundancies	<u>125</u>	<u>175</u>	<u>317(e)</u>
	650	650	637
FINANCED BY			
Profit (after interest)			155
less Contingencies ^(a)			110
Profit Net of Contingencies			45
Depreciation	150	150	72(b)
Regional Development Grants	50	50	20(c)
External Finance (Cash Limit)	<u>450</u>	<u>450</u>	<u>500(d)</u>
	<u>650</u>	<u>650</u>	<u>637</u>



Notes

- (a) Contingencies are provisions for the costs of a major industrial dispute either internal or external
- (b) Depreciation will be lower than the first estimate because of the proposed revaluation of fixed capital assets
- (c) Regional development grants are reduced because of the reduced expenditure on fixed assets, allocation of expenditure to non-assisted areas, and changes in the RDG scheme
- (d) £50 million to be found from sale of assets to stay within cash limit
- (e) The £317 million for redundancies postulates that all the 40,000 redundancies in Wales, Consett and Scunthorpe are negotiated and paid for by end of March 1981



STATEMENTS BY THE LAST GOVERNMENT ON BSC FINANCES

In Parliament on 14 January (yesterday) Mr Varley challenged the assertion about the previous Government's policy on "breakeven" by March 1980.

On 22 May 1978, Mr Varley, then Secretary of State for Industry, said in Question Time (Cols 1105/6):

"The BSC must get its finances straight as quickly as is practicable. My Rt Hon Friend will know that in the last financial year, BSC, in common with many comparable companies overseas, lost money. It lost £440 million. Part of the Government policy is that the financial objectives of the BSC should be to break even by the financial year 1979/80."

13.8
22
19
4-11-78



CORPORATION ESTABLISHMENT

There are 700 BSC staff at the Grosvenor Place HQ and BSC plan to reduce them to 200 quite soon, and eventually to less than 100. The 7,500 staff listed by BSC under "Corporation Establishments" include salesmen responsible to the Managing Director (Commercial), research and development staff, the stockholding companies, BSC (International), refractory companies, etc, ie every staff and manual worker who is not specifically allocated to one of 6 main production divisions or the two main subsidiaries, RDL and BSC (Chemicals).



EUROPEAN STEEL PRODUCERS' PROFITABILITY - BACKGROUND NOTE

While the major French and Italian steel companies are reported as still making large losses, the German companies (some with substantial non-steel interests) have returned substantially better performances during 1979. Two German steel firms, Peine Salzgitter and Klockner, have publicly said they returned to profitability during the year. (Thyssen, with large non-steel interests, had recorded a small overall profit during 1978. Estel (with plants in both Germany and Netherlands) whose losses had already been sharply reduced in 1978, recorded profits during the second and third quarters of 1979. Arbed (Luxembourg) recorded smaller losses during the first half of 1979 than in the corresponding 1978 period.



REDUNDANCIES

On 11 December, BSC announced their proposals for further major capacity reductions additional to those already announced at Shotton (6,300 jobs), Corby (5,500 jobs) and Cleveland (1,200). These involved:

- (a) closure of Consett integrated steelworks in Co. Durham (around 4,000 jobs)
- (b) closure of Hallside electric arc and rolling mill in Scotland (around 600 jobs)
- (c) reduction in iron and steelmaking at Scunthorpe (press reports talk of 2,800 redundancies)
- (d) further cuts at various rolling mills involving 2,500 redundancies
- (e) manning reductions at 'ongoing' plants involving 12,000 redundancies.
- (f) At Port Talbot and Llanwern, there are three options:
 - (i) closure of one of the plants;
 - (ii) closure of iron and steelmaking at one plant and finishing activities at the other;
 - (iii) reduction in operations at both plants to 2.7 million tonnes.

(Whichever option is chosen, the objective is a reduction in the two plants' workforce from its present level of 22,000 to about 10,000 or less).

TIMING

The closure of Cleveland is already complete. The closure of Shotton and Corby is planned to take place between now and March. The proposals announced in December were to be completed by August this year, but the details have still to be fixed.

COST SAVINGS

Redundancy payments at Corby and Shotton have been agreed within a range of £4,000 - £25,000 depending on length of service. It can be expected that similar settlements will be made at other plants. Resources for redundancy payments come from the Government's overall cash allocation, but are calculated separately from the profit and loss account. BSC's present estimate for redundancy payments in the coming year is £317million. BSC have not yet informed the Department of the savings in costs from the redundancies when achieved; this will be part of their general revision of the profit/loss forecast for 1980/81.



BSC PAYMENTS TO SMALL SUPPLIERS DURING THE STRIKE

What about small suppliers who cannot get paid for their goods?

BSC regional divisions are doing their best to help small suppliers who approach them direct. They are reluctant to run a public advertisement to this effect since it would only invite requests for payment from rogues whose claims could not be checked during the strike. The Secretary of State will therefore be writing to the MP who raised this issue, Mr Brian McWhinney (Peterborough), suggesting that his constituent approach the Financial Controller of the Regional Division concerned to get his claim sorted out.

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cc D/Emp
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Ind.

21 January 1980

I enclose a copy of the record of this afternoon's meeting between Ministers and Sir Charles Villiers and Mr. Bob Scholey.

I am sending a copy of this letter to Ian Fair (Department of Employment), John Wiggins (H.M. Treasury) and Martin Vile (Cabinet Office).

J. P. LANKESTER

Ian Ellison, Esq.,
Department of Industry.

CONFIDENTIAL

KEB

PS

c Mr Johnson
Mr Ingham
Mr Hoskyns
Mr Lancaster
HMCT
Cabinet Office

COVERING RESTRICTED



10 DOWNING STREET

From the Principal Private Secretary

21 January 1980

Dear Ian,

I attach the record of the meeting which the Prime Minister, your Secretary of State and the Secretary of State for Employment had this morning with Mr. Sirs of the ISTC and Mr. Smith of the NUB.

I am sending a copy of this letter and of the record to Ian Fair (Department of Employment).

Yours ever,
Mrs Wharm.

Ian Ellison, Esq.,
Department of Industry.

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cc Wolfson
Haskyns
Inglan

RECORD OF A MEETING HELD AT 10 DOWNING STREET ON
MONDAY 21 JANUARY 1980 AT 1415 HOURS

Present

Prime Minister	Sir Charles Villiers
Secretary of State for Industry	Mr. R. Scholey
Secretary of State for Employment,	Mr. C. Beauman
Mr. S. Gross, Department of Industry	
Mr. C.A. Whitmore	
Mr. David Wolfson	
Mr. B. Ingham	
Mr. T.P. Lankester	

* * * * *

After welcoming Sir Charles Villiers and his colleagues, the Prime Minister reported on her meeting with Mr. Sirs and Mr. Hector Smith earlier that day. In presenting their case, they had emphasised four points. First, they felt that steel workers had been singled out amongst other public sector workers for a tough settlement. The local authority manuals and the nurses, for example, had been offered more money without any productivity strings. Second, the unions had proposed multi-union productivity bargaining, but this had been rejected by BSC. Third, they alleged that there was serious over-manning amongst maintenance workers and middle management, and that if this were discounted, it would be found that productivity compared reasonably with steel plants abroad. Fourth, they felt that it would take at least six months to reach agreement on productivity deals at local level, rather than the three months which BSC were insisting on.

Sir Charles Villiers then outlined the financial background to BSC's offer. The external financing limit of £450 million might seem large, but seen against BSC's requirements for investment and redundancy payments, it was not. The Corporation was now planning to spend £250 million on investment in 1980/81 (compared with £335 million envisaged earlier), and £297 million on redundancy payments and £20 million to attract new industries. The redundancy money would cover some 52,000

/redundancies

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redundancies. These would mostly come from the closure programme. But 12,000 jobs would be lost from improved manning at the steel works which would continue to operate. Although the Corporation would have about £70 million from its depreciation provision, there would still be a cash shortfall - and all the more so since, as a result of the strike, prospects of breaking even were now worse than they had been. Given the £450 million limit, BSC would have to consider three options: cutting back on working capital, cutting back on investment, and disposals. All this underlined the importance of achieving a self-financing pay settlement. The Corporation was pursuing the same basic policy as it had done since 1977; but the situation had now become all the more urgent, and that was why they were saying the unions could not have "something for nothing". The unions' reaction to BSC's latest offer was, in his view, quite unjustified. Mr. Sirs had said that the proposed central agreement was festooned with conditions; but in fact it was very similar to the agreement which had been signed in January 1976. As regards the proposed local productivity schemes, these were already to a large extent worked out; and therefore it was unreasonable to say these could not be negotiated within 3 months.

Mr. Scholey described the main elements in BSC's latest offer. First, they were offering 8 per cent on the basis of a productivity agreement to be negotiated centrally. This would include a commitment to restructure and slim the workforce. The latest draft which they had prepared included a figure of 12,000 for general redundancies; but they would be prepared to withdraw this figure if necessary. They were also looking for a new commitment to the January 1976 agreement, and a commitment on the part of the various unions that there should be a more effective dialogue at national level between operatives and craftsmen. More generally, the proposed agreement was intended to be workable at local level: too often in the past, national agreements on productivity had broken down when it had come to their implementation. Second,

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BSC were offering 4 per cent as soon as the unions signed local productivity agreements - with a lead-in payment for the first 13 weeks. Third, they were offering a 39 hour week starting January 1982. Commenting on the strike itself, Mr. Scholey said that his own impression was that the strikers - particularly in South Wales - had little stomach for a drawn out strike. As for the points which Mr. Sirs had made to the Prime Minister, Mr. Scholey said that it was indicative that, while he had offered multi-union bargaining, he had only brought along one other union representative. It would make it easier to reach a settlement if Mr. Sirs would rise above his own narrow objectives, and take some responsibility for the other unions in the dispute - particularly the craftsmen.

In reply to a question from Mr. Prior about productivity, Mr. Scholey said that BSC's basic problem was that there was too much capacity and not enough loading - with the result that unit costs were too high. Hence, the need to cut back liquid steel capacity. Sir Charles Villiers added that BSC's steel was already more expensive than its main competitors abroad. It was absolutely vital therefore to reduce unit costs. Mr. Scholey commented that motivating the employees at local level was crucial. In the 1960s it had been fashionable to remove incentive payments, and BSC were now paying for this. Mr. Sirs was right in saying that BSC was over-managed. But there were too many managers precisely because the workforce did not have sufficient incentives to produce efficiently without supervision.

Sir Charles Villiers said that there were four possible areas of movement on their last offer. First, they could reintroduce the 2 per cent for consolidation as part of the centrally negotiated 8 per cent. Second, they would be prepared to go to 13 per cent on the guaranteed minimum. Third, there was some room for flexibility on the central agreement - for example, as Mr. Scholey had said earlier, the figure for redundancies could be taken out. Fourth,

/they would

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they would be prepared, if necessary, to extend the lead-in payment on the local productivity deals to six months. He felt that these elements of flexibility ought to be able to provide the basis of a settlement. Mr. Scholey, who had a good relationship with Mr. Sirs, would do his very best to convince him that the offer - with one or more of the modifications mentioned - was reasonable. If he failed, BSC would have to "stick it out".

Sir Charles went on to say that BSC's top management were determined to stick to their general strategy on closures, breaking even, etc. They did not want the Government to offer the Corporation more money: if they were to do so, this would undermine BSC's negotiating position. Mr. Prior said that while their objectives were fine he doubted whether they could be achieved on the timescale envisaged. It had to be recognised that, if BSC pushed too hard and this resulted in a long strike, the nation as a whole would suffer. Sir Charles responded that BSC was so far on target as regards redundancies. Mr. Prior, however, pointed out that the proposed closure programme was now accelerating, and it was more exposed than it had been.

The Prime Minister said that she was concerned that Mr. Scholey should put over to Mr. Sirs as effectively as possible the various elements on which BSC were prepared to negotiate. It was important that his private talk with Mr. Sirs should lead on to a resumption of formal negotiations. She was also concerned that progress should be made with the craftsmen, who, she understood, had been on the verge of settling when the negotiations with ISTC broke down.

Mr. Scholey said that he would certainly take great care in explaining to Mr. Sirs the various elements in the package. He would of course have to explore what the unions' position now was. If in the event Mr. Sirs still rejected the concept of self-funding he would have to spell out the alternatives - for example, the

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option of disposals which would have implications for BSC's workers' earnings in the future. His basic objective would be to keep the talks going. On the question of craftsmen, it was necessary to first reach agreement with ISTC - who were the lead union in the negotiations. Once agreement with the ISTC had been reached, there should not be much difficulty in settling with the craftsmen.

Mr. Prior said that he was glad to hear that the Corporation thought it important to avoid another breakdown. If the strike went on much beyond this week, there would be growing pressure from steel consumers - and this would all too likely in the end lead to a more expensive settlement. Sir Charles Villiers said that the effect of the strike should not be exaggerated; picketing so far appeared to be fairly limited. But he agreed that it was important that the Scholey/Sirs meeting should lead to a resumption of negotiations. He added that both sides were continuing to have discussions with ACAS, and this provided useful cover for the Sirs/Scholey meeting.

In conclusion, the Prime Minister said that she was grateful to have had Sir Charles' and Mr. Scholey's views. The discussion had reinforced her view that the Government should not intervene in the negotiations. There could be no question of the Government providing any extra money over and above the £450 million. Nor would the Government tell BSC how the £450 million should be spent, except that it was not available to fund losses. The key objective must be for the two sides to get together again as soon as possible. Sir Keith Joseph and Mr. Prior would brief the press on these lines after the meeting. Sir Charles Villiers said that he would brief the press to the effect that they had explained their position, and that they too wanted to see a resumption of negotiations. He would also mention that talks with ACAS were continuing, and he would emphasise once again that the steel workers were being offered a minimum of 12 per cent with more on top if they were able to achieve additional productivity improvements.

The meeting finished at 1535 hours.

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RECORD OF A MEETING HELD AT 10 DOWNING STREET
ON MONDAY, 21 JANUARY 1980 AT 10.30 AM TO DISCUSS
THE STEEL DISPUTE.

PRESENT:

Prime Minister	Mr. W. Sirs (ISTC)
Secretary of State for Industry	Mr. H. Smith (NUB)
Secretary of State for Employment	Mr. A. Feather (ISTC)
Mr. C.A. Whitmore	
Mr. B. Ingham	

The Prime Minister thanked Mr. Sirs and Mr. Smith for coming to see her. She knew that they thought that she had not heard the full facts of their case. How people felt about a problem was itself an important aspect of the problem and much influenced its eventual solution. She was therefore anxious to hear their views at first hand. She did not know enough about the steel industry to become involved in any negotiations. Though she had been given a great deal of information about the steel dispute, she was well aware of the complexity of the problem, not least at the local level, and it was well that politicians should not get entangled in such matters. She had had a report of last Saturday's meeting from Sir Keith Joseph and Mr. Prior, and she understood that the unions had been pleased with that occasion. She very much regretted that the dispute had come to a strike. She had been anxious that both sides should go on talking for as long as possible, but now that there was a strike, she was concerned, as she had already said, to hear from them how they saw the dispute.

Mr. Sirs said that he had been bound to complain publicly that it seemed to him that the Prime Minister and Sir Keith Joseph were repeating BSC's view of the dispute, so much so that it had seemed to him that there might have been a meeting between Ministers and the Corporation. Ministers had got their facts wrong, as Saturday's meeting with the Secretaries of State had shown. BSC's original offer to the unions had been new money of 1.8% and 10% in respect of local added value productivity deals. He had had to make it plain that these local deals were pie in the sky. The Corporation had been trying for years to introduce the multi-union bargaining which would be necessary for local productivity deals but they had got nowhere. There were no procedures for handling this kind of deal, and there was no possibility of negotiating them anything like as quickly as BSC had proposed. In his view it would take six months before there was any progress towards setting up the necessary machinery. He believed that the Corporation had made this kind of offer because they had decided before the negotiations to go a certain way. The industry had had for decades procedures which had worked very well, and there had never been any difficulty in negotiating nationally. But this year BSC had told the unions that they did not want a national negotiation, apart from offering the 1.8% consolidation payment. The settlement was to be negotiated locally. In the unions' view BSC had taken this attitude in the light of the Government's approach to the industry which he summed

/up as no interference,

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up as no interference, no cash and no loss. BSC were being inflexible because they thought they had got the Government's backing. For example, when he had asked them to reconsider their impossible original offer, they had come back to him very quickly and had said that there could be no change. At this point he realised that the negotiations could not go on.

When the unions had reached this point last year, they went to the Government and eventually reached a settlement after long hours of argument with the then Secretary of State for Industry. But, in view of the present Government's policy, they knew that there was no point in going to the Government this time. Nor did they believe that arbitration was the right course: they had been ready to go to arbitration last year but the Government and the Corporation had not been prepared to accept any decision from arbitration, and the unions did not want to repeat this experience again. If the unions had been able to see Ministers earlier, their arguments would have been more clearly understood by everyone. The Government, for example, had asked why the unions did not accept the need for increased productivity. His answer was that they always had. The Corporation's proposals for increasing productivity could have been brought forward at any time, though he accepted that the ISTC and the NUB had not been able, for various reasons, to agree to multi-union bargaining at the local level in the past. It was not true that production in the UK was lower than that in Germany and France. In on-going plants production was as good as anywhere else. It had only been on Saturday that unions had begun to be able to get over facts like these to the Government.

Sir Keith Joseph said that Mr. Sirs had told him and Mr. Prior that his production workers were as efficient as any in the world. But the fact was, as the Iron and Steel Sector Working Party Report showed, productivity in the British Steel Industry as a whole was much lower than in most other countries.

Mr. Sirs said that measurements such as tonnes per man year (TPMY) could be misleading. BSC had published in 1978 a figure of 100 TPMY for the Corporation. They were now saying the figure was 140 or even, possibly, 154. But the unions thought that the figure should be 192 TPMY. This compared well with a German figure of 200, and was better than the comparable figure for France. One of the problems was that like was not always compared with like. But he accepted that BSC could improve their productivity. The production work force was producing all it was asked to, but the industry suffered from over-manning in the maintenance and service areas. Moreover, it was unfair to talk about a subsidy from the taxpayer of £1800 per steel worker. This money did not go into wage packets. It was for the continuing investment programme. Some of recent investment had been successful and some had not, but he agreed that the industry was now largely equipped with modern plant. The unions wanted an industry that could compete internationally, and he thought that the point when it would be close. But

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greater efficiency was still needed. This was the job of management. The Government had now added a spur with the decision to reduce capacity to 15 million tonnes a year. But in his view this figure was too low and was biting into the core of the industry.

Mr. Sirs continued that it was now necessary to motivate the labour force. But BSC's last pay offer was not calculated to achieve this. A lot of figures were being quoted. For example, it was said that average earnings were at present £110 a week. But if overtime and bonus and premium payments were excluded, average pay was £66.80 for 40 hours. This was on average £3.80 a week less than the average for all other industries, and was not a high figure for a dirty and dangerous industry. His members had expected the Corporation to offer them something to maintain their standard of living, but all they had received was the offer of 1.8%. This implied a 15% reduction in their standard of living. In negotiations the unions had offered the multi-union bargaining which BSC had been seeking for so long, and this should have been worth a percentage payment. Yet, the Corporation had rejected it and the Government should ask why.

In reply to a question from Sir Keith Joseph about the difference between the 1976 Agreement and what the unions were offering now, Mr. Sirs said that the unions agreed in 1976 to give the Corporation certain things such as loading the more efficient plants and reductions in overtime, and they had delivered what they had undertaken. There was, however, no agreement on multi-union bargaining in 1976. But the unions were now prepared to accept multi-union bargaining in return for an agreement on 8% plus 5% as a lead-in payment to local productivity deals. BSC, however, had rejected this offer. Indeed, each successive draft agreement put forward by the Corporation had been worse than the previous one. Now there was no new money on offer, and everything had to be paid for. He had been reluctant to embark upon strike action, and had tried to prevent it. But BSC's position in the negotiations had been an impossible one. There were now 7 days in which to make progress. He was not asking the Government for more money today. He was sure that BSC could find what was needed. Rather, the Government should put pressure on the Corporation and motivate them to find the necessary money. If, on the other hand, the strike had to continue, he would prosecute it to the best of his ability.

The Prime Minister said that she did not accept what Mr. Sirs had said. Her ambition for the steel industry was that it should be able to hold up its head throughout the world and be competitive on price, delivery and quality. This objective would be the right motivation. Luxembourg had reduced its steel work force from 24,000 to 16,000 and they were hoping to break even last year. When she was there in the autumn, she had been told that they were exporting railway lines to the UK and this had cut her to the quick. As regards the present pay dispute, she wished to make it clear that there was no such thing as new money. Money for the steel industry could come only from other industries which were making a profit.

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The Government were already giving the steel industry £450m next year, and they were similarly finding large sums for the coal industry, British Rail, Rolls Royce, British Leyland and other public sector industries. Yet, with all its investment in modern machinery, the steel industry ought to be making a profit. Instead there was over manning in such areas as maintenance and services, and the industry also had the problem of having so many unions. However good production alone might be, management and unions had to get the whole operation right. Each and every person in the steel industry had to regard himself as being as responsible as the next man for doing as efficient a job as possible. Imports of steel into the United Kingdom had risen from 3% to 20% of demand over the last 10 years, and BSC ought to be able to win back some of the lost ground. When Mr. Sirs interjected that the SWP report made clear that productivity increases for 1977/78 and 1978/79 had been 7% and 8% respectively, the Prime Minister pointed out that the comparable figure for Luxembourg last year was 20%. She added that she understood that the unions preferred to negotiate nationally on productivity, yet the increases in productivity had to be delivered locally. She was puzzled how this could be achieved by a national agreement which contained no local incentives.

The Prime Minister continued that she thought that the unions' approach to redundancies was right. The industry had to use new technology if it was not to fall behind. When people had to transfer to other work they lost the capital which was their skill, and it was important that union leaders like Mr. Sirs and Mr. Smith could demonstrate that they were securing for their members good redundancy payments as substitute capital. At the same time those who remained in the industry should be better paid as a result of using the new technology,

Mr. Hector Smith said that the steel unions' strike record was second to none in the UK, and for a strike to take place something must have gone badly wrong. Members of the NUB had an extremely tough job but their manning levels were very good. His production workers had always achieved what the Corporation asked of them, and BSC should be challenged now to say precisely what more they wanted of the production workers.

Mr. Sirs said that it was very difficult to draw fair comparisons between one country and another. For example, the Luxembourg Government subsidised steel workers who were laid off: if that were done here, it would change BSC's financial position. Similarly, the Corporation had had to find £42m last year to attract new industry to areas where they had closed plants, and the comparable figure for next year would be £20m. But he wished to re-emphasise the importance of motivating the work force. When he had negotiated the loss of 534 jobs at Port Talbot, 80% of the resultant savings had gone into incentive payments for the work force. This had led to increased production, in return for which BSC got the international manning standards they wanted. This showed what could be done to motivate the work force, but the same operation could not be repeated twice. Under the Corporation's present offer steel

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workers were being asked to produce more with fewer men for no more money, while other workers in the public sector were getting more pay for no extra work. Some of them were in loss-making industries. The steel workers wanted no more than their public sector colleagues and they could not understand why they were being singled out for different treatment.

The Secretary of State for Employment said that it was not true to say that the steel workers would get no more money. There were opportunities for them to earn considerably more by increasing efficiency. The Prime Minister said that if more money was not earned in this way, it could only come, as she had already explained, from profit-making industries. BSC had got new machinery and with a smaller workforce - and she recognised the trauma of closures - it had a chance to make a profit. In 1978 it took 10.9 man hours to produce a tonne of crude steel in the UK, whereas the comparable figures were 4.8 for Luxembourg, 5.2 for Italy, 5.9 for Germany and 6.4 for France. There was a great gap here. The question was how could the UK catch up. There must be blockages somewhere in the industry which had to be removed. Performance varied very much from plant to plant, and this was not something which she or her Ministerial colleagues could sort out.

Mr. Sirs said that the Sector Working Party Report showed that Scunthorpe was more efficient than Ijmuiden in Holland and indeed Scunthorpe could get up to Japanese levels of efficiency if the balance of the plant was right. Similarly, manning levels at Rotherham were below those in Japan. The assessment of BSC's efficiency was distorted by the appearance of interest and depreciation in its accounts. Similarly, the £135 million subsidy on British coking coal changed the picture adversely. If these factors could be removed, the British steel industry would be shown to be world-beaters. The production workers could not work any harder but, as he had already conceded, there was over-manning in other areas. Even so, BSC was getting close to being as competitive as any foreign company. But all this could be wrecked if a settlement of the pay dispute was not reached quickly. The Corporation were already cutting capacity by more than was sensible and a prolonged strike could make their position even worse. The Corporation was in future likely to supply only three-fifths of UK demand for steel, whereas it should meet all the country's needs. His members wanted a settlement. He was here today to try to secure justice for them.

The Secretary of State for Industry said that interest and depreciation could not simply be ignored in arriving at BSC's true financial position. But in any case BSC's interest and depreciation were lower than anywhere else in the world.

The Secretary of State for Employment said that there were few people who would win pay increases in the present round large enough to cover the increase in the cost of living. It should be borne in mind too that the cost of living was expected to fall in 1980.

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As regards the Corporation's offer, he would like to know whether the unions thought that the figure of 12,500 redundancies which was part of the offer of 8 per cent was realistic.

Mr. Sirs said that this figure had not been included by BSC in the first draft of the pay agreement and he had told them that if it was included, they would not get a settlement. He was ready to lose members on the maintenance and service side of the industry. Middle management was also badly over-manned, much more so than in the private sector of the industry: for example, Scunthorpe's ratio of middle managers to other workers was 1:9½ and this was scandalous. There seemed to be much more money going to those leaving the industry than to those who were staying in it. The latter were in a state of despondency and they needed to be paid incentives. There was a very real human problem here. It was, moreover, a great pity that a plant like Consett should be closed when it was making a profit, the quality of its steel was very good and it delivered on time. He was not, however, trying to draw closures into the present talks. He wanted to keep pay and closures separate, though there were those who wanted to bring the two issues together and make the strike a political one. We needed a strong national industry in the shape of BSC if we were to compete with the big combines in Europe and Japan and fight off our foreign competitors in key areas. We needed a minimum degree of strength and Consett was a good example of the strength we required. Nor should we lose sight of putting redundant plant into mothballs against the possibility of a requirement for increased capacity, as the Germans did. More immediately, he wanted the Government to take off any constraints on BSC and to tell them to get on and find a solution to the pay dispute.

The Prime Minister said that she had heard what Mr. Sirs had said to Sir Keith Joseph and Mr. Prior on Saturday about the possible disposal of Consett and she welcomed that. If she was asked publicly, for example at her Question Time in the House of Commons, she proposed to say that the Government had no objection to the sale of Consett to the private sector, even though she knew that the Corporation would not be happy with such an outcome. More generally, she was grateful to Mr. Sirs and Mr. Smith for setting out their views so fully. She would be meeting Sir Charles Villiers and Mr. Scholey that afternoon to hear from them how they saw the dispute. In conclusion, she wanted to emphasise again that there was no such thing as new money. More money could be found only by taking it away from others or by higher productivity. She believed that with the investment which the industry had undertaken and the closures and redundancies programme, it would be possible to increase productivity. She would now reflect on what Mr. Sirs and Mr. Smith had said.

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PS/ *Secretary of State for Industry*

a
21 January 1980

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister

*I have toned the DoI draft down
a little, and added a final
paragraph.*

TL
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Dear Tim,

Thank you for your letter of 17 January enclosing a letter to the Prime Minister from Mr Derek Norton, Chairman of Hadfields Ltd. I am sorry to have delayed a reply.

Hadfields is a major private sector steelmaking firm in Sheffield with some small steel stockholding interests in the Midlands. It is a subsidiary of Lonrho, who bought the group (then called Dunford and Elliott) in 1977, outbidding Johnson, Firth Brown. Mr Norton, the Chairman, writes to say that the firm have managed to continue working despite heavy picketing because both management and men are determined to succeed. He adds that the company has reduced its labour force from 5,200 to 2,700 and lifted output by 50% since the company was taken over by Lonrho in 1977. He omits to say that the company remains in severe financial straits and that its very continuance is threatened by the present strike. We know in confidence that Mr Derek Norton circularised the union leaders on 8 January to say inter alia, "The financial plight of the company is such that a further stoppage could result in permanent closure of the company with the resultant loss of employment for 2,800 people".

Mr Norton says that he is authorised by Mr Tiny Rowlands of Lonrho to suggest that Hadfields' management should take on managing British Steel Corporation via a management contract. This is one of the more improbable suggestions for solving the management problem at British Steel. Hadfields' financial difficulties are well known in Sheffield and Lonrho's only other substantial experience of manufacturing industry in the UK is limited to Lonrho Textiles whose principal subsidiary, Brentford Nylons, is making substantial losses.

Mr Sirs has already got hold of a garbled version of this suggestion, and is reported in the Sunday Times as saying that Lonrho had offered to buy the Sheffield plants of BSC. We believe the offer

/is ...



is not a credible one, that Mr Norton is only obeying instructions from Mr Tiny Rowlands and that it should be turned down courteously but firmly.

... I attach a draft letter; you may feel a PS reply will suffice.

*Yours ever,
Pete*

PETER STREDDER
Private Secretary

PRIME MINISTER

Nat Ind.

STEEL

The Secretary of State for Industry rang this morning to correct some information which he gave you at dinner yesterday evening.

1. The Secretary of State had said that new briefing was coming. However, there is not a totally new briefing because you had said that you were content with the general briefing for Mr. Prior and Sir Keith's Saturday morning meeting. An additional note by Solly Gross was passed to you last night. There is nothing more coming.

2. If Bill Sirs raises his redundancy switch idea, perhaps you would leave Sir Keith Joseph to answer it.

3. Len Murray's meeting with union leaders has not yet been arranged. He is still trying to arrange it.

S.J. Pike.

Duty Clerk

21 January 1980

Prime Minister

S.J. Pike

Duty Clerk
20.1.80

MR. LANKESTER

Steel Strike: Meeting with Mr. Sirs and Mr. Hector Smith
Monday 21 January 1980

Mr. Sirs raised a new productivity comparison at his meeting with the Secretaries of State yesterday and on the media today and may mention it tomorrow. He claimed that productivity in BSC had increased by 40% in the past few years, from 100 tonnes of steel per man year to 140 tonnes per man year. The comparison is totally invalid since the two figures are drawn from different sources and are calculated on different bases. The first comes from the previous Government's White Paper of March 1978 "BSC: the Road to Viability" (command 7149) paragraph 31 which says "over the last three years, BSC produced about 100 tonnes of liquid steel per man year as compared with 1976 figures of 150 tonnes in Germany and 120 tonnes in France". The figures are based on total BSC and European manpower. The second figure comes from a recent BSC press release which gives productivity figures in 1979 as BSC 140 tonnes per man year, France 180 tonnes and Germany 237 tonnes. These figures are based on people employed in ECSC steel activities only, a more limited field as can be seen from the different figures for France and Germany too. Anyhow, man hours per tonne as in the NEDO SWP report is a better yardstick.

S. J. GROSS
Iron and Steel Division
Department of Industry

20 January 1980

Distribution: PS to the Secretary of State for Industry
Secretary of State for Employment
Mr. Monck, H.M. Treasury



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PS/ *Secretary of State for Industry*

19 January 1980.

Clive Whitmore Esq
Private Secretary to the
Prime Minister
10 Downing Street
SW1

fm
19.

Dear Clive

Mr Bill Sirs and Mr Hector Smith accompanied by Mr Sandy Feather called on my Secretary of State and the Secretary of State for Employment at Ashdown House this morning. The meeting lasted about an hour and half and was friendly throughout.

Mr Sirs and Mr Smith started out by saying that they were not asking the Government to provide any more money nor were they asking for an enquiry about pay. They volunteered that the Government had not picked on the steelworkers for special attention and they did not regard the strike as being political.

The unions did, however, have strongly held views about productivity and they wished to correct what they regarded as a mistaken emphasis in some of my Secretary of State's remarks during his speech in the Steel Debate on 17 January. There was a lengthy and technical discription of what, in the unions' view, had really happened following the productivity agreement of January 1976. The unions stressed that in many process and blastfurnace operations they had achieved manning levels which were as good as any in the world, but they appeared to accept that there were other aspects of BSC's operations where the picture was less good and that the average overall was unsatisfactory.

My Secretary of State and Mr Prior both took the opportunity of urging the unions to get back into negotiations with the BSC management as soon as possible. The unions accepted the need for this but nothing was agreed as to how this might be arranged. Both Secretaries of State emphasised to the unions, and in their press conference afterwards, that the Government was leaving the negotiations entirely to the BSC and the unions.

I am sending copies of this letter to Ian Fair (Employment), to the Private Secretaries to all Members of E and E (EA) Committees and to Martin Vile.

Yours sincerely, Ian Ellison
I K C ELLISON



DEPARTMENT OF INDUSTRIAL RELATIONS
ASBURY HOUSE
115 VICTORIA STREET
LONDON SW1E 5JF

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11/11/61
1 2 3 4 5 6 7 8 9 10

25/11/61

18th January 1961

Carey & Gurney
Private Secretary to the
Secretary of State
10 Downing Street
S.W. 1

My Bill and I have had a meeting with the Secretary of State and his staff on the 17th and 18th of January. The meeting was held at the Secretary of State's office and was attended by the Secretary of State, his staff, and myself. The meeting was very helpful and we discussed the various points raised in my Bill.

The Secretary of State and his staff were very helpful and we discussed the various points raised in my Bill. They did not object to the Bill and they did not suggest any amendments. This is a very good result and it shows that the Secretary of State and his staff are very understanding of the needs of the industry.

The Bill is a very important one and it will help to improve the conditions of the industry. It will also help to increase the productivity of the industry and to create more jobs. I am very pleased that the Secretary of State and his staff have agreed to support the Bill. This is a very good result and it shows that the Secretary of State and his staff are very understanding of the needs of the industry.

I am sending you a copy of the Bill and I am sure that you will find it very interesting. I am also sending you a copy of the Bill and I am sure that you will find it very interesting. I am also sending you a copy of the Bill and I am sure that you will find it very interesting.

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cc Industry
Employment

STEEL DISPUTE

RECORD OF A MEETING HELD IN ROOM 11.01, ASHDOWN HOUSE, ON SATURDAY,
19 JANUARY AT 10.30 AM

Present:

Secretary of State for Industry	Mr. W. Sirs (ISTC)
Secretary of State for Employment	Mr. H. Smith (NUB)
Mr. D. Smith (Department of Employment)	Mr. A. Feather (ISTC)
Mr. S. Gross (Department of Industry)	
Mr. J. Woodrow (Department of Industry)	

1. Sir Keith Joseph welcomed the opportunity which had been created by Mr. Sirs' letter to the Prime Minister to hear the points the Union side wished to make. The Prime Minister had not in fact seen the BSC but she was seeing Mr. Sirs and Mr. Smith on Monday 21 January. He wanted to stress that the Government was not intervening in the negotiations; these were a matter for BSC and the Unions.
2. Mr. Sirs wanted to stress that he was not asking for Government money. The Government was, however, putting out stories indicating that he had a fairly fixed point of view and some points made in Sir Keith's Commons statement of 17 January were untrue. He believed that Government policy was wrong and that the present meeting would not be fruitful. There had been a similar position last year with BSC hiding behind Government pay policy and some Labour Ministers had fought in terms of a "victory" over the steel workers. A way out had been found. Mr. Prior interjected that no-one was thinking in terms of "victory".
3. Mr. Sirs believed that the present position flowed from investment decisions taken by the Conservative Government in 1972. The huge sums of money paid to BSC had not gone into the steel workers' pockets as Sir Keith had suggested but into investment. This created debts but, if interest was deducted, BSC would be operating at a profit and returning a substantial amount by way of added value to the Government. Steel workers were not being handed money. The January 1976 agreement to which Sir Keith had referred had been implemented in practice; the previous Government's pay policy had prevented the introduction of Work Measured Incentive Schemes (WMIS's). Mr. Sirs had personally negotiated the loss of 534 jobs at Port Talbot and the proceeds had been split 80% to the steel workers and 20% to the Corporation. Restructuring had been agreed at every other plant except Shotton where BSC had delayed the scheme which saved £300,000 per annum.

/4. Sir Keith

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4. Sir Keith Joseph did not accept Mr. Sirs' views on operating profits. He received his information about the 1976 agreement when in Opposition and was not saying that the unions alone were to blame. The agreement had not worked and management and pay policy shared some of the responsibility. Productivity in BSC was below that elsewhere and was falling further behind. The NEDO report which the unions had helped to produce showed this.

5. Mr. Sirs objected to claims that BSC produced only 100 tonnes of steel per man year (tpmy) as the Government had claimed or even 154 tpmy as BSC said. The ISTC had figures showing that output was 192 tpmy. The comparisons made with abroad were involved because, for example, BSC figures included steel workers who did jobs carried out by contractors elsewhere. Comparisons of Scunthorpe with the Dutch industry showed that BSC was better. Continental steel workers were far ahead on pay and conditions so BSC ought to be doing better. On many production processes BSC had fewer than did the Japanese; take away the extra workers and BSC had some of the world's best manning levels. Output was 300 tpmy at Scunthorpe.

6. Mr. Sirs expected that productivity in some parts of BSC was bad but not on the process side. Productivity had improved by 8% the previous years and numbers had been reduced. The closures were an added sacrifice. His members were in despair at the contraction of the industry which was eating into the core of the business. The ISTC was not fighting against closures but the offer of 1.8% (not 2%) on pay had generated the despairing feeling that the industry was being closed down regardless.

7. Mr. Sirs stressed that the pay deal which the unions had offered would be difficult to achieve. They had offered multi-union productivity bargaining at works on divisional levels which was essential to achieve local productivity deals. The TUC had guaranteed this but BSC had rejected the proposal. Sir Keith Joseph understood that it was BSC which was demanding local negotiations and that the unions were rejecting them. Mr. Sirs said that the unions had asked for only 8% plus 5% for their concession. He estimated it would take six months to set up local multi-union arrangements. There were a number of separate organisations on the union side and one had seven separate components, each of which wanted separate negotiations. The TUC had agreed to exert pressure to get the unions to negotiate together locally but this would take time. Whatever they said, the BSC management had rejected the ISTC proposals for local negotiations and the men, particularly in South Yorkshire, were now talking about much higher pay increases.

8. Mr. Hector Smith rejected the idea of multi-union plant negotiations. The most vital workers were the mortar men and riggers who repaired blast furnaces. He could not agree that NUB was asking something for nothing; work on the blast furnaces was so hard that most men could not do it and miners who had tried it had given up after a few days. There was in fact a shortage of men and his members did over-time to keep the plant going. Ten men at Teeside did the same work as twenty-eight men in Italy where contractors were involved as well. There were many agreements which had resulted in job losses.

/9. Mr. Hector
Smith

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- 3 -

9. Mr. Hector Smith added that his men had promised an industry producing 35m. tonnes a year in the 1980's. This had not happened and he wanted the money now on the basis of what had been agreed in the past. The commercial side of BSC had let his men down; they could fill the streets with steel and yet BSC's customers talked of a shortage of British steel. It had to be remembered that a process worker or a blastfurnaceman worked just as hard whatever volume of steel was produced. The number of blastfurnaces had been reduced from thirty-two to eight, which demonstrated productivity and his men worked flexibly on an eight hour shift/ twenty-one shift week. He was concerned about the loss of shift premiums at weekends etc.
10. Mr. Gross intervened to say that fears about shift premiums were groundless; sinter lines and coke ovens had to work continuously. Mr. Hector Smith however appeared to think that the ability of the plant to produce at high volumes would lead to stock-piling and closures for parts of the week.
11. Sir Keith Joseph stressed that world demand for steel had fallen. Mr. Prior enquired about the scope for joint local negotiations.
12. Mr. Sirs had always said that he would not agree to joint negotiations at national level; he could not deliver the agreement of other unions. However, his offer on multi-union local negotiations was a positive movement since it would bring in maintenance men and craftsmen. He objected to Sir Keith's suggestion that nothing had been offered; if the BSC negotiators did not understand the value of what had been offered, there could be no progress. He would have great difficulty selling his proposals to his men since their basic pay, exclusive of overtime and premiums was only £66 per week when miners got a basic wage of over £80 per week and chocolate workers got over £70 per week.
13. Mr. Sirs said that worldwide more steel was being produced than ever before and BSC's proposals for contraction showed that they had got things wrong. It would be a good idea if individual plants had more responsibility. He would like an enquiry into BSC matters except pay. Mr. Prior said there had been too many enquiries; another would merely cause delay. One of the problems was that companies wanted to second-source away from BSC.
14. Mr. Sirs stressed that ISTC was not political nor was the strike politically motivated. He had no proper relationship with the people running BSC; for example, he had learnt only indirectly of Sir Charles Villiers' plans for decentralisation. The Government however was acting politically by imposing the break-even target. The money set aside for redundancies would do nothing for motivation in the steel industry.
15. Mr. Sirs said that contraction would do the industry no good. Some of BSC's operations were world class and closure of small, efficient and profitable plants which were not burdened by interest or depreciation did harm. Quality and delivery were important but attention had to be paid to the motivation of his men. Those leaving the industry were receiving better treatment than those who stayed. On productivity there was scope for movement on the maintenance side but he was responsible for only 20% of maintenance workers.

/Contraction

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Contraction should go no further; he feared the steel industry would go the same way as motor cycles.

16. Mr. Sirs mentioned that Consett was already streamlined and produced top quality billet. If the ISTC had any money he would buy the plant and was willing to ask his executive to spend up to £1m. Sir Keith Joseph said that if the unions found money themselves or from the private sector to purchase and run Consett, the Government would consider injecting money on the lines of the Chrysler deal in America. He thought Mr. Sirs' idea was the seed of something important. It was agreed that this idea would be pursued separately and would not be discussed publicly.

17. Mr. Sirs suggested that BSC's most recent pay offer was worse than its opening offer because of the conditions attached. Negotiations could not succeed if BSC carried on as they were; the steel workers had been cooperative and this was interpreted as weakness. Mr. Hector Smith said that the productivity of production workers was satisfactory; productivity was built into the system since his men did the same amount of work regardless of throughput. All that was necessary was to increase tonnage.

18. Mr. Sirs said that part of the problem was imports. Overseas suppliers were keeping prices down with hidden rebates. The quality of exported steel was always a bit better which accounted for much of the success of imports to the UK. The German industry had subsidies ^{on} coking coal and on transport which meant it was not competing fairly. Those buying German steel paid lower rates of interest and were given longer to pay. Import controls were needed.

19. Sir Keith Joseph said that the UK industry had had a much larger injection of money than the foreign companies. British Rail was subsidised and so was the Coal Board. This amounted to a subsidy to British Steel but the Government could not say this aloud because of repercussions in America. Some foreign companies were paying higher interest and depreciation charges than BSC.

20. Mr. Sirs said that the future of negotiations was very difficult. He and Mr. Smith were seeing Mr. Scholey in private on Tuesday. It was essential to keep this quiet. The Government should exert pressure on the BSC to be sensible and, if progress was made in private, it might be possible to resume public negotiations. There seemed, however, no chance of agreement if no money was on offer without productivity strings attached to it. The position in the private sector where he had been unable to restrain his workers made the situation urgent.

21. There followed a discussion of the arrangements for and funding of guaranteed week payments. These were funded by the BSC in this country but the Government paid in Germany. Mr. Sirs wanted the burden shifted to Government but it was pointed out that the Government could not consider BSC in isolation and other groups would want equal and expensive treatment.

22. Mr. Sirs stressed that he and Mr. Frank Chapple had managed to stop talk of a national strike.

/23. Concluding

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- 5 -

23. Concluding the meeting, Sir Keith Joseph said pay negotiations were for the BSC and the unions. The Government would not alter the cash limits and would not make money available to finance operating losses next year. The meeting had been useful in clarifying what the unions thought. The question of Consett could be pursued separately.

I.K.C. Ellison
20 January 1980

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THE STEEL STRIKE

Statement by BSC

The main union in the industry, the ISTC, has made a series of misleading statements about some of the facts behind the strike. This statement puts the record straight.

1) The Productivity Record

The ISTC claim a 16% increase in productivity for the industry since 1975 and that "on productivity the improvement has been impressive".

In fact, 1975 was the worst year of the decade. The full table from which the ISTC selected their figures shows that 1978 was no better than average for the decade. It was 13% below the best year and 16% above the worst. Scarcely an impressive productivity record.

UK Labour Productivity Index - UK (Source : NEDO SWP Report)

Year End	Manpower on Books MLH 311; 312	Productivity Index 1970 = 100
1970	333,800	100
1971	312,900	96
1972	302,700	98
1973	299,900	109
1974	302,100	94
1975	292,300	82
1976	287,600	88
1977	285,200	89
1978	265,600	95

/Cont. . . .

2) Job Losses

The ISTC say that more than 44k jobs have been taken out of the industry over the last three years and more than 117k since nationalisation.

BSC's reductions have been :

1977	8.1k	.
1978	13.3k	.
1979	8.6k	.
	<u>30.0k</u>	

Since nationalisation, BSC numbers have been reduced by 78.0k from 258.0k to 180.0k. Closures and other reductions planned to take place by April 1980 should reduce numbers by about another 15k (this includes the closures at Corby and Shotton). The reductions have been large but not as large as the ISTC claim unless closures which have not yet taken place but are due in 1980 are included. Those in employment in 1980 will get the benefit of any wage settlement now agreed.

3) Productivity Comparisons

Accurate productivity comparisons are difficult to make. It isn't easy to be sure that like is compared with like and comparisons involve judgement. The most reliable published figures are from ECSC.* For 1979 these show :

BSC	141 tpm
France	180 tpm
Germany	237 tpm

*Eurostat

However, there are differences; for example, BSC produces most of its own coke and includes its sales force in these figures. Many of our European competitors do not. BSC also organises services such as catering which continental employers very often do not provide at all. Our competitors also use contractors rather than steel company employees for some specialised tasks and services which BSC own labour force provides. Making allowance for these differences could raise the BSC figure by, say, 10%.

But the ISTC quote 192 tpm for BSC and 200 for Germany. Comparisons may be difficult but these figures completely distort the picture. BSC could only achieve 192 tpm with its present ECSC manning levels if it produced 25m tonnes of steel a year. Capacity in 1979 was 21.1m tonnes and output in 1979 was 18.3m tonnes liquid steel.

The 1979 NEDO SWP progress report (the ISTC General Secretary is a member of the SWP) also throws some light on productivity. It quotes the hours required to produce one tonne of steel in 1977 (manual grades only).

UK	11.7 hours
France	7.2 hours
Germany	6.5 hours

If BSC could get the unions to agree to the same working and manning practices as our European competitors, we could raise productivity to this level.

4) Manning

The ISTC quotes one of the NEDO Sector Working Party comparisons of manning at BSC's Appleby Frodingham works and at the Dutch Ijmuiden plant. It is true that BSC production manning is only 75% the Dutch level. It is also true, but the ISTC do not say it, that maintenance manning is 20% above the Dutch level. Nor do the ISTC say that the Dutch plant produces 40% more steel than Appleby Frodingham. This is mainly for technical reasons but it means the Dutch get higher utilisation of the plant and their workforce and can therefore afford to pay higher wages and salaries.

The NEDO Sector Working Party has important things to say about manning practices in the comparisons it has made of the strengths and weaknesses of BSC's plants. Main issues to emerge are :

- Relationships and demarcation between production and maintenance workers. //
- Continental production workers are willing to work more flexibly both in production jobs and by helping maintenance employees.
- Fewer separate crafts in continental plants.
- The complete absence of craft 'mates' on continental plants.
- A single trade union covering production and maintenance and a common pay structure.
- No agreed seniority system or insistence on manning up.

Management and unions need to agree at local level, as well as national level, to settle issues like these.

5) Higher Productivity and Pay

The ISTC acknowledge there is scope for improvement. BSC agrees. The scope for improvement is shown by comparing value added* per employee :

	<u>1978/9</u>
BSC	£5.7k
Average of Major European competitors	£12.1k

(Source : Company Annual Report)

* The difference between sales revenue and purchased goods and services.

Undertakings have been given in the past at national level to make the changes which are needed. But national agreements alone have been ineffective. BSC's present offer aims to link pay with improved performance by agreements at national and local level. This way, higher pay can be earned by better performance.

The national agreement offers 8% and the local agreements a minimum of 4%. The guaranteed increase is 12% if local agreements are made. This would raise earnings, which at present average £110 per week including overtime (all manual grades) (£95 excluding overtime) to about £124 and £107.



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

M.T.

18 January 1980

Roni Harris

Ian Fair Esq
Private Secretary to the
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
London SW1

12

18/1

Dear Ian

...

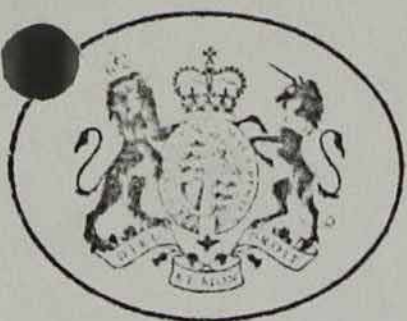
I attach a copy of the Department's brief for tomorrow morning's meeting between your Secretary of State, my Secretary of State, Mr Bill Sirs and Mr Hector Smith.

I am copying this letter to Tim Lankester, David Wolfson and John Hoskyns at No 10.

Yours ever

Ian

IAN ELLISON
Private Secretary



BRIEF FOR MEETING WITH MR SIRs AND MR SMITH, 19 JANUARY

The Objective of the meeting is:-

- a to remove any complaint that Ministers were unwilling to meet the unions or are picking unfairly on steel-workers for their moderation;
- b to reiterate that the Government will not become involved in the negotiations on pay, which must remain the responsibility of the BSC and the unions;
- c to make clear that the Government will not fund the cost of a pay settlement which could only add to the burden on taxpayers and would do nothing to help the industry become more efficient;
- d to acknowledge that the job losses in prospect are of serious concern, but that without them many more jobs would be put at risk;
- e to acknowledge that Mr Sirs and Mr Smith bear great responsibilities for the future of the industry and the employment of their, and many other, union members; if the strike is escalated there is serious danger of real and irreversible harm to the industry and their members who work in it;- but the latter would still be less damaging for the national interest than
- f consequently, to urge the unions towards a renewed attempt to reach agreement with the BSC on pay.

/short term
pallatives which
deferred efforts
to become efficient
and
competitive.

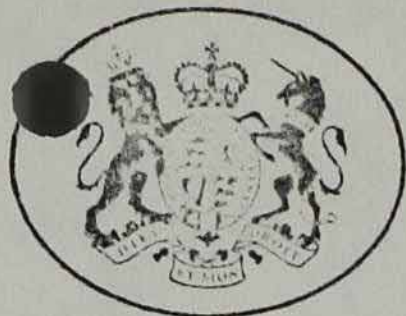
Line to Take

/and have
analysed
developments.

2 Opening theme: Ministers have of course kept themselves informed about events. This was natural and right, although Ministers have been and remain determined not to intervene directly in the dispute and certainly not to negotiate. This must remain a matter for the two parties directly involved. Against this background, Ministers were happy to accede to the request from Mr Sirs for a meeting. Ministers have particularly in mind the need to make absolutely sure that there are no aspects of the issue about which they are unaware. Also, clearly useful for Ministers to hear how the unions themselves see the issue.

The Discussion

3 Ministers will not wish to get involved in discussing details, particularly of the pay offer. However, as background to the claim, the Unions are likely to make the following



points:

- a "BSC are having to carry too much interest and depreciation"

You cannot simply ignore interest and depreciation. But the interest and depreciation that BSC pay is well below that of nearly all their European competitors [Annexed Tables 1 and 2]

- b "BSC is making an operating profit"

Simply not so. Ignoring all interest and depreciation charges, BSC's costs exceeded their revenues by £189 million in 1977/78, £29 million in 1978/79 and costs still exceed revenue this year.

- c "No other company is breaking even"

Not true. Estel (German/Dutch) made pre-tax profits in the second and third quarters of 1979. Thyssen (Germany) made a profit of £37 million in 1978. Klockner and Peine-Saltzgitter (both Germany) returned to profitability in 1978/79*/ Arbed (Luxembourg) has reduced losses and may breakeven in 1979/80. Companies in Japan and USA are profitable (Annex 3).

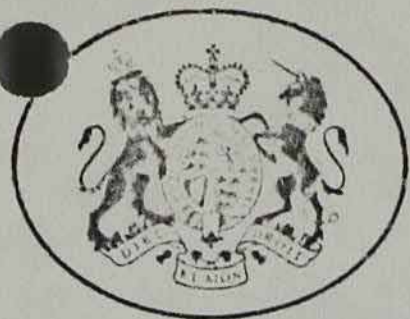
- d "What about the £135 million subsidy on coking coal?"

There is a misunderstanding here. £135 million pa is the penalty, as claimed by BSC, of using British coal. But half of this arises not from price but from the quality disadvantages of British coking coal, eg too high a sulphur content. International agreements do allow us to subsidise our coal (but not our steel) industry and the Government has agreed in principle to pay coking coal subsidies within the substantial financial assistance already provided to the coal industry. Discussions between the two Boards are taking place on this but even if they succeed BSC's costs would not gain by anything like £135 million per year (theoretical maximum £70 million pa: much less in practice). The German subsidy brings domestic coal prices down to the landed price of third country coal. BSC is free to import at this landed price.

- e "We have already contributed a lot to efficiency"

In fact, BSC steel production has fallen faster than the numbers employed. In 1976/77 BSC employed 208,000, down to 186,000 in 1978/79 (a drop of 22,000 or 11%). But production fell from 19.7 million tonnes per

/* in all, about half the German and the whole Dutch industry.



annum in 1976/77 to 17.3 million tonnes per annum in 1978/79, a drop of 2.6 million tonnes per annum or 15%.

- f "We deserve new money, not have to pay for our wage increase ourselves"

What is being offered is new money, to be earned from improved performance. Only part of that would come from redundancies. Even then it is BSC (and not individual workers) who would be paying "double" ie both redundancy payments and more pay against the productivity improvements.

- g "Why pick on us? What about the miners, the Civil Servants etc?"

Whether we like it or not, the fact is that the NBC can put up coal prices to match increased costs like pay, because it is operating in a largely protected market: BSC cannot. Civil Servants, local authority workers etc are simply not operating in a competitive market. BSC is.

- h "It's all the fault of the BSC Management"

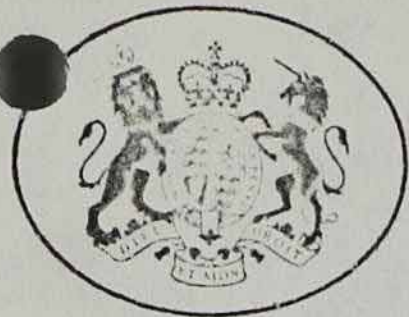
BSC management have a most difficult task and they are working very hard to fulfil it. They were all installed by the previous Government. Six Worker Directors are part of the Board and supported the top executive management against the Chairman's attempts to remove them last summer. (Mr Sirs has claimed they did so on his instructions!)

- i "Since the industry is so inefficient, why not have a formal Enquiry into the strategy, the closures, the management?"

Will this really help? We all know roughly what needs to be done. The problem is to get down to doing it. The Select Committee on Nationalised Industries carried out a 2 year enquiry and made many recommendations. Has this helped achieve actual results? Only the management and the workforce, acting together, can really put the industry right.

- j "What about a Court of Enquiry into the Dispute?"

Do you really want this? The working conditions and pay arrangements are very complicated. Anyhow, the Unions have certain agreements for arbitration. So this procedure is available if Unions want it. If not, why not simply push ahead with ACAS?



Concluding Remarks

4 Ministers appreciate the strength of the Unions' feelings. They also recognise that the Unions are not being unduly greedy in their demands. But one must face the facts. International competition in steel is now intensely competitive and the BSC are just not able to compete effectively on price, on delivery and sometimes on quality. Enormous capital expenditure funded by the taxpayer has provided modern technology as good as any in the world. This should enable a viable and efficient industry to hold its markets and to compete successfully. The changes necessary to achieve this are painful. Old plants must go. Labour efficiency must improve and unit costs reduced. Ministers are very conscious of the difficulties faced by management and unions and appreciate the personal hardships of those who will lose their jobs. But, if change is not made quickly, the prospects for the industry will inevitably become worse and the ultimate loss of jobs will be greater. Meanwhile, the strike is doing more damage to the steel industry every day. Already some plants face the threat of permanent closure, eg Hadfield in the private sector, with 2,800 jobs. The jobs of union members in other industries are already being lost. The Government simply cannot make more funds available to BSC to finance increased wages. Anyhow, this would do nothing to help the industry improve its competitiveness; it would only make even more painful adjustment necessary later. It is not unreasonable to expect workers to earn their own keep: the opportunities for increased earnings are there. How a wage increase can be made self-financing is a matter for discussion between the BSC and the unions. Ministers urge Mr Sirs and Mr Smith to make very effort to reach an early settlement, for the sake of their own members as well as of the industry in which they work. ACAS, with whom BSC and all the unions have discussed all the issues, are very ready to assist.

IS Division
18 January 1980

Prime Minister.

Sir Keith Joseph will also ask
Mr Sirs and Mr Smith at the
end of the meeting whether they want
to see you on Monday morning or
whether, if Monday is impossible for
them, they are ready to come ~~straight~~
round with him to see you either
straightaway or later tomorrow

JKW
18

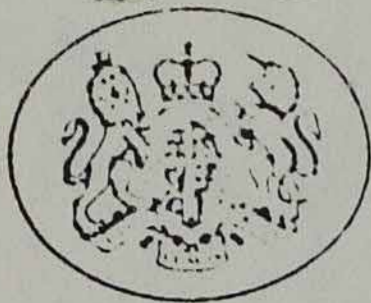


Table 1

BSC AND COMPETITION (~~£~~ pt)

£ 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:

- 1 Thyssen's figures include depreciation and interest on non-steel activities ^{which} amount to some 50% of business
- 2 Usinor and Cockerill interest charges reflect partial reconstruction during the year. 1979 levels should be lower.

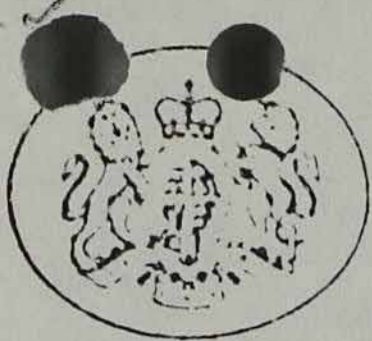


Table 2

INTEREST AND DEPRECIATION PER EMPLOYEE

BSC AND COMPETITION (1978)

	Interest £	Depreciation £	Total interest and depreciation £
BSC	1,085	580	1,665
THYSSEN	592	1,620	2,212
KLOCKNER	2,074	1,858	3,932
ESTEL	1,227	1,920	3,147
USINOR	2,622	2,115	4,737
ITALSIDER	5,909	2,693	8,602
COCKERILL	2,115	1,658	3,773
ARBED	1,454	1,157	2,611
MEMO:			
BETHLEHEM	460	1,725	2,185
NIPPON STEEL	4,728	6,415	11,143

Based on average employees for year

Profitability of Steel Companies of the WorldEurope

Estel, whose 1978 loss per tonne was about a third of that of BSC, made pretax profits in 1979 Q2 and Q3 of F1 10m and F1 12m respectively.

Thyssen made a 1978 profit of £37m.

Peine-Salzgitter 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)

Klockner 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 £17 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.

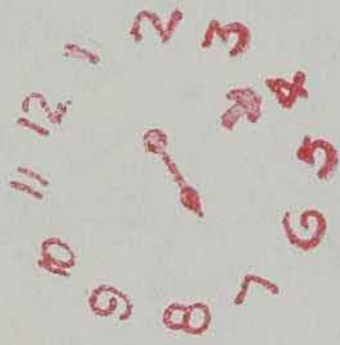
Japan Major steelmakers including Nippon, the world's largest, had record profit in the first half of the 1979/80 financial year eg:-

1979/80 First Half Results

	<u>Sales</u>	<u>Profits</u>	
Nippon Steel	+16½%	+453%	Y 59,190m
Kawasaki Steel	+20½%	+436%	Y 49,590m
Sumitomo			
Metal Industries	+20%	+503%	Y 23,480m

USA In the first 9 months of 1979 Bethlehem Steel's profits rose to \$237.1m (57½% up on the corresponding 1978 period). A similar comparison shows US Steel's profits up 82% to \$268.7m for the 9 month period.

18 JAN 1950





Secretary of State for Industry

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

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

MT

18 January 1980

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

1. In Winter 181
2. Peter Smith

Dear Tim,

P, E, I,

...

I attach a copy of the 5th Report of the interdepartmental Contingency Group on the steel strike.

I am copying this letter to the Private Secretaries to the other Members of E, the Secretaries of State for Scotland and Wales, the Paymaster General, the Minister of Transport and Sir Robert Armstrong.

*Yours ever,
Pete*

PETER STREDDER
Private Secretary



STEEL STRIKE : 5th REPORT OF INTERDEPARTMENTAL
CONTINGENCY GROUP
This Report summarises the position on 18 January.
Industrial Relations

1 The prospects for ending the strike may be clearer after the Ministerial meetings with Mr Sirs and Mr Smith over the weekend and one can judge their reactions to a reaffirmation of the Government's determination not to intervene in the negotiations or increase financial support for BSC. Before Ministers agreed to meet, both the Corporation and the unions continued to plan for a long strike. ACAS soundings of both sides had produced little movement.

2 Meanwhile the announcement of BSC's closure plans for South Wales may have hardened attitudes, even though the decision, now to be the subject of consultation with the unions, involves keeping all operations going (with considerably reduced manning) both at Llanwern and Port Talbot.

3 We expect that most ISTC and the few NUB members in the private sector will reluctantly follow their unions' instruction to stop work from Sunday 27 January unless the dispute is settled. The accompanying instruction immediately to stop all movement of steel has already led some ISTC members, mainly in the Midlands, to refuse to load and unload steel within private works. The ISTC have some members in all private sector steelmaking and rolling plants. If there is a general response production would be affected very quickly, possibly even next week.

4 Intensive picketing of stockholders continues, but is still mostly peaceful.

Availability of Steel

5 The first report from the Business Statistics Office confirms that the strike has so far had comparatively little effect on industrial production generally - about 2% down last week and perhaps marginally lower than this in the current week, no individual user sector being seriously affected.

6 Even if private steel production were to dry up users generally report enough stocks to support normal production for another 4-6 weeks from now, with problems in some areas appearing within 2-3 weeks. The motor industry generally is talking of early to mid-February. Metal Box have given notice that they will suspend their guaranteed working week from the beginning of February but MAFF still considers that there is no cause for concern about canned food supplies at present.



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7 The transport situation is unchanged. Despite publicised picketing quite a lot of steel, including imports, seems still to be quietly moving. This will help to lengthen endurance, but with growing patchiness.

Public Opinion

8 Evidence of public attitudes towards the strike is entirely anecdotal. Outside the industries directly affected people in general seem still fairly indifferent. On the whole industrialists appear to support the Government position; BSC's pay offer is generally not understood and their handling of the dispute, particularly in its early stages, is commonly criticised. The CBI's assessment of the situation, including on industrial endurance, accords broadly with our own, and there does not appear to be significant pressure from their members for the Government to intervene.

Further Action

9 We expect to submit next week a first report on the economic, financial and industrial implications of a long strike.

Department of Industry
18 January 1980

Correction: British Rail is losing £2½ million per week from the strike in all its aspects, not only from the blacking of steel transport by the BR unions, as suggested in the 4th Report.

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cc Mr. Wolfson
Mr. Ingham
Mr. Lankester

File

10 DOWNING STREET

Nat Industries

From the Principal Private Secretary

18 January 1980

Dear Jan,

STEEL DISPUTE

When your Secretary of State, who was accompanied by Mr. Gross, called upon the Prime Minister this morning to discuss the steel dispute, they agreed that it was important that the proposed meeting between the Prime Minister and Mr. Sirs and Mr. Smith should take place on Monday at the latest in order not to have an adverse effect on possible developments in the dispute later in the week. On the other hand, it was unlikely that Mr. Sirs and Mr. Smith would want to come and see the Prime Minister immediately after the meeting they were having with your Secretary of State and the Secretary of State for Employment tomorrow morning: they would almost certainly want to pause to reflect on their discussion with your Secretary of State and Mr. Prior before meeting the Prime Minister. A meeting on Sunday was a possibility, but it might convey an impression of panic. The ideal time for the meeting was therefore Monday morning. It was accordingly agreed that I should get in touch with Mr. Sirs' office to say that the Prime Minister could so adjust her engagements on Monday morning as to be able to see Mr. Sirs and Mr. Smith at any time which suited them. I should also explain that, as the Prime Minister had made clear in her letter of 17 January to Mr. Sirs, she would have to extend the same courtesy to Sir Charles Villiers and Mr. Scholey on Monday morning. I was to go on to say that if for some reason Mr. Sirs was completely unable to rearrange his diary for Monday morning, the Prime Minister would be ready to see him and Mr. Smith immediately after their meeting with Sir Keith Joseph and Mr. Prior tomorrow, though she thought that this would be a less satisfactory arrangement.

The Prime Minister and your Secretary of State also agreed that it was important that he should appear on television immediately following tomorrow morning's meeting to give the Government's account of the discussion. Otherwise, the field would be left to Mr. Sirs.

Subsequently, I spoke to Mr. Feather in Mr. Sirs' absence on the lines agreed by the Prime Minister and your Secretary of State.

/Mr. Feather's reaction

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CONFIDENTIAL

- 2 -

Mr. Feather's reaction was to say that he thought it likely that following tomorrow morning's meeting Ministers might want to reflect on what the trade union representatives had said and then perhaps to see Sir Charles Villiers and Mr. Scholey. They might also wish to see Mr. Mortimer of ACAS or to set in hand a search for some other mediator. Mr. Sirs and Mr. Smith would also want time to reflect upon their discussion with Sir Keith Joseph and Mr. Prior. All this suggested to Mr. Feather that a meeting with the Prime Minister on Monday morning might be too soon.

Mr. Feather and I discussed a little further the pros and cons of meeting on Monday morning but left it that he would report to Mr. Sirs later this evening what I had told him about the Prime Minister's availability. We agreed that Mr. Sirs and Mr. Smith would make up their minds about whether they were ready to attend a meeting on Monday after they had seen your Secretary of State and Mr. Prior tomorrow morning.

I also took the opportunity while I was talking to Mr. Feather to emphasise that neither tomorrow morning's meeting nor any meeting with the Prime Minister would be in the nature of a negotiation. Rather, such occasions would be an opportunity for the unions to explain their case to Ministers and to answer any questions which Ministers wished to put to them about it. At the same time Ministers would probably want to explain the Government's approach to the present dispute. But the dispute would be settled only by resumed negotiation between BSC and the unions. Mr. Feather said that the unions understood that there was no question of negotiating at tomorrow morning's meeting or at a meeting with the Prime Minister.

I am afraid that this was not an altogether satisfactory conversation with Mr. Feather, and we may well find that the unions try to delay their meeting with the Prime Minister until the middle of next week or later. We may find, however, that Mr. Sirs takes a different view from Mr. Feather whose reactions were very much off-the-cuff. But I may be clutching at straws.

As I told you on the telephone early this afternoon, the Prime Minister would like your Secretary of State and Mr. Prior to come here immediately after their meeting tomorrow morning to report on their discussion with Mr. Sirs and Mr. Smith (unless, of course, the two union leaders decide that they do want to see the Prime Minister immediately, in which case the Ministers will accompany them to No. 10). She told your Secretary of State, however, that if he found that his constituency engagements tomorrow made this impossible, she would be grateful if Mr. Gross could represent him.

I am sending a copy of this letter to Ian Fair.

Yours wv,

Alan Whinn

Memorandum by Chairman, British Steel Corporation - 18 January, 1980

BSC's Pay Policy

BSC's pay policy for 1980 arises from:-

- * The present dangerously high cost of British steel.
- * The scale of the cash crisis facing BSC, based upon H.M.G. policy of "no funding of losses in 1980/81".
- * The adverse trend in forecast results, in the absence of remedial action.

A radical change in the method of pay increases is now needed. BSC is trying to persuade the Unions in Steel that:-

- * The business crisis means a step change from previous years.
- * The pressure of cash limits makes it unrealistic to pay a general increase which is not funded by better productivity and results.

The business crisis makes it essential for BSC:-

- * To move away from the tradition of a remotely negotiated national wage award, which has little relevance to shop floor performance.
- * To move to an award based on performance improvements under local schemes, seen to be effective (or not) at shop floor level.
- * To change quickly to the same manning and work practices as our competitors in Europe.

BSC sees this pay round as a turning point to get:-

- * An understanding by the Unions and workforce of the danger to themselves of carrying on in the same old way.
- * An "enabling agreement" with the Unions to make changes happen.
- * An acceptance by the workforce of change to get better results in the works and so to get higher pay under local schemes.
- * A realisation that the days of "something for nothing" are over, in cases such as steel, where better productivity could pay the lot.

BSC Offers

Result

25 Sept. I.C.	ISTC claimed wage increase over the expected cost of living and other benefits estimated by BSC to add over 25% to wage costs	BSC said this claim was unrealistic in current conditions and should be reconsidered.
3 Dec. ISTC	BSC offered (1) <u>Consolidation</u> replacing supplements with geared increase costing 2% (2) <u>Divisional Schemes</u> linked to results at local level worth up to 10%	ISTC rejected without detailed discussion, "pie in the sky".
7 Dec.	ISTC EXECUTIVE COMMITTEE DECLARED A NATIONAL STRIKE UNLESS AGREEMENT WAS REACHED BY 2 JANUARY 1980	
21 Dec ISTC	BSC proposed (1) further discussion of divisional schemes (2) 3% general wage increase for suspension of "guaranteed week" scheme	ISTC rejected these proposals
28 Dec. ISTC	BSC proposed to add to initial 2% for consolidation a further 4% for a national "enabling agreement" to increase productivity.	ISTC rejected these proposals
<u>1980</u>		
2 Jan.	NATIONAL STEEL STRIKE BEGAN	
4 Jan TUC Cttee with Mr Murray	TUC Co-ordinating Committee proposed 13% increase as a basis for resumed working including 5% for productivity to be paid weekly in advance, plus helpful generalised provisions. BSC proposed (1) deferring consolidation and awarding an 8% general increase (2) reaching a strong enabling agreement on demanning, flexibility and non replacement of retirees. (3) 4% as a guaranteed minimum of the productivity schemes for 1980.	TUC offer was unacceptable to BSC There was nothing for 8% , the 5% was an award to be paid in advance on national rates and the total of 13% was only "a basis". BSC's offer was unacceptable to TUC because of "enabling agreement" and productivity payment in arrear
7 Jan	BSC offered (1) for a strong agreement nationally 8%) (2) for local productivity schemes, minimum 4%) 12% min. (3) one quarter's payment of 4% in advance)	This is BSC's offer.

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.

3/...

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

CONFIDENTIAL

Nationalised
Industries.

✓ MAP

NOTE OF A TELEPHONE CONVERSATION BETWEEN THE PRIME MINISTER AND
THE SECRETARY OF STATE FOR INDUSTRY AT 2315 HOURS ON 17 JANUARY

Sir Keith Joseph telephoned the Prime Minister to inform her that Mr. Bob Scholey felt that he had been put in a difficult position by the decision of Ministers to see the steel union leaders. Mr. Scholey's confidential meeting with Mr. Sirs earlier in the week had been very useful, and the two men had got on well. Scholey had been looking forward to making progress in a further meeting planned for Tuesday, 22 January. But the public announcement that he (Sir Keith) and Mr. Prior would meet Mr. Sirs had been misinterpreted as conscious intervention by the Government. Mr. Scholey considered that this completely undermined the prospects of serious discussion at his next session with Mr. Sirs. Mr. Sirs would undoubtedly hold back for his promised meeting with the Prime Minister.

Sir Keith wanted the No. 10 Press Office to brief even harder to the effect that the meetings with Ministers would involve no substantive discussion, and that the meeting with the Prime Minister was just an example of her usual courtesy in meeting anybody who wished to go over difficulties with her.

Sir Keith said that he and Mr. Prior were considering the possibility of bringing Mr. Sirs to see her on Monday, 21 January, at the end of their meeting with him. This would ensure that he was aware that he could not expect further concessions from the Prime Minister, and that he would therefore need to treat his next private meeting with Mr. Scholey as a serious step in the negotiations.

The Prime Minister said that she would wish to consider this possibility overnight. She would certainly want it to be made clear to Mr. Sirs that he could expect to get nothing further from her. Sir Keith should instruct her Press Secretary to brief still harder along the lines that he proposed. If necessary, the meetings between Mr. Sirs and Sir Keith with Mr. Prior, and with her, could be brought forward to the weekend, although she understood that this timing might be difficult for the union side.

18 January 1980

MAP

W. B.
PRIME MINISTER

Nat. Industries
W. H. Hester has
As by whom - in
can you
Limit sum.
BRITISH STEEL: YOUR POSSIBLE MEETING WITH SIRs

Your reply to Sirs strikes the right note in terms of fairness and impartiality. This note suggests how to ensure that it does not go wrong by giving Sirs a negotiating advantage. R

1. SIRS' OBJECTIVES

Sirs will be trying to get indications of movement (intervention, pressure on BSC, Government money etc) in two stages:

- (a) He will try to exploit any disagreement between Keith Joseph and Jim Prior at his meeting with them and will undoubtedly leak whatever he chooses to.
- (b) He is then likely to insist that he is still not satisfied and wishes to have a meeting with you. He may then try to postpone his meeting with you (it already appears that, despite his approach to you for a meeting, he cannot see Keith and Jim before Monday) until the eleventh hour - just before the private sector come into the dispute - so that the blame for the consequences can be laid at your door. "The Prime Minister had the opportunity to intervene and stop the escalation of the strike, and she refused to do so."

2. OUR PLAN

We must prevent Sirs delaying his meeting with you. He should therefore see Keith and Jim on Monday (apparently the earliest date he can manage anyway). Since Sirs will be closeted with Scholey, Smith etc on Tuesday, we must then aim for Wednesday for him to meet you, if he asks for a meeting. It will in fact be quite difficult for him to delay such a meeting. It would look peculiar if he expresses dissatisfaction following his meeting with Keith and Jim, insists on seeing you, and then can't do it for several days.

At the end of the Monday meeting, Keith should make it clear that, if Sirs still wishes to see you, it is simply to give him the opportunity to present his position directly to you. He should make clear that this is solely because you are concerned that the union side feel they have been unfairly treated. You have had no discussions with Villiers. If, now, Sirs wants to see you, then of course you must also offer the same opportunity to Villiers.

Keith and Jim should be fully briefed to make this position absolutely clear to the press after the Monday meeting with Sirs.

15. B.

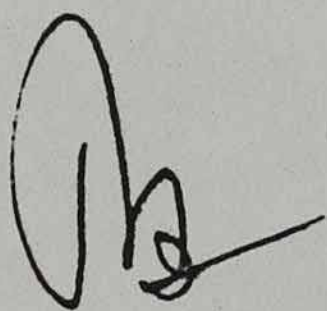
The purpose of any meeting between Sirs and you is to allow him to present his views directly to you. There is no question of negotiation, or of arbitration by you. The position is completely unchanged. The responsibility for the negotiations lies with BSC's management and the union leaders. Responsibility for BSC's cash limits still lies with the Secretary of State for Industry.

We think it important that Villiers does accept, and be seen to accept, the offer of a meeting with you. If he did not, the unions might try to suggest that he had obviously had regular contact with you and that therefore a further meeting was not necessary.

A minor point, but it might be possible to suggest to the press the Government's slight surprise that, after this urgent request from Sirs for a meeting with you (made yesterday, Wednesday) he was then unable to meet Keith and Jim until Monday.

3. GETTING CONTROL OF THE DEBATE

We still believe that the right way to catch up, in the propaganda war, and get control of the debate would be a Prime Ministerial broadcast if and when it becomes clear that we really are in for a long, tough and damaging strike. A particular reason why the broadcast should be by you rather than another Minister, is that our first opinion research results, in this morning, show that wives of steel workers are, predictably, less enthusiastic about the strike than their husbands. Sixty per cent of steel workers say there should have been a ballot, thirty-seven per cent that it was right not to have one. The equivalent figures for wives are eighty-three per cent and eleven per cent. Similarly, thirty-six per cent of steel workers believe that the strikers should go back to work, with sixty-one per cent saying that they should stay on strike; the equivalent figures for their wives being fifty-six per cent and thirty-nine per cent - ie almost exactly transposed.



JOHN HOSKYNS
17 January 1980



10 DOWNING STREET

THE PRIME MINISTER

17 January 1980

Dear Mr. Sirs,

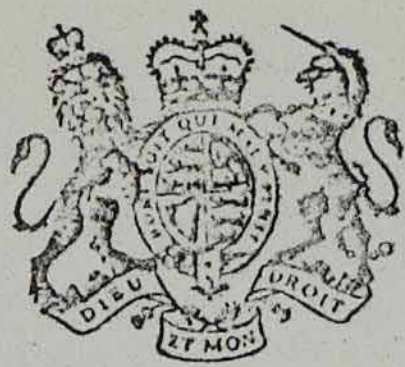
Thank you for your letter of 16 January asking to see me about the steel dispute.

I would, of course, be very ready to see you and Mr. Smith but I think that it would be useful if you were first to meet the Secretary of State for Industry and the Secretary of State for Employment. I know that they would like to see you and I have therefore asked them to get in touch with you to arrange a meeting as soon as possible.

I know that you will understand that if I meet you and Mr. Smith, I should have to extend a similar courtesy to Sir Charles Villiers and Mr. Scholey, with whom (contrary to reports in today's newspapers) I have not at any time discussed the dispute.

Yours sincerely
Royall Holt

W. Sirs, Esq.



Original in G/R cc D/M
D/M

10 DOWNING STREET

17 January 1980

THE PRIME MINISTER

Dear Mr. Weighell,

Thank you for your letter of 4 January. I do of course deeply regret the breakdown in negotiations between the British Steel Corporation and the unions representing their workforce, particularly as the Corporation are offering employees the opportunity to earn substantial increases through negotiated productivity schemes. That opportunity has not yet been properly explored.

The plain fact is that the BSC has to compete in an international market and simply cannot afford to give pay increases without getting corresponding increases in its productivity - any more than we as a nation can afford to go on paying ourselves increases we do not earn.

I still hope that we can avoid the widespread damage which a prolonged dispute will cause to the BSC, its customers, and others such as some of your own Union's members whose livelihoods depend in part on a successful steel industry.

As Keith Joseph indicated in the House of Commons on 14 January, the Government cannot play a direct role in trying to settle this dispute. But I understand that ACAS are talking to the parties concerned at present. I hope that they may be able to contribute to a resumption of negotiations between the BSC and the unions concerned, and to an early settlement of the dispute.

Yours sincerely

Margaret Thatcher

Sidney Weighell, Esq.

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FILE

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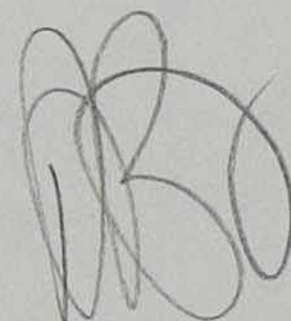
HADFIELDS

17 January 1980

The Prime Minister has received the enclosed letter from the Chairman of Hadfields Limited concerning the steel strike. She would like to send a quick reply to this letter herself, and I should be grateful for a draft by close of play tomorrow (Friday).

T. P. LANKESTER

I. K. C. Ellison, Esq.,
Department of Industry.



CHAIRMAN'S OFFICE
Telephone No. 440353

HADFIELDS LIMITED
EAST HECLA WORKS
SHEFFIELD S9 1TZ

16th January, 1980. - P 3

The Rt. Hon Mrs. Margaret Thatcher M.P.,
Prime Minister,
10 Downing Street,
LONDON

Dear Prime Minister,

The United Kingdom Steel Industry is now in a critical position. If appearances and statements via the media are to be believed, the relationships between Messrs Villiers, Scholey and Sirs are worsening rather than improving.

During the last 14-days this Company has experienced the worst aspects of the secondary picketing of the Private Steel Sector. Despite the 24-hour attention of the pickets we continue to work normally, due to the combined determination of management and workforce. This situation has been achieved through a programme of rationalisation of our organisation which was forced upon us by market circumstances following acquisition of Hadfields by Lonrho in March, 1977. Since the Company was acquired we have reduced the labour force from 5,200 to 2,700 - without one day being lost through industrial dispute - and during the same period have uplifted output by 50%. The steel workers will respond if management give them the lead.

In view of the present crisis, surely the time has arrived where the British Steel Corporation needs a new sense of direction and purpose. Bill Sirs and members of his union have pressed for the resignation of British Steel Corporation's Board. Frankly, the time would seem opportune for those responsible for the management of British Steel Corporation to step aside and allow a proven team to take over its management.

As Chairman of Hadfields, I am authorised by Lonrho's Chief Executive to offer the services of our management group to take on the responsibilities of managing British Steel. This could be done quite easily under a simple management contract. What matters is that British Steel Corporation needs to put its house in order quickly in order to avoid the industrial crucifixion which we are rapidly approaching. Solutions within the industry are available and we believe we have these solutions.

Yours sincerely,

Derek Norton

DEREK NORTON

16 JAN 1998



P..

CONFIDENTIAL

Qa 04403

To: MR WOLFSON

From: SIR KENNETH BERRILL

British Steel Corporation

1. After the last meeting of E Committee you and I had a talk about the BSC strike and I raised the need, as soon as the strike is settled, to turn to other major BSC issues - including BSC's allowances for depreciation and the price they pay for coking coal. I said I would send you a note amplifying this.

2. It is useful to start from BSC's cost profile. The last figures we have are for 1978/79 but they are helpful in giving the general picture.

	<u>%</u>	<u>£ bn.</u>
Raw Materials	41	1.5
Fuel	10	0.4
Total Employment costs (of which employees' remuneration)	31	1.1
	25	0.9
Other charges	9	0.3
Interest	6	0.2
Depreciation	3	0.1
	<u>100%</u>	<u>£3.6 bn.</u>

A few comments:

(i) Around £100m. for depreciation (£6/tonne) is nonsense in this capital intensive industry which has had so much recent investment. It arises from BSC's practice of depreciating on historic cost, straightline, and over a longish period. At Estel (Dutch/German) it is £14/tonne; Italsider (Italy) £14/tonne; Usinor (France) £12/tonne; and Nippon Steel (Japan) £15/tonne. BSC is clearly well out of line.

(ii) Raw materials and fuel at 51 per cent are by far the most important element of total expenditure (twice wages). Here BSC do have a complaint. The coking coal they get from the National Coal Board is over £10 a tonne

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above the import price and the fact that it is of poorish quality also adds to operating costs. BSC are importing over one-third of their coking coal. If all their coal could be imported, BSC would save at least £100m. (This places BSC at a competitive disadvantage. For example, the German Government subsidises German coking coal down to the world price on the understanding that German steel producers buy all their coking coal from German producers. For next year, BSC are assuming either that they import half their requirement or that the NCB will drop their price to hang on to their present market. NCB cannot afford to lose any more of the coking coal market so they may be forced to drop their price. In effect, BSC are at present subsidising NCB. Next year, at least part of the subsidy could move either on to the Government or on to the shoulders of NCB's captive customers, i.e. electricity consumers.)

(iii) Putting right the questions of depreciation and coking coal subsidy weigh much more heavily on the expenditure side of BSC's profit and loss account than what is at issue between the two sides in the present steel strike. Wages are only 25 per cent (or 31 per cent if all related costs are added in). If what is at issue is as high as 8 per cent on wages (and it could be much less), it still only represents 2 per cent of BSC's total expenditure. Uncertainties over raw material costs, fuel costs and, most important, over sterling, are much bigger than this (e.g. we think BSC's 1980/81 budget was calculated on \$1.90 compared to the present \$2.25).

(iv) BSC took their requirement to break even on operating costs so seriously that they originally offered their workers zero increase in basic rates (the 2 per cent was for consolidation and had been previously promised) and what the workers stood to get to maintain their real wages at a time of 17 per cent inflation were productivity bonuses based not on increased output but on increased profitability (value added) which would have made the workers share the risks of raw material and fuel prices; movements in sterling, etc. BSC have shifted from this a great deal and now offer a guaranteed minimum of 12 per cent plus value added bonuses plus productivity deals of traditional kind - though just how much they have shifted, it is difficult to say since the offer contains for example a requirement to give up the guaranteed minimum weekly wage (i.e. it introduces some risk sharing via another route).

CONFIDENTIAL

3. As I have said, BSC have taken their requirement to break even on operating costs very seriously and it would be a bad climb down for the management to have publicly to abandon it (i.e. they would not thank the Government to have this constraint publicly removed). But when compromises are being sought it should be possible to save their face somewhat with some adjustment to the definition of operating costs (e.g. on running down costs of plants due for closure).

4. What is still at issue financially is well under 2 per cent of operating costs and less important than the fuel cost, plant closures and restructuring, and redundancy costs, depreciation, policy, etc. to which we then need to turn. It is doubtful if BSC will, in the event, break even on either their present offer or the rather higher one which will be needed to achieve the compromise to end the strike. But if a 1 per cent shift of operating expenses into 'other costs' (i.e. into the £450m. cash limit) would bring about a settlement, its worth considering - provided the 'break-even' plus £450m. limits are not breached overtly and the wage deal can be presented as 'self-financing'.

5. I am sending a copy of this minute to Tim Lankester, John Hoskyns, and to Robert Armstrong.

K.B.

16 January 1980

P.S.

I believe that some of the above may be reflected in the Secretariat's brief for the Prime Minister for Cabinet tomorrow.

MR. HOSKYNS

cc. Mr. Whitmore ✓

HW
16i

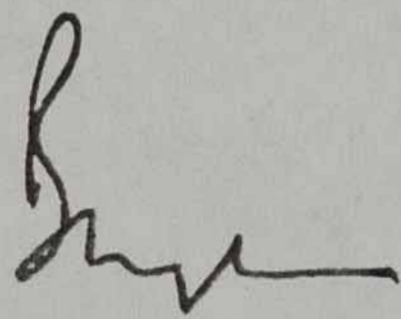
B.

Steel

Thank you for a copy of your note to the Prime Minister on the steel dispute. I would not, at this stage, wish to enter into a discussion of its substance, though I must say I have serious reservations about "a Prime Ministerial broadcast".

However, a great deal is already going on to influence attitudes through radio, TV and press. One example is the attached briefing note which I produced for last weekend.

You will see it echoed substantially in the piece by Keith Renshaw in last weekend's Sunday Express and in yesterday's leader in The Sun.



B. INGHAM

16 January, 1980

Mrs Thatcher — 'No beer and sandwiches'

MRS MARGARET THATCHER and her Cabinet are keeping their nerve and remain adamantly opposed to intervening in the steel strike, despite Labour Party and trade union pressure for Government action.

Ministers see the situation in British Steel as a prime example of what must be resisted if "Dreamland Britain" is to be banished.

By refusing to intervene Ministers consider they are denying the unions a weapon because, in the past, the prospect of late-night beer and sandwiches at 10 Downing Street has encouraged them to bid-up their demands, and Governments, afraid of becoming unpopular, rushed to the rescue. But those days are over.

Behind the Government's resolution that the steel managers and unions must sort things out themselves lies a whole mass of startling facts which Ministers feel cannot be ignored.

1 A third of every BSC worker's earnings is subsidised by the taxpayer. This year the subsidy amounts to £1,800 per man.

2 Over the past five years the taxpayer has put £3,106 million into BSC. That means £221 from every family in the country and when the £450 million committed to BSC for 1980-81 is handed over it will add another £32 for each family to the tax bill.

3 British steel production, despite massive investment, is running at about only half that of her competitors in Europe and productivity is not improving as quickly as on the Continent.

4 On average the BSC workers earned £110 a week last September which made him £9.50 a week better off than other workers, on average, in manufacturing industry. Average weekly pay of £124 is now on offer by BSC.

These facts convince Ministers that the steel dispute is not essentially about the amount of extra pay but who should find it—the taxpayer or the workers themselves through higher productivity.

The Government believes that there is wide scope for more productivity and Sir Keith Joseph, the Industry Secretary, is expected to detail these hopes when he makes a statement on the steel strike to the Commons tomorrow.

But a huge political row on the Government's attitude to the strike was signalled last night by Mr Michael Foot, Deputy Labour Leader and a former Employment Secretary.

by KEITH RENSHAW

The steel industry crisis and its repercussions on the whole British economy are going to cost this country hundreds of millions of pounds in lost production, lost jobs and lost skills," he told Southampton Labour supporters.

The bill must be sent direct to the right address—to 10, Downing Street. It is a case of criminal negligence on the part of the Government in general and Mrs Thatcher in particular.

"Never did Ministers receive a stronger warning of forthcoming calamity."

DON PERRY writes: Britain's employers are pleading with the Government to speed up its plans to outlaw the secondary picketing which is turning the steel strike into an industrial catastrophe.

Critical

Because of intensified picketing employers now face dwindling stocks of all steel products from steel sheet to food cans.

Mr Cyril Coffin, director-general of the Food Manufacturers Federation, said last night that the effect on the nation's food supply lines was "very serious."

One critical plant where output is being severely damaged is the Metal Box factory at Neath, Glamorgan. This firm, in its various factories, makes two-thirds of the nation's food and drink cans, and one third of the can ends needed by the company are normally made at Neath.

Mr Peter Walker, Minister for Agriculture, said yesterday that it was "monstrous" that food supplies should be hit by secondary picketing.

"The only people who will be celebrating will be foreign food suppliers."

SUNDAY EXPRESS

13.1.80

DISPUTE

- not essentially about the amount; instead about how any pay increase is to be paid for - whether through greater efficiency or by the taxpayer.

PRODUCTIVITY

- scope for improvement very considerable by putting modern, efficient plant to best use. On a strictly comparable basis UK productivity is roughly half - and in some cases less than half - of that of our major Euro competitors. Table in NEDC report, signed by Mr. Sirs, confirms this. UK improvements in recent years have not kept pace with our competitors - so UK steel industry has been falling further behind in the efficiency stakes.

IMPORTS

- not surprisingly an inefficient industry has lost out to foreign competitors whose share of market has steadily risen from 6 per cent in 1970 to over 20 per cent now.

SUBSIDY

- over 5 years taxpayer has put £3,106m. into the steel industry - £221 for each family. Another £450m. committed for 1980-81 representing another £32 for each family.

LOSSES

- in spite of these massive injections of public money, cumulative losses over same period £1,400m. Forecast loss of £324m. in 1979-80 amounts to a subsidy by taxpayers of £1,800 per man employed in the industry, representing nearly a third of average earnings in steel.

COMPETITORS'
PERFORMANCE

- while Euro competitors improved their commercial performance in 1979, BSC's losses may actually worsen. Dutch and German state companies now profitable; Belgian and Luxembourg state companies have sharply reduced their losses and are moving towards profit.

EARNINGS

- average earnings in UK steel in September 1979 were £110 a week compared with £100.50p in manufacturing industry. BSC's offer would raise earnings to £124 - 20 per cent above average industrial earnings.

FUTURE

- no future for a bankrupt corporation
Only way to salvation - and secure jobs - is to compete on price, quality and delivery. BSC has massive scope for improvement in efficiency and therefore, incidentally, earnings. Union objective of high wage - high productivity industry can be achieved - but only if unions and workers cooperate with management to deliver the goods in the plants.

11 January, 1980

2
~~PRIME MINISTER~~
To see
MJ

THE STEEL INDUSTRY

It is hoped that members will find this brief useful for the debate on an opposition adjournment motion on government policy towards the steel industry on Thursday, 17th January 1980.

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1. The Historical Background

The steel industry in Britain has a troubled history which forms a backcloth to the present problems of the British Steel Corporation. In 1949 the Labour Government's Iron and Steel Act nationalised all firms making out a given tonnage of pig-iron, ingot steel and hot rolled steel. In 1953 the Conservatives' Iron and Steel Act created the Iron and Steel Holding and Realisation Agency to sell back the Iron and Steel Corporation's assets to private enterprise. All but one of the ISHRA's 71 original firms were disposed of - Richard Thomas and Baldwins. Freed from the dead hand of nationalisation, output in the steel industry rose and by 1960 had reached about twice the level of 1945. Productivity in terms of output per man, rose by 20% between 1954 and 1960.

However, uncertainty about the industry's future was increased by the Labour Party's threat of re-nationalisation. The industry's health had consequently diminished by the time Labour's 1967 Iron and Steel Act nationalised the fourteen largest steel making companies which together controlled 90% of the UK's steel making capacity. Rationalisation within a competitive framework, as advocated by the Conservatives, was delayed by the essentially irrelevant debate concerning nationalisation. Conservative amendments - fifty of which were successful - made important contributions towards achieving better scrutiny of the British Steel Corporation's activities and more competitiveness. However, from the first year of nationalisation, 1967-1968, BSC began to make losses, partly because of depressed demand but partly too because of a lack of flexibility in the response of management to changing world conditions. Industrial negotiations within the steel industry took place within an atmosphere of uncertainty, not decreased but rather increased since its nationalisation. The discipline of the market ceasing to be fully applicable, negotiators remained uncertain as to government decisions on pricing policy and funds for new investment.

In government until 1970, the Labour Party supported the BSC's nationalisation programme; in 1969 the BSC was, under Labour, reorganised into four product groupings in order to speed up the rationalisation process. However, once in opposition the Labour Party quickly revised its opinions and the Party fought the February 1974 election on a pledge to review all closure plans. The heavy investment and restructuring which was carried through under the last Conservative Government required the closure of obsolete plant and the maximising of the use of new processes.

A White Paper of February 1973 (Cmd. 5226) pledged support for a ten year strategy of development. However, the falling off of steel demand could not have come at a worse time for the BSC development plan. The result is that the Corporation - with other countries' steel industries - was and is left with a major problem of over-capacity; while high manning levels and old plant have dragged down its ability to compete.

This was the situation faced by the last Labour Government. It was one which required firm action to safeguard tax payers' money, to secure the viability of a lower capacity British Steel industry and to increase competitiveness. That action was not, however, forthcoming. Plant closures were held up until Lord Beswick, then Labour's Minister of State for Industry, could report to Parliament in February and August 1975. The review postponed closures at East Moors and Hartlepool and delayed an overdue decision on Shotton. It was not until January 1976 that

the trade unions agreed to a reduction in manning levels. In their joint statement, the BSC and unions agreed to practices intended to make the industry profitable, productive and competitive. Sir Keith Joseph, Secretary of State for Industry, has commented on this agreed aim:

"Two things are needed for this. First, capital investment in new equipment and secondly, the proper use of that equipment. The equipment has been provided - at a cost of over £2,250m. in the last five years. In 1979-80 the taxpayer is finding £700m. for steel. In 1980-81 we shall be providing £450m. of taxpayers's money to BSC. BSC is entering the 1980's with equipment as modern and as potentially efficient as any steel industry in the western world.

"But that efficiency has still to be achieved. I quote again from the joint statement of January 1976 by BSC and unions "Changes will have to be made now (that was in 1976) to reach European levels of productivity". And the unions acknowledged in that agreement of almost exactly four years ago, the need for radical changes in manning and in working practices."
(The Times, 15th January 1979)

This failure resulted in no little part from the Labour Government's politically motivated interference in the BSC's affairs. In July 1976 it ordered BSC to review once more its plans to close Shotton. Losses accumulated to the point where the Select Committee on Nationalised Industries carried out a special survey. Its reports of November 1977 and February 1978 were deeply critical of the BSC's bad financial forecasting and of Mr. Eric Varley's and Mr. Gerald Kaufmann's conduct.

The lack of realism shown by BSC and the Labour Government in the face of growing evidence of over-capacity having been duly exposed, closures of plants went ahead. It is worth remarking that in 1978-9 a number of (complete or partial) closures had to be made at East Moors, Ebbw Vale, Shelton, Glencarnock and Bilston. During the year BSC's total workforce was reduced from 164,000 to 155,000. The Labour Government itself admitted in its White Paper, British Steel Corporation: The Road to Viability (Cmnd. 7109, March 1978) that "the over-capacity that would result from unchanged policies would be more costly than either the Corporation or the country can afford". The BSC has accepted (in "Prospects for Steel, April 1979) that it should "break-even" by 1979-80, but without the requirement of Sir Keith Joseph that this must indeed be achieved it is most unlikely that this 'target' would have been taken seriously. Even now the chances of its being attained look increasingly remote.

2. The Problems of the British Steel Corporation

The troubled past of the BSC and the failure of the last Government to take firm action to encourage a return to profitability have contributed to the Corporation's grave predicament. Its losses have been staggering:

BSC LOSSES

	1975/76	1976/77	1977/78	1978/79	£m 1979/80 (forecast)
Loss for the year	(255)	(95)	(443)	(309)	(300+)
Loss before charging interest, tax or extraordinary items	(129)	69	(275)	(137)	(160+)

In the BSC's annual reports for 1977-1978, the chairman, Sir Charles Villiers wrote: "In the last year ended 1st April 1978 the Corporation lost £443 million. Losses on this scale are totally unacceptable and everything possible must be done to eliminate them". They were in fact reduced, but not eliminated. The accounts for 1978/9 make dismal reading too. Sir Charles has summed up the 1978/9 performance of the BSC as "a bad but better year". In the first half of 1979/80 the BSC lost £145.6 million and this bodes ill for the yearly results.

Over the five years 1975/6 to 1979/80 about £3,100 million, representing £221 for each family in the country has gone into British Steel as the following table shows:

	£m
1975/76	659
1976/77	931
1977/78	801
1978/79	715
1979/80	700 (estimated)

Mrs. Thatcher commented on "Weekend World" on 6th January 1980 that in the light of these figures: "The objective is clear, we want the British Steel Corporation to be able to compete with any company in the world on price, on quality, on delivery. If it can't it won't have a future, and if it can't there will be more and more redundancies".

It must immediately be said that the poor financial performance of BSC is not entirely the fault of the management and workforce of the company. UK steel demand last year was at its lowest since 1962-3, though there were signs of the beginning of a slight up-turn. World markets are very depressed and this has had a major impact on all steel producing companies. Japanese steel production, for example, is said to be running at only about a third of capacity. For Japan, of course, the results of the cut-back are in a sense less traumatic because the very rapid growth of steel production there has been quite recent. For instance, between 1960 and 1975 production there multiplied about seven-fold, while European output remained broadly stable. In Britain the steel communities have grown up over a much longer time.

Moreover, while European Steel production has continued to be eased out of the market through stiff competition, European steel consumption in 1978/9 was still about 15% below the 1973 peak and steel production was only about 65% of rated capacity. This has led to the evolution of a common European policy for steel. A Community crisis plan for steel has been in operation since 1st January 1977 in order to mitigate the effects upon employment and production of the slump in world demand for iron and steel since 1973-4. Through the programming of steel production among EEC member countries by the quarter, the use of minimum and guidance prices and the making of arrangements with third countries to prevent dumping and excessive import penetration, the European Commission has tried to allow the steel industry of the EEC a breathing space. It is up to the Government, through the exertion of proper financial discipline, and the management and work-force of BSC through co-operation in necessary demanning and the raising of productivity to see that this "breathing space" is turned to account. The restructuring of the industry throughout Europe in order to accommodate this long term contraction of steel demand would be put in jeopardy if member states simply subsidised their industries in order to stave off realistic decisions about future capacity.

Increasingly attention has been centred upon the need to increase productivity in order to bring the BSC to a viable state of profitability. Recent figures brought before the National Economic Development Council by the NEDC Iron and Steel sectoral working party show that while it is true that productivity rose in the UK steel industry by about 7% in 1978 as a result of plant closures and a reduction in employment of 20,000 jobs, international comparisons show that the gap is widening between British productivity and that of our main competitors. Report 16 of December 1979 shows that the number of man hours required to produce 1 ton of crude steel (manual workers only) is as follows:

	W. Germany	France	Italy	Bel.	Lux	UK
1977	6.5 hrs.	7.2	5.4	6.2	6.1	11.9
1978	5.9 hrs.	6.4	5.2	5.2	4.8	10.9
% Improvement 77-78	9%	11%	4%	16%	20%	8%
% of total workforce made up of manual workers	74%	65%	80%	82%	77%	68%
% overtime working - manual workers (Oct 1978)	48%	n/a	3%	1%	6%	11%

It has also recently been revealed that productivity at two of Japan's modern steel-making plants - the Kimitsu and Oita plants of Nippon Steel - is between three and six times greater than at the BSC's plants (The Times, 8th January 1980)

3. Closures and De-Manning

The need to streamline production and increase output per man in order to avoid further contraction and greater losses has led to the urgent consideration by the BSC of plant closures - total and partial - and de-manning. This led to the announcement in December last year that the Corporation would cut out 30% of its capacity, from 21.5 million liquid tonnes of steel a year to 15 million tonnes. This provoked alarm, particularly in South Wales. BSC aims to shed about 52,000 jobs in iron and steel making and connected activities by mid-1981 and the Welsh Division were asked to comment on three possible options:

1. Closure of either Llanwern or Port Talbot steel-making with a loss of nearly 15,000 jobs.
2. Closure of iron and steel making at one of the works and rolling facilities at the other with a loss of 13,500 jobs.
3. Scaling down steel-making at both works to just over half the present production with a loss of 11,000 jobs.

Other steel works affected are: the Consétt Works in Co. Durham (to be closed losing 4,000 jobs), the Hallside Works, Cambusland in Scotland (to be closed, losing 600 jobs), the Anchor Works at Scunthorpe in Lincs. (reduction of employment by 2,800), rolling mills throughout the country (some closures - loss of about 2,500 jobs). The two new steelmaking plants at Ravenscraig and Teeside will have their capacity maximised to produce lower cost high quality and competitive steel.

BSC's statement emphasised:

4. The Trade Unions and the Present Dispute

BSC's 182,000 workers are represented by fourteen separate trades unions. The most important is the Iron and Steel Trade Confederation (ISTC) 90,000 of whose 105,000 members work in BSC. Other leading unions with members in BSC are the TGWU 15,000; National Union of Blastfurnacemen 12,500; AUEW 8,000; General and Municipal Workers 7,000. All are now in official dispute and claim total support for strike action.

BSC's last offer

The latest offer made by BSC management on January 7th and rejected by union negotiators is made up as follows:

- i) A general increase of 8% based on a national agreement to include changes essential to improve the efficiency of the industry, particularly flexibility in working practices, reduced manning at ongoing plants, non-recruitment of labour to fill vacancies caused by natural wastage, in order that such an agreement should be self financing.
- ii) A further increase of 4% (in lump sum payments) arising from locally negotiated lump sum bonus schemes... "In addition steelworkers directly concerned with traditional productivity schemes would receive further increases. Last year locally negotiated schemes yielded an average of 6 - 7% on top of the nationally negotiated settlement". (Statement by BSC Board 7th January 1980).

This offer would raise average earnings in the industry from £110 to £122 per week. The unions had been seeking an 8% general increase plus 5% for productivity. On 11th January however Bill Sirs, General Secretary of ISTC said "My members want 20% with no strings attached. (Times 11th January 1980).

Union/Management negotiations

The rejection by all unions of this latest offer was the culmination of more than a month's continual bargaining. The main outline of events in the negotiations leading up to the strike runs as follows:

- 3rd December 1979. BSC offer 2% plus the possibility of a further 10% in locally negotiated productivity deals. This is rejected by Bill Sirs as 'ridiculous'.
- 5th December 1979. The Blastfurnacemen and craft union follow the ISTC's rejection.
- 7th December 1979. The 21 man executive of ISTC decides to call a strike after the expiry of the present pay deal on 31st December
- 11th December 1979. Renewed negotiations between BSC and ISTC.
- 12th December 1979. Bill Sirs writes to General Secretaries of National Union of Railwaymen and the traindrivers (ASLEF) to obtain their support not to move steel during any strike. This is duly given.
- 21st December 1979. BSC raise their offer to 5% plus productivity, in exchange for the union's abandonment of the guaranteed working week which costs an estimated £30m. per year. This too is turned down.

BSC is now at a critical moment in its twelve year life. If it does not tackle its problems with vigour and a sense of realism it will wither, because its customers will turn to imports rather than pay the unnecessary costs of over-capacity, overmanning and non-competitive working practices" (11th December 1979).

There have been some signs of welcome realism - a realism primarily induced by the concentration of minds through the Government's refusal to continue to fund BSC losses in the next financial year:

1) At Corby most of the 6,500 steel workers have told their union, the Iron and Steel Trades Confederation to abandon the battle to save the plant and begin negotiations on redundancy terms as soon as possible.

2) At Shotton, where the announcement on 12th July that iron and steel making would end with a loss of about 6,000 jobs, was greeted with threats of non-cooperation by workforce and unions, a similar decision has already been taken.

Shotton itself lost over £27 million in 1978-9. Shotton was losing £24 per ingot tonne. The Welsh Division of British Steel was overall losing at the rate of £19 per tonne. It is said (Daily Telegraph, 29th June 1979) that losses at Shotton may increase to £40 million in the current year. 10,000 workers are employed there. BSC wants to shut down the twelve old open hearth furnaces which are among the last of their kind functioning in Europe. Other operations at Shotton which seem to have a profitable future will continue. The modern coatings complex at Shotton will rapidly build up production. The galvanising line exceeded its design capacity within two months of initiating production. Shotton was within an intermediate Area - currently in receipt of 20% RDG on new buildings and adaptations. It has now been decided to upgrade it to an SDA and the WDA is providing £45 million in factories and sites. Major work on infrastructure development is also to take place. Unemployment is lower at Shotton than the Welsh average: 6.5% compared with 7.3%. But its catchment area is much wider and includes Wrexham, with a rate of 11.2%. The only other major employer in the area is British Aerospace. New jobs will depend particularly on measures to revive small businesses.

However, a realistic appreciation of BSC's problems matched by an understudy of limited job opportunities and scope for wage rises has been less noticeable on two other recent occasions:

1. At Hunterston a dispute between the TGWU and the ISTC as to which union should operate the new Clyde one-terminal supplying Ravenscraig paralysed plant for over 6 months, threatening Shotton's remaining finishing industry and nearly closing down Ravenscraig itself. Only considerable pressure from the TUC and the agreement of the Secretary of State for Employment to designate Hunterston within the dock labour scheme averted this disaster for British Steel.

2. Even though it is widely recognised that imported coking coal would save BSC about £10 per tonne, and so allow the Corporation to offer a more competitive product for sale, the NCB and NUM resist this move. An 18,000 tonne cargo of US coal for Llanwern steel works has already been blacked. It is ironic that this should occur at a time when cuts in BSC's South Wales workforce may, according to the NCB, mean the closure of 11 pits.

24th December 1979. Len Murray calls steel union leaders for talks at TUC headquarters.

28th December 1979. Renewed talks between union management break down. The BSC's offer was raised to 6%. Mr. Sirs says "We would like to see a short, sharp action which would leave neither side defeated. (Daily Telegraph 29th December)

30th December 1979. ASLEF instructs its members to black all steel imports together with the movement of finished products and raw materials to and from BSC plants. Bill Sirs in attendance at ASLEF executive meeting making this decision.

Alex Kitson of the TGWU says dockers, will black unloading of steel (Morning Star, 31st December).

2nd January 1980. Strike commences.

After a meeting with Bill Sirs, the NUR tightens up previous instructions on blacking the movement of BSC products and some materials. NUR members now told to black movements to private steel works.

7th January 1980 and since: BSC and unions continue with separate contacts with ACAS.

The Conduct of the Strike

In order to try to make its threat of a "short sharp action" effective, steelworkers have placed heavy reliance on secondary picketing of ports, stockholders, private producers and key users of steel. To this end the steel unions have sought the support of rail unions, as mentioned above, dockers and international transport organisations.

Moss Evans who is in the rare position of having members in BSC, among dock and road haulage workers and among user industries, notably EL and engineering, pledged the support of his dock and transport members not to move or handle steel. The International Transport Workers' Federation which is London based and has members world-wide circulated its affiliates "to use all means at your disposal to see that no steel is moved from or through your country to Great Britain until further notice".

The International Metalworkers' Federation has also promised solidarity action. The Swedish Transport Workers Federation has blacked all steel destined for the UK. With such a surge of unions and types of action involved it has proved difficult for the union leadership to control picketing and blacking activity. The ISTC has only 30 full-time officers in its seven national regions. They are largely without experience in organising strike activity.

The TUC, and Scottish and Welsh TUC's have given their full support to the strike. The Scots TUC which is left-wing dominated saw the dispute as an important one not just for steel but for the whole trade union movement. Welsh unions have tried to link the strike pay disputes with the cuts in the steel industry and force a strike by miners and others affected by the manpower reductions. Recommendations by the Welsh NUM for such a combined strike to begin straightaway were rejected by the national NUM executive and by the TUC. At the request of the TUC Nationalised Industries Committee, Monday March 10th has now been set for action.

Secondary Picketing

The TUC issued guidelines for the conduct of pickets at the commencement of the dispute. Len Murray said: "These are for the orderly conduct of picketing. This will be done by the unions and not by every Tom Dick or Harry" (Daily Telegraph, 3rd January 1980).

This hope, shared by Mr. Sirs, has been upset by a number of incidents. Some examples of secondary picketing are:

- a) at Hadfields in Sheffield, a major private steel producer, 12 pickets were arrested last week and one policeman injured in scuffles.
- b) at Watson Towers, a private stockyard in Wistow, Lanarkshire 9 pickets were arrested as they tried to stop vehicles entering and leaving. One picket was reported as saying to a lorry driver: "We will know his face next time we see him and you can bet he will never carry steel again" (Daily Telegraph 11th January 1980)
- c) at King's Lynn, Norfolk 12 TGWU drivers at a BSC stockholder, John Lee were laid off as a result of secondary picketing. A Corby strike leader was quoted as saying "We aim to halt all movement of supplies in a Grunwick style operation (Times 12th January 1980).
- d) Pickets from Scunthorpe, Corby and South Yorkshire in numbers of over 1,000 per day have been active in picketing east coast docks such as Immingham, Goole, Boston.

The Employment Bill now before the house would make unlawful secondary picketing of this nature. The Bill provides for picketing at an employee's place of work, or by the employee's trade union official accompanying him or an employee dismissed as a result of a trade dispute at his former place of work or in the case of workers with no fixed workplace at the place where their work is managed if this picket is leading to breaches of contracts, then employers will be able to take out an injunction.

Union Attitudes

At first it was believed the ISTC members in some areas such as Lincolnshire were reluctantly supporting their executive. No ballot of members before the strike was held. The decision to take strike action rested in the ISTC with its 21 man executive on the advice of a 60 member negotiating committee. Although the ISTC is a wealthy union, with assets of £11½ million it is paying no strike pay. The TGWU is however paying its striking members £6 per week, the AUEW £9, and the GMWU £10.50 per week per member. The steel unions have no tradition of militancy but their members are isolated in some areas, notably South Wales and South Yorkshire noted for their aggressiveness. Local contacts and attitudes in other unions may stiffen the resolve of ISTC members. Union leaders are under no illusions about the possible length and seriousness of the dispute. David Basnett has said, "We are in a war of attrition which British Steel will lose. The strike will be long and British industry will suffer... Attitudes will harden as the dispute goes on". (Sun, 10th January 1980)

(Sun 10 Jan)

5. Conservative Policy

The Government's decision not to fund any operating losses of the British Steel Corporation in 1980 - 1981 and to leave the management of the Corporation to take the necessary decisions in consultation with the workforce is in line with the 1979 Conservative General Election Manifesto commitment:

"We want to see those industries that remain nationalised running more successfully and we will therefore interfere less with their management and set them a clearer financial discipline in which to work".

The financial target set to the British Steel Corporation recognises this. Resources paid through subsidies for inefficient nationalised industries have to be taken away from other potential growth centres of the economy; thus jobs 'saved' in the area mean jobs aborted elsewhere. Moreover, the government is pursuing goals set not by previous Conservative Governments but by the BSC and endorsed by the trade unions in their joint statement of 1976 and by the last Labour Government.

Mr. Eric Varley, then Secretary of State for Industry put the arguments for rationalisation well in March 1978:

"The present world surplus of steel will last for many years and...the sales opportunities for BSC both at home and overseas on which the ten year development strategy of February 1973 was based, are no longer realistic even on the most optimistic assumptions. In present market conditions the Corporation has substantial over capacity...Neither the Corporation nor the country can afford the cost of the mounting overcapacity that would result from unchanged policies... For the BSC to achieve financial viability, it is necessary for capacity to move more into line with demand. The Government have therefore accepted that BSC should seek to negotiate the closures in 1978-79 of high cost plants, in particular the BEswick review plants...The funds required by BSC inevitably place a heavy burden on the public purse and direct resources from other desirable objectives. This can be justified only if both management and work force can show they are taking the steps necessary to achieve the lasting viability and international competitiveness, which are the Government's firm objective". (Hansard, 22nd March 1978 Col.1511)

The difference between the Labour and the Conservative Government, extends, therefore to action rather than words. As Sir Keith Joseph pointed out on Monday:

"The right hon. Gentleman (Mr. Silkin) said that the fault was all mine for insisting that the industry should break even in the coming financial year and that I was quite wrong to suggest that that was the previous Government's policy. It was the previous Government's policy, as expressed, but they did not have the will power to stick to it". (Hansard, 14th January 1980, col 11).

This Government will "stick to it".

ANNEX

The following tables show the financial performance of BSC's foreign competitors. The figures show

- 1) that all steel industries have been loss makers
- 2) that most are successfully reducing losses - or as with sacilor making big efforts to do so, increasing competitiveness with BSC.

		PRODUCTION (m tonnes)	PROFIT/(LOSS) (£ million)	PROFIT OR (LOSS)/ TONNE (£ per tonne)
ARBED (LUXEMBOURG)	1976	4.04	(19)	(4.75)
	1977	3.8	(72)	(17)
	1978	4.2	(32)	(6)
	1979	losses sharply reduced in first half of 1979		
ESTEL (HOLLAND)	1976	10.4	(16)	(1.5)
	1977	9.4	(105)	(14)
	1978	10.4	(69)	(6)
	1979	pre-tax profits made in Q2/3 1979		
SACILOR (FRANCE)	1976	6.6	(84)	(13)
	1977	6.4	(267)	(42)
	1978	N/A	(117)	(18)
	1979	further heavy losses expected in 1979		
COCKERILL (BELGIUM)	1976	5.1	(18)	(6)
	1977	4.9	(116)	(24)
	1978	5.4	(106)	(20)
	1979	N/A		
ITALSIDER (ITALY)	1976	10.8	(85)	(8)
	1977	10.2	(258)	(25)
	1978	10.4	(214)	(21)
	1979	N/A		
KLOCKNER (GERMANY) (steel interests) estimate	1976	N/A	N/A	N/A
	1977	3.75	(81)	(22)
	1978	4.2	(62)	(15)
	1979	group now operating profitably		
BSC	1975/6	17.2	(255)	(15)
	1976/7	19.7	(95)	(4)
	1977/8	17.4	(443)	(25)
	1978/9	17.3	(309)	(18)
	1979/80	loss of £300m+ expected		

TELEPHONE:
01-837 6691 (3 LINES)

TELEGRAPHIC ADDRESS:
"STEELCON, LONDON W. C. 1"



YOUR REF:

OUR REF:

✓ *Mr King*
Mr Hatters
Mr Hoskyns
WS/BW.

Drum
I have asked Sir Keith
and Mr Price for advice

THE IRON AND STEEL TRADES CONFEDERATION

General Secretary
W. Sims

Swinton House,
324 Gray's Inn Road,
London, WC1X 8DD
16th January, 1980.

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
London, S.W.1.

on his
own initiative is to
say "no" - especially
since they haven't yet
seen Sir Keith
or Mr Price.

Dear Prime Minister,

Official Dispute with the British Steel Corporation.

We cannot help but notice that while you profess not to be involved in the current dispute, there have been meetings between you and your Ministers with the Employers during the present dispute.

They may
be referring
to Solly
from an
employee.

It is also noted that you have been involved with the media on behalf of the Employers.

Taking this into account I am now formally requesting a meeting with you for a full discussion.

Yours faithfully,

A. C. Smith
General Secretary.

National Union of Blastfurnacemen.

W. Sims
General Secretary.

Iron and Steel Trades Confederation.

R
16/1

Ref A01159

PRIME MINISTERThe Steel Strike

BACKGROUND

Although both Mr Prior and Sir Keith Joseph had prepared papers on the steel situation for tomorrow's Cabinet, you decided that they should not be circulated. This is partly because the situation is developing too rapidly for the papers adequately to reflect it, and also in order to avoid the circulation of documents bringing into the open the growing difference of view between Sir Keith Joseph and other colleagues. As you requested, we have accordingly produced the attached speaking note, as a basis for your introduction of the discussion. The note itself contains a good deal of factual information, but you may find the following additional material useful.

2. The financial constraints on BSC: the formulation in the speaking note summarises the gist of the public statements which have been made. Cabinet may well wonder how far they have been further interpreted in an authoritative way and how much room for manoeuvre exists within them. As we understand it, the intention was that BSC should earn enough to cover operating costs, depreciation and interest over the year as a whole, but that, in the first six months they can subsidise losses from depreciation and from the profits from disposals up to £50m. It would however be well worth exploring whether the words actually used, are capable of a different - and more relaxed - interpretation.
3. The external financial limit: the £450 m figure is net. The make-up is as follows: BSC plan to spend £637 m on investment and closures in 1980/81 (£250 m on fixed investment, £70 m on working capital and £317 m on redundancy payments). £187 m of this total is intended to be met from proceeds to their capital account (£60 m from disposals, £72 m from depreciation, £20 m from regional development grants and £45 m from operating profit). The remaining £450 m will be provided by Government. This represents about one-eighth of BSC's turnover in 1980/81.

4. BSC's finances and the wage offers so far made: Sir Kenneth Berrill has sent a separate note to Mr Wolfson on which you may care to draw.

5. ACAS: the Employment Protection Act 1975 gives ACAS a very wide remit - extract annexed. The Act does not give ACAS a specific power to appoint a mediator, but this possibility is, we understand, well within their general powers of conciliation.

HANDLING

6. You will want to introduce the subject yourself. Thereafter you might call on the Secretary of State for Industry, the Secretary of State for Employment and the Home Secretary to give progress reports.

Discussion can then range as widely as you, and time, permit. As a matter of tactics, however, you will want to stress that Cabinet are being asked for decisions (they have no papers before them). In the same vein you will want to commission work both for its own sake and to maintain momentum. Possible candidates are:-

a. A note from the Secretary of State for Industry about the likely shape of BSC's accounts in 1980/81 on various assumptions about the outcome of the strike (duration and cost of settlement) together with an indication of sensitivities to changes in fuel prices, raw material costs, etc.

b. A note from the Secretary of State for Energy about the implications of subsidising NCB coking coal to the BSC down to world price levels, coupled with an indication of the prospects of obtaining EEC finance for such subsidies.

c. A note from the Secretary of State for Industry on the public and private definitions of the financial constraints on BSC which the Government have made and the room for manoeuvre, if any, which may exist within them.

All these papers to be for E Committee in the first instance.



7. You will also want to seek the guidance of the Cabinet on the response to be made to the approach to you by Mr Sirs and Mr Smith.

8. You may also want to pick up the suggested approach to the CBI on picketing referred to in paragraphs 9 to 11 of the "Fourth Report of the Inter-Departmental Contingency Group" circulated to members of Cabinet under cover of the Secretary of State for Industry's Private Secretary's letter of 15 January - which is on the agenda.

CONCLUSIONS

9. You will presumably be aiming for a general 'take note' conclusion. In addition you may want specific conclusions on:-

i. The Sirs/Smith letter.

ii. An approach to the CBI on picketing.

iii. Commissioning papers on the lines described in the preceding paragraph.

A handwritten signature in black ink, appearing to read 'R.A.', is positioned above the typed name.

ROBERT ARMSTRONG

16 January 1980



16 JAN 1980



Faint, illegible text or markings in the center of the page, possibly bleed-through from the reverse side.

PART I

MACHINERY FOR PROMOTING THE IMPROVEMENT OF
INDUSTRIAL RELATIONS

Advisory, Conciliation and Arbitration Service, etc.

Advisory,
Conciliation
and
Arbitration
Service.

1.—(1) There shall be a body to be known as the Advisory, Conciliation and Arbitration Service, in this Act referred to as "the Service".

(2) The Service shall be charged with the general duty of promoting the improvement of industrial relations, and in particular of encouraging the extension of collective bargaining and the development and, where necessary, reform of collective bargaining machinery.

(3) The provisions (so far as applicable) of Parts I and III of Schedule 1 to this Act shall have effect with respect to the Service.

Conciliation.

2.—(1) Where a trade dispute exists or is apprehended the Service may, at the request of one or more parties to the dispute or otherwise, offer the parties to the dispute its assistance with a view to bringing about a settlement.

(2) The assistance offered by the Service may be by way of conciliation or by other means, and may include the appointment of a person other than an officer or servant of the Service to offer assistance to the parties to the dispute with a view to bringing about a settlement.

(3) In exercising its functions under subsection (1) above, the Service shall have regard to the desirability of encouraging the parties to a dispute to use any appropriate agreed procedures for negotiation or the settlement of disputes.

(4) The Service shall designate officers of the Service to perform the functions of conciliation officers under any enactment (including any provision of this Act or any Act passed after this Act) in respect of matters which are or could be the subject of proceedings before an industrial tribunal, and accordingly any reference in any such enactment to a conciliation officer is a reference to an officer designated under this subsection.

Arbitration.

3.—(1) Where a trade dispute exists or is apprehended the Service may, at the request of one or more parties to the dispute and with the consent of all the parties to the dispute, refer all or any of the matters to which the dispute relates for settlement to the arbitration of—

(a) one or more persons appointed by the Service for that purpose (not being an officer or servant of the Service);
or

(b) the Central Arbitration Committee constituted under section 10 below.

PART I

(2) In exercising its functions under subsection (1) above, the Service shall consider the likelihood of the dispute being settled by conciliation and, where there exist appropriate agreed procedures for negotiation or the settlement of disputes, shall not refer a matter for settlement to arbitration under that subsection unless those procedures have been used and have failed to result in a settlement or unless, in the opinion of the Service, there is a special reason which justifies arbitration under that subsection as an alternative to those procedures.

(3) Where in any case more than one arbitrator is appointed under subsection (1)(a) above the Service shall appoint one of the arbitrators to act as chairman.

(4) An award by an arbitrator appointed under subsection (1)(a) above may be published if the Service so decides and all the parties consent.

(5) Part I of the Arbitration Act 1950 shall not apply to an arbitration under this section.

(6) In the application of this section to Scotland, references to an arbitrator shall be construed as references to an arbiter.

4.—(1) The Service shall, if it thinks fit, on request or otherwise, provide, without charge, to employers, employers' associations, workers and trade unions such advice as it thinks appropriate on any matter concerned with industrial relations or employment policies, including the following—

- (a) the organisation of workers or employers for the purpose of collective bargaining;
- (b) the recognition of trade unions by employers;
- (c) machinery for the negotiation of terms and conditions of employment, and for joint consultation;
- (d) procedures for avoiding and settling disputes and workers' grievances;
- (e) questions relating to communication between employers and workers;
- (f) facilities for officials of trade unions;
- (g) procedures relating to the termination of employment;
- (h) disciplinary matters;
- (i) manpower planning, labour turnover and absenteeism;
- (j) recruitment, retention, promotion and vocational training of workers;
- (k) payment systems, including job evaluation and equal pay.

The Steel Strike

Draft Speaking Note

We agreed last week to continue our discussion of the steel strike today. We have no particular decisions to take, but it is worth while keeping abreast of a rapidly-moving situation and not too soon to begin to look beyond the strike to the future of the BSC.

2. I will call on the Secretary of State for Industry, the Secretary of State for Employment and the Home Secretary to give progress reports in a few moments. But it may be helpful if, as a preliminary, I set out a few of the main factors as I see them.

3. We are firmly committed to our policy of cash limits and a visible departure from them would seriously damage our credibility. We have also made it clear that responsibility for pay negotiations in the nationalised industries rests firmly with the Boards of the Corporations concerned and that they and their workforces must carry the responsibility of working out their own salvation. There can be no question of our departing from that principle now, though it is not incompatible with keeping in close touch, as our colleagues have been doing, with both sides so that we may be fully aware of developments.

4. Those Ministers most directly concerned and I myself have been meeting frequently to keep the situation under review and we have had useful discussions in E Committee, the most recent of them last Tuesday. At that meeting the view was advanced that the coming week may provide the most propitious time for a settlement. The unions are under pressure but the consumers, for the moment, are not. The longer the strike goes on, the more pressure will come from industry in general for a settlement; the higher the price of the settlement may be; and the more difficult will be BSC's task of staying within the financial disciplines we have established.

5. Clearly we cannot intervene directly ourselves. But ACAS has a statutory role and is able, for example, to appoint the equivalent of a mediator at the request of both sides. They are of course already engaged in exploratory talks with both sides.

6. It is also I think worth bearing in mind the financial realities which underlie BSC's position. The basic ones are these:-

- (a) We have given BSC a target of operating at a profit after interest and depreciation in 1980-81, and we have told them we are not prepared to subsidise operating losses.
- (b) We have agreed, and published, an external financing limit for the Corporation of £450 million in 1980-81. This sum represents about one-eighth of BSC's turnover. The Corporation have some flexibility in the use they make of this money - provided it is not used to subsidise operating losses.
- (c) In the coming year BSC will be involved in a disposals programme which may bring in some £50-£60 million. The Secretary of State for Industry has told them that they may use sums from disposals to cover operating losses. The external financing limit was set without regard to the income from disposals.
- (d) BSC's wage costs amount to about 30 per cent of their total costs. Raw materials account for another 40 per cent, fuel 10 per cent, interest 6 per cent, depreciation 3 per cent and other costs 9 per cent. There are big uncertainties surrounding the Corporation's non-wage costs - notably for raw materials and fuel - as well as on the level and value of their sales - an uncertainty compounded in export sales (about 20 per cent of the total) by uncertainties about the exchange rate.
- (e) A particular uncertainty overhangs BSC's expenditure on coal. At the moment they pay the NCB about £10 a ton over the world price for coal. (The Germans subsidise their home coking coal down to the world price.) They import some coal, and are in discussion with the NCB and the Government about the price at which they receive NCB coal. The BSC estimate that they are currently spending about £100 million a year more for coal than they would have to if they could buy all of their supplies at world prices.

- (f) On the other side of the account, the BSC's depreciation provision is very low compared with that of their main overseas competitors (£6 a ton by the BSC as against £12 a ton by Nippon Steel, £10 a ton by Bethlehem Steel, £12 a ton by Usinor in France and £14 a ton by Italsider in Italy). Their combined depreciation and interest charges, measured in terms of £ per ton, are also well below those of their competitors.
- (g) Finally, it is worth noting that the irrecoverable costs to the BSC of each week's continuation of the strike is about £10 million.
7. Against this background there are a number of questions which we might usefully focus on today. In particular:-
- (a) How much financial room for manoeuvre have the BSC got within the financial constraints we have imposed? This is obviously crucial.
- (b) Is it right that, at the margin at any rate, BSC's financial results are not significantly affected by the outcome of their wage negotiations, i.e. that there are many other uncertainties which could easily make or break them as the wage settlement? Obviously BSC want to use the powerful weapons we have given them through our financial targets to make the maximum impact on their appalling productivity problems. Equally obviously we must support them in this endeavour. In discussing the case for a compromise at some stage we should not forget that the likely wage settlement - important though it is - will not of itself determine BSC's profitability next year. If things go wrong, the Government is likely to be blamed. But responsibility lies with the industry and must remain there. It would be worth giving some thought now as to how we would defend our stand, in the event either of a quick settlement which might be criticised as over-generous or of a prolonged stoppage which, for example, brought down British Leyland.
- (c) How much room for manoeuvre do we have within our public statements of the financial limits we have placed on BSC? What precise definitions have we given in public or to the BSC? When will the Corporation's success or failure in meeting its obligations become apparent? Does the strike have any necessary consequences on the detailed limits?

CONFIDENTIAL

(d) Have we an additional safety valve through coal prices? On the face of it the BSC has a good case for imports or subsidisation. Would a move later in the year in this direction be seen as a means of subsidising the steel industry or would it be defensible in its own right? What are the prospects of getting EEC money to pay any such subsidy?

(e) Ought we to be considering now the future of the BSC as an institution? Should we not at least consider the problems and advantages of converting it into a number of Companies Act companies which could, if necessary, be allowed to go bankrupt? And how quickly could any such changes be made if we were to decide to follow this path?

8. Finally I ought to mention that last night I received a written request from Mr. Sirs and Mr. Smith to come and see me to discuss the situation. I would welcome views on the response I might give to this approach.

NOTE FOR THE RECORD

The Secretary of State for Employment met representatives of the British Independent Steel Producers Association (BISPA) at 11am on Wednesday 16 January at Caxton House.

Present:-

BISPA

Secretary of State
Mr Smith
Mr Gross (DI)
Mr Galbraith
Mr Kerrison (DI)
Mr Shepherd
Mr Gilbert
Mr Fair

Mr Patterson (President)
Mr Mortimer (Director General)
Mr Lee
Mr Blackley
Mr Williams

1. The Secretary of State welcomed the BISPA representatives and invited their views on the current situation in the steel strike. Mr Patterson said that, as the BISPA letter had indicated, the Association believed the Government should speed up the passage of clause 14 of the Employment Bill, which dealt with secondary picketing, particularly if the ISTC decided that afternoon to step up their industrial action. It was important to remember that the private sector wage agreements were quite separate and substantially different from those of the BSC. The private sector had 65,000 employees in all, 15,000 of them ISTC members. The impression formed by management was that their employees did not want to join the industrial action, but there was always the fear of the loss of a union card in the background. So far it was true that picketing had not seriously impeded production, but 2 firms in Sheffield were already completely stopped and the picketing could well be intensified. If private sector members were called out on strike there could well be some permanent casualties.

2. The Secretary of State said that he had to make it clear to BISPA at the outset that while the Government would put through the Employment Bill as quickly as possible, an attempt to hustle through the provisions on secondary picketing in response to the Steel Strike would not be on Parliamentary terms. The worst way of putting through industrial relations legislation was in response to a particular dispute. In such an inevitably highly charged atmosphere there would be martyrs and concerted opposition to the measures which would wreck their

ong-term objectives.

3. In subsequent discussion the following main points were made:-

(a) Mr Mortimer said that in his view the main problem they were likely to face was picketing rather than direct strike action. The Government should recognise that the success of indiscriminate picketing was being noted and imitated. It was a cheap and effective form of industrial action. Workers would be encouraged by having some protection from the activities of the militants on the statute book. The Secretary of State replied that his impression was that in this dispute picketing was more restrained than it might have been because the TUC and some at least of the unions were anxious not to give further point to the Government's case for changes in the law.

(b) Mr Lee said that the situation in Sheffield was becoming very difficult. Following the road haulage and engineering strikes of the last year employers were seriously weakened. There might be some public relations advantage in stressing the problems faced by certain employers as a result of the current dispute. Mr Patterson added that in some areas private sector employers could have settled but they did not want to let down the BSC. Mr Gross said that DI took their sponsorship of private sector very seriously and were very concerned at the implications of the BSC dispute for it, and had made the point to the unions. Perhaps BISPA might do more now to bring home to the public the danger the strike posed to the livelihood of ISTC members and others in their sector of the industry. Mr Patterson said they would consider this; their response would be determined in large part by the outcome of the ISTC meeting that afternoon.

(c) In discussion of how the dispute might be ended, Mr Patterson drew attention to the fact that in the private sector in contrast to BSC negotiations took place at regional and local level and that this had been accepted by the ISTC. BSC had to get productivity up from its current appalling low level, and he supported them in this. He would be concerned,

however, if he found the dispute revolved round a relatively small sum of money. He felt that if the strike continued there could be damage to British industry ^{generally} from about the end of January. Mr Mortimer said his assessment was that the knock-on effects would probably only become noticeable by mid-February.

4. In conclusion, the Secretary of State reiterated that the Bill or parts of it could not and should not be pushed through hastily in response to the steel dispute. He was sorry to give BISPA no satisfaction on this point, but if there was anything else he could do to help BISPA should get in touch again or come back for a further discussion.

Ian Fair

I A W FAIR

cc	
Mr Taylor	Mr Shepherd
Mr Norris	Mr Moorey
Mr Waring	P/S S of S Industry
Mr Wilson	Mr Gross (DI)
Mr Smith	Mr Kerrison (DI)
Mr Derx	
Mr Galbraith	
Mr Gilbert	

18/1/80

11 12 1
2 3
4 5 6 7 8 9

- 4 FEB 1980

TIM

R.

Ian Fair (Department of Employment) telephoned at 2000 to give you their response to today's letter to the Prime Minister from the ISTC. He had discussed it with Mr. Prior and Smith (?PUS). Their suggested line of response is:

1. Thank you for letter suggesting full discussion of the dispute(!)
2. It is not the case that the Prime Minister personally has been having meetings with the employers (assuming this is true).
3. It is not appropriate that they should meet the Prime Minister herself. ~~but~~ while it is not their advice, if the Prime Minister so wished, she could take up David Wolfson's suggestion of offering another Minister.
4. The final responsibility for the resolution of the dispute rests with BSC and the unions with any such assistance that ACAS can offer. Hopes a solution to the present dispute can be reached before long which will help to provide for the future viability of the industry.

Ian Fair did say that it might be better to get a reply off early in the morning before Cabinet so that Mr. ~~Sink~~ Smith cannot think that their letter has been discussed at it. This is totally contrary to Sir Robert Armstrong's advice - he suggests the response is discussed at Cabinet.

Thompson
Duty Clerk

16 1 80

critical

The ^{crit.} diff. between them is
 when the money comes from.
 The difference may be big, but
 it can be reversed.

Vikings Sunday Evening

TP

Present v. how BCC saw it coming:
 They took it seriously with some head
 trials to discontinue them.
 BCC v. how we getting productivity.
 Appears, but not when we're trying to put it
 self down with the next level.
 Trials to persuade them that coming when is crucial.

Yes, it comes - I will see you, but -
 suggest you can see today/price firm, /
 hi hi. /
 know
 know



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

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

16 January 1980

Prime Minister

Tim Lankester Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1

though perhaps
a bit harsh
on the
unions.

This seems on the
right lines, but I think
some more figures would
be useful, and also a
rebuttal of those who say
the figures are bogus.

Dear Tim,

...

I attach a copy of an outline of the core of the speech
which my Secretary of State proposes to make in the steel
debate on Thursday. This supercedes the outline which I
sent to you earlier today under cover of a similar letter.

PL
16/1

My Secretary of State would be most grateful for comments
on the substance of it from the Prime Minister and those
of his colleagues to whom I am circulating the speech.
I would be grateful if at all possible, these could reach
me by the end of the day.

I am copying this letter to the Private Secretaries to
the Chancellor, the Secretary of State for Employment and
to John Hoskyns and David Wolfson at No 10.

Yours ever,
Pete

PETER STREDDER
Private Secretary

I would be
admirable
I want to make it
clear what the
offer is - many people
don't know.

Av. over
£110

+ 12%
on savings
equivalent

= £123. well worth
if an increase of
£13 p. week

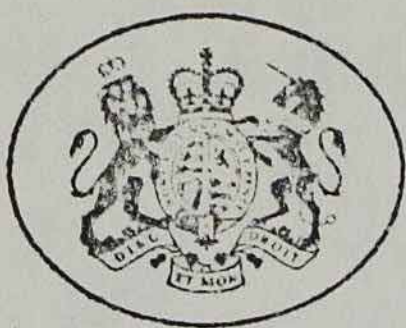
DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE MARKET LINE 21-21
FACSIMILE 212 1234



116 JAN 1960



I enclose a copy of the report of the
Committee on the State of the
Economy for the year 1959-60
which was published on 11th January
1960. The report is available in
English and French. It is also
available in German, Italian, Spanish
and Swedish. The report is
available in the form of a book
and also in the form of a
microfilm. The report is
available in the form of a
microfilm. The report is
available in the form of a
microfilm.



We are in relative economic decline.

Wage earners; salary earners; pensioners in many other countries have higher standards of living than ours.

This is not because of any lack of talent in this country.

Nor is it because all our economy is uncompetitive - many of our manufacturing firms, large and small, are world-leaders; our commerce, distribution, invisibles, City, agriculture are all excellent.

But the good performance of many is offset by the bad performance of some and our average is less good than that of our rivals - and that is why we are in relative economic decline.

Governments must take much of the blame.

We have relatively low pay, low pensions, and inadequate public services in many fields because too many people have been allowed to ignore the economic reality that jobs and earnings - and the public spending made possible by them - depend upon customers and upon being competitive.

/Nationalisation has ...



Nationalisation has actually helped to breed indifference to the customer and to competitiveness;

Management has been patchy—from the brilliant to the poor;

And unions have not understood the link between jobs and pay and customers and competitiveness.

So unions, in order to obtain higher earnings, tend to threaten their employers, if private, with bankruptcy and their employers, if nationalised or state, with disruption and damage to the public;

and they tend to threaten their employers, regardless of demand for the product or service;

regardless of the demand or lack of it for their labour and skills;

regardless of the profit or loss of their employers;

regardless of the scope for increased productivity;

and regardless of the freedom of their members to move in search of higher pay if they can get it elsewhere.



Unions often force private employers to choose between the immediate disaster of a long strike if they resist, or the deferred disaster of crippled competitiveness and profit if they give way.

What the unions tend to demand - and extract - from employers is all too often something for nothing, and increased earnings regardless -

And the result is higher unit costs and so higher prices, squeezed profits and blunted competitiveness - *and so, face pbs.*

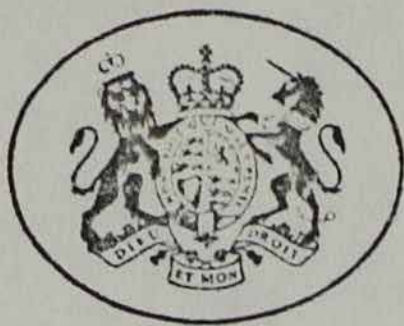
The British disease manifests itself largely in rising unit costs;

Employers - including the Government when it is involved - have tended to give way.

Surrender has been forced upon them by union insistence on something for nothing, enforced by the strike, or the strike threat.

Moreover, the public has come to see giving way as the civilised and normal thing to do.

/The Government is ...



The Government is called upon to "settle it" - meaning to give way - often with the taxpayers' money.

The consequence of innumerable surrenders to union pressure has not been to benefit in general the people of this country.

We have, largely as a result of Something for Nothing, lost competitiveness;

lost jobs;

and lost the better pay,

better pensions

and better public services that we could have had -

and that most of our neighbours have.

We have all too often bought peace at the cost of jobs, pay and pensions.

The steel dispute is a classic example of several aspects of the British disease:

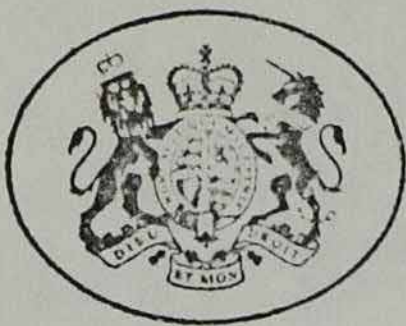
The background is nationalisation;

centralised decision-making;

and therefore maximum error.

Management and successive Governments unite in over-optimism - at the cost of the taxpayer;

/As demand ...



As demand declined far below what was expected - largely because of British stagnation, the decline in the British car industry; high prices and new rivals -

*Not accurate -
Economic
- some
other
side.*

The last Government refused to allow closures, so that what could have been earlier and less adjustment accumulates to larger and larger intensity.

And on top of all this the unions insist upon Something for Nothing - not Something for Absolutely Nothing, no doubt, but Something very nearly for Nothing - and then, on top of Something for Very Nearly Nothing, Something for Something on top! (*productivity agreements?*)

This way unit costs will rise again.

Steel is an intensely competitive industry;

Customers have a very wide choice. They won't necessarily buy British;

/And yet steel ...



And yet steel unions and the Labour Party want once again to defer being competitive;

But every year they defer, our rivals move ahead.

Our competitors, our rivals, are increasing their productivity faster than we are;

they are accelerating away from us.

Every year we do not catch up leaves us , not the same distance, but further behind.

Each delay will destroy more steel plants and more steel jobs.

Now pressure to become competitive depends upon steelworkers accepting that it is in their own interests to do so.

If taxpayer find more money - on top of the £4 billion they have already found, and the £450 million for next year already allocated, the steelworkers will be lulled into thinking that they need not become more competitive.



It will be presented - it is being presented - as cruel and stupid not to buy peace yet again.

But it is neither kind nor sensible to buy peace.

It would be another step on the downward path - a big step because ^{particularly} management and union ostriches would think that they could still go on ignoring economic reality.

This is what this strike is about:

ignoring or not ignoring economic reality.

It is not about higher pay.

There was not much difference in money between the figures being discussed when the negotiations broke down.

The difference - (and it was a huge one) - was about where the higher pay was to come from.

Do we want to emphasize the difference?

Please don't say huge

Was it to come from the taxpayer, who will have already found £4 billion for steel by the end of this year and is committed by this Government to finding another £450 million for steel next year?

Or was it to come [from the higher earnings] through higher productivity;

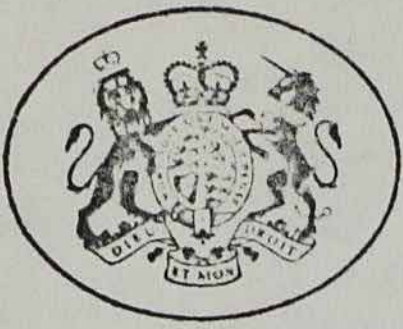
from better work practice;

better management;

^{tighter} ^{manning} tighter manning at all levels?

Also if other was not considered or results only on getting certain equipment

/It will not



*That is what
BSC's
offer has
partly
done -
It is not
dependent on
results*

It will not do to pay lip service to higher productivity,
and then insist on the extra wages regardless - and more
wages for higher productivity on top.

The question is not about higher pay.

The question is whether the higher pay is in return for
Something or for Nothing.

better work

Should the steelworker get Something for Something, or
Something for Nothing? - that is the question.

It is not enough to promise to achieve higher productivity.

It is a sad fact that there have been agreements before -
like the one in January 1976 - in which managements and unions
promised to collaborate to this end.

Nothing much happened.

*- They still claim it has,
- 15% + some claims. Use figures
for SWP.*

The gap between us and our competitors is wider than ever,
despite all our huge investment and despite the promises.

This time both sides must reach an agreement that will produce
results.

This is not a dispute between the bosses and the unions.

It is a tragic clash between the interests of everyone and
those who, meaning well, seem unable to see this.

/Mr Sirs is ...



*Please don't
personate ^{Bill} Sir
you will make him
a hero*

Mr Sirs is a man I like.

He sees his task in the way he has been conditioned to see it.

it would be a mistake to personate this

He doesn't see that his view - Something for Nothing - is at the heart of the British disease, of the ^{relatively} low standards of living for pensioners and wage earners and salary earners in this country.

(don't believe that, such a response serves the long-term)
~~He is not serving the interests of his members.~~

There will be fewer steel jobs because of this strike.

He doesn't serve the interest of workers or pensioners.

They are all damaged by this strike.

Where does the Labour Party stand?

Does it stand for everyone - or does it stand just for union members - No - not even for union members, but for union leaders and shop stewards - for the self-destructive idea of Something for Nothing.

for more wages, not because they have been caused but because those who want them can hold the balance to a nation.

I hope it stands where we in the Government stand - for everyone.

Though Labour Members may mock, we stand for the pensioners, for the wage-earners, the salary earners, and in particular for the steelworkers.

"Something for Nothing" is a large part of the British disease.

It has damaged and is damaging all.



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PS/ *Secretary of State for Industry*

KT is meeting.

R

16 January 1980

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Tim,

... I attach a copy of an outline of the core of the speech which my Secretary of State proposes to make in the steel debate on Thursday.

My Secretary of State would be most grateful for the comments of the Prime Minister and those of his colleagues to whom the speech is circulated on the substance of it and I would be grateful, if at all possible, these could reach me by the end of the day.

I am copying this letter to the Private Secretaries to the Chancellor and the Secretary of State for Employment and to John Hoskyns and David Wolfson at No 10.

*Yours ever,
Pete*

PETER STREDDER
Private Secretary

CONFIDENTIAL



STEEL DEBATE THURSDAY

We are in relative economic decline.

Our neighbours have higher standards of living for their wage-earners, their managers, their pensioners.

This is not because of lack of talent here.

Nor is it because all our economy is uncompetitive.

Many of our manufacturing firms - large and small - are world leaders. Our commerce: our distribution: our invisibles: our City are good: our agriculture is excellent.

But the good performance of so many is offset by bad performance in some nationalised industries and in a number of manufacturing firms - large and small.

And one of the main reasons for bad performance is low productivity - low output, low pay, low profit.

Why has this happened?

Management is patchy - from the brilliant to the poor. Governments have discouraged sensible behaviour and encouraged foolish. Nationalisation has bred indifference to the customer. There is no single answer.

But high on the list of reasons for our bad performance, our relatively low pay, our relatively poor pensions and our relatively poor public services is the fact that too many people - in management, in unions and on the shop floor - ignore economic reality.

Unions threaten their employer with bankruptcy, if private, and disruption, if public, in order to obtain higher earnings regardless of the demand for the product or service that they provide: regardless of their employers' profit or loss: regardless of the demands or lack of it for their own labour: regardless of the scope for higher productivity or better service to the customer: regardless of their freedom to move to another employer or industry or area.



Employers are apt to look only at the immediate disruption which their sort of behaviour causes, and to urge compromise - especially when the dispute is not in their own industry.

We are in relative economic decline because, among other reasons, time and again, earnings have been increased regardless - and the result has all too often been higher unit costs, squeezed profits and blunted competitiveness. The pressure to increase unit labour costs has become part of the British disease.

Employers - including Government - have given way too. It has always seemed the sensible, the kind thing to do - the civilised thing to do. To allow a strike to start or to continue is seen as causing immediate damage to the firm or industry concerned and other firms and other industries that will be affected. They seem not to weigh the long-term costs against the short-term relief.

The consequences of giving way - the loss of competitiveness and therefore the loss of jobs, the loss of better pay, the loss of better pensions, the loss of better public services - have not been taken into account.

For it is lack of competitiveness which has led to the higher unemployment, the lower standard of living, the lower pension than we could have and that, in most cases, our neighbours enjoy.

We have all too often bought peace - at the cost of jobs, pay and pensions.

I repeat that governments and employers have been part of this sustained folly. Some have tried hard to avoid it. They have given way for what always seemed compelling reasons. No doubt they have not explained persuasively enough the cumulative and remorseless - even if not immediate - penalties that follow for the people of this country.

/But ...



But the main blame rests on those who ignore economic realities; who demand or concede more regardless.

Here in steel is another example of the same forces at work. Steel is a highly competitive industry. Customers have a wide choice of suppliers. We have to compete to survive.

But the steel unions and their sympathisers amongst the Members opposite want once again to defer becoming competitive. So do some industrialists who seem to want the strike to be settled regardless. Do they not realise that every year they defer they condemn the steel industry and people earning their livelihood in it to further decline?

Because BSC's competitors are not standing still.

We as a country and they as an industry are pursuing rivals who are accelerating away in front.

Each year that we do not catch up leaves us not the same distance but further behind.

Each year of delay will destroy more steel plants and more steel jobs.

We need a smaller industry and surging productivity if steel is to be profitable and competitive and if steelworkers are to have any security and a rising standard of living.

That smaller industry and that surging productivity are the aim of the BSC and of the Government. They will not be achieved by buying peace: by increasing the taxpayer's subsidy to increase earnings. We are far more likely to see surging productivity if that is the way that steelworkers can receive higher pay.

It will be presented - it is being presented - as cruel and stupid not to buy peace yet again.

But it is neither kind nor sensible to buy peace. It would be another step on the downward path - and a big step because our

/management ...



management and union ostriches would think that they could still go on ignoring economic reality.

That is what this strike is about: ignoring or not ignoring economic reality. It is not about higher pay. There was not much difference in money between the figures being discussed when the negotiations broke down. The difference - and it was a huge one - was about where the higher pay was to come from,

Was it to come from the taxpayer who will have already found £4 billion for steel by the end of this year and is committed by this Government to finding another £450 million for steel next year? Or was it to come from the higher earnings through higher productivity; from better work practice; better management; tauter manning at all levels. It will not do to pay lip service to higher productivity, and then insist on the extra wages regardless - and more wages for higher productivity on top.

The question is not about higher pay. The question is whether the higher pay is in return for something or for nothing. Should the steelworker get something for something or something for nothing? That is the question.

It is not enough to promise to achieve higher productivity. It is a sad fact that there have been agreements before - like the one in January 1976 - in which managements and unions promised to collaborate to this end. Nothing much happened. The gap between us and our competitors is wider than ever, despite all our huge investment and despite the promises. This time both sides must reach an agreement that will produce results.

This is not a dispute between the bosses and the unions. It is a tragic clash between the interests of everyone and those who, meaning well, seem unable to see this.

/Mr ...



Mr Sirs is a man I like. He sees his task in the way he has been conditioned to see it. He doesn't see that his view-something for nothing - is at the heart of the British disease, of the low standards of living for pensioners and wage earners and salary earners in this country.

He is not serving the interests of his members. There will be fewer steel jobs because of this strike. He doesn't serve the interest of workers. They are all damaged by this strike.

[Mr Sirs is a man I like. He is a man of deep integrity who feels passionately about maintaining the jobs and living standards of his members. I agree totally with his objectives. He could achieve them so simply.]

[There is very little between him and BSC. The money is available provided only it is earned. Could he not give his members this chance? As things are, the strike is achieving the opposite. There will be fewer steel jobs as a result. This doesn't serve the interest of workers. They are all damaged by this strike.]

Where does the Labour Party stand?

Does it stand for everyone - or does it stand just for union members - no, not even for union members, but for the self-destructive idea of something for nothing.

I hope it stands where we in the Government stand - for everyone. Though Labour Members may mock we stand for the pensioners, for the wage-earners, the salary earners and in particular for the steelworkers. "Something for nothing" damages them all.



16 JAN 1960
L 8 8 11 12 1
L 8 8 11 12 1

...the fact that I have seen him in the way he has been
...and that he has seen that his own...
...the heart of the matter, the...
...and...
...this country.

...the interests of his members. There will be
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1) T L
2) CF for Cabinet.



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PS/ *Secretary of State for Industry*

16 January 1980

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Tim,

STEEL STRIKE: ENDURANCE OF USER INDUSTRIES

... Further to the situation report circulated under cover of my letter of 15 January, and as additional background to tomorrow's Cabinet discussion, I attach a note giving a more detailed assessment of the endurance of sectors of industries mainly dependent on steel.

I am copying this letter to the Private Secretaries to the members of the Cabinet, the Minister of Transport, the Chief Whip and Sir Robert Armstrong.

*Yours ever,
Pete*

PETER STREDDER
Private Secretary

STEEL STRIKE: POTENTIAL ENDURANCE OF MAJOR USER SECTORS

1 In mid-December, the Department's assessment of steel stocks at users' works and at stockholders was that overall there was sufficient steel for about 3 months normal consumption, but stocks were much lower in important areas like tinplate for cans, sheet steel for automotive use and electrical engineering, for specialised engineering applications (eg drop forgings for components, process plant). In these cases, depending on the level of imports, it was thought that problems might arise within a month.

2 With the strike continuing into its third week the pattern of steel supplies is such that imbalances are appearing in the areas normally heavily dependent on BSC. The private sector steel producers have worked almost normally, with the exception of two companies in Sheffield, jointly owned with BSC, and despite heavy picketing in some areas. They have maintained good deliveries of steel direct to users and to stockholders. Stockholders, apart from those in BSC ownership, and despite some picketing, have maintained nearly normal levels of customer deliveries. There have been some steel imports direct to users and some into stockholders, whilst other imported steel has been offloaded from ships and put into storage at the docks and elsewhere. The overall effect is estimated to have maintained, in tonnage terms, 40 to 50% of normal levels of steel supply to user companies. The steel stockholders estimate that without replenishment their stocks would support the present pattern and rate of delivery for 6 weeks but this depends very much on the effects of picketing which is particularly heavy in Scotland and the Midlands. Equally important is the willingness of road transport drivers to continue to cross picket lines.

3 The assessment below is based on current estimates of users stocks, continuation of deliveries at the levels achieved by private sector companies and by stockholders in the past 2 weeks, and very limited imports. Inevitably there is a reflection of the loss of supplies in which BSC normally predominates. On average, user sectors are thought to have stocks for an endurance of 4-6 weeks from now, without serious problems, but some sectors which are heavily BSC dependent are expecting difficulties in 2-3 weeks.

(a) Shipbuilding Whilst general steel stocks are adequate for several weeks, four companies which had scheduled big deliveries from BSC in January have indicated problems in 4 weeks.

(b) Offshore Fabricators Some local shortages of specialised steels have already occurred and major effects are predicted by the end of January.

(c) Heavy Engineering-Process Plant This sector is heavily dependent on BSC. A number of companies have had very little steel delivered since the strike began. Current stocks are estimated to last 4 weeks.

(d) Electrical Engineering General stocks are sufficient for about 6 weeks, but for specialised steels they are less eg sheet steel for transformers where stocks are sufficient for 3-4 weeks.

(e) Bearings This sector is 80% dependent on BSC. Since the strike some steel has been received from the private sector, and stockholders. Overall endurance is estimated to be 4 weeks, but one company will have problems by the end of January.

(f) Drop Forgings (eg automotive components) General stocks are sufficient for 4/5 weeks but some specialised areas could have problems in 2/3 weeks, dependent on pattern of private sector deliveries.

(g) Motor Vehicles British Leyland expect, with some rescheduling, to be able to maintain production of vehicles into early February, despite the effects of picketing on supplies to, and deliveries from their plant at Llanelli which produces car body pressings. Other Leyland plants in the Midlands and in Scotland are picketed but normal production should be possible into early February. The other motor manufacturers estimate normal production for up to 4 weeks, providing present supplies are maintained.

(h) Tinplate Can Producers BSC is the only UK source of tinplate. Picketing has led to problems at the Metal Box factory at Neath which produces 30% of the can ends for their food cans. Output of food cans from the company should be normal this week but will drop by 50% next week if the picketing difficulties are not resolved. Overall stocks of tinplate in Metal Box are sufficient for 3-4 weeks but some is not ideal for food cans. The other major food can manufacturers using tinplate are being picketed in South Wales but not elsewhere. On present stocks they expect can production to be maintained for 3-4 weeks.

MAFF do not consider that the above represents any cause for concern at present. Food canners carry a few days stock of cans in their factories and a minimum of 2/3 weeks of canned products which are currently being processed. Downstream from the food canners, wholesalers and retailers carry at least 2 weeks supply of canned foods.

(i) Domestic Electrical Appliances This sector is normally heavily dependent on BSC and imports for sheet steel. Current stocks are sufficient for 3-4 weeks operation.

(j) Mining Machinery Some companies in this sector expect to have problems by the end of January.

16 January 1980



(e) Business This sector is 20% dependent on 250,000 tons of steel which has been received from the private sector, and stockholders. However, enquiries are estimated to be 4 weeks, but one company will have trouble by the end of January.

(f) Iron This sector is 20% dependent on 250,000 tons of steel which has been received from the private sector, and stockholders. However, enquiries are estimated to be 4 weeks, but one company will have trouble by the end of January.

(g) Motor Vehicle This sector is 20% dependent on 250,000 tons of steel which has been received from the private sector, and stockholders. However, enquiries are estimated to be 4 weeks, but one company will have trouble by the end of January.



10 JAN 1960

(h) Machine Tool This sector is 20% dependent on 250,000 tons of steel which has been received from the private sector, and stockholders. However, enquiries are estimated to be 4 weeks, but one company will have trouble by the end of January.

(i) Other This sector is 20% dependent on 250,000 tons of steel which has been received from the private sector, and stockholders. However, enquiries are estimated to be 4 weeks, but one company will have trouble by the end of January.

(j) Other This sector is 20% dependent on 250,000 tons of steel which has been received from the private sector, and stockholders. However, enquiries are estimated to be 4 weeks, but one company will have trouble by the end of January.

(k) Other This sector is 20% dependent on 250,000 tons of steel which has been received from the private sector, and stockholders. However, enquiries are estimated to be 4 weeks, but one company will have trouble by the end of January.



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PS/ Secretary of State for Industry

*cc Mr Whitford
Mr Hodgson
Mr Lyman*

15 January 1980

Tim Lankester Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1

1. Mr Whitford ^{16/1}
2. Prime Minister

The suggested approach
to the CBI. seems a
good idea. Sir Keith
will raise this in Cabinet

Dear Tim,

STEEL STRIKE: 4TH REPORT OF THE INTERDEPARTMENTAL ^{tomorrow}
CONTINGENCY GROUP

... I attach the Group's 4th Report.

My Secretary of State thinks it would be useful if the Cabinet
on Thursday could consider the proposal in paragraphs 9 to 11
for a discreet approach to the CBI about advice to members on
exploiting the ISTC and TUC picketing guidelines and on
exchanging views about the effects of the strike. This could
perhaps best be done by the Department of Industry.

I am copying this letter to the Private Secretaries to members
of E, the Secretaries of State for Scotland, Wales, the Pay-
master General, the Minister of Transport and to Sir Robert
Armstrong.

*Yours ever,
Pete.*

PETER STREDDER
Private Secretary

*PL
16/1*



STEEL STRIKE : 4th REPORT OF INTERDEPARTMENTAL
CONTINGENCY GROUP

This Report summarises the strike position on 15 January.

Industrial Relations

1 ACAS continue talking to BSC and the unions but there is no sign of significant movement.

2 The strike still seems unlikely to spread to the private sector. The ISTC is holding a special delegate conference today to consider this. The outcome is uncertain, but Mr Sirs is likely to recommend against action. A final decision by the unions will depend on a joint meeting of the ISTC and National Union of Blastfurnacemen (NUB) Executive Committees on Wednesday.

3 The Welsh TUC appear to have put off their threatened industrial action over steel closures for the duration by deferring it until "on or about 10 March" (unless the strike is settled before then); but they plan to go ahead with a one-day general strike in Wales on 28 January.

4 Essential safety work is not likely to be neglected at BSC coke ovens and blastfurnaces despite press reports to the contrary. BSC see no immediate worries here, since even if NUB members do decide to withdraw their safety cover, they hope to be able to call on staff members to implement alternative maintenance methods, particularly at coke ovens.

Steel Supplies

5 Generally the position seems easier than appears from the media. Latest reports suggest that private sector steelmakers and stockholders are continuing to operate almost normally and good deliveries from these two sources are being maintained. Essentially this seems to be the result of those employers who are finding ways of overcoming problems caused by the strike being unwilling to publicise the fact.

6 In nearly all sectors stocks of steel held by users are still sufficient to support normal production into early February. However some specialised problems could occur earlier, particularly on specialised steel for offshore fabricators. Picketing is also causing problems for tin-plate can producers, especially in South Wales. Metal Box at Neath, which supplies can ends for 30% of all Metal Box food can production, is being denied both incoming materials and delivering of its products. Output of food cans from Metal Box should be normal this week but could drop by 50% next week if the problem at Neath is not resolved. However MAFF sees no cause for anxiety over food supplies yet.



7 Picketing has been intensifying, particularly in Scotland, but without altering the supply position as described above. For example despite picketing at Leyland plants at Bathgate (Scotland) and at BL Cars plants in the Midlands BL still expect to be able to continue production into February. Steel is being blocked at most ports (after being unloaded) but contrary to persistent press reports about problems at Kings Lynn there is still some steel moving there.

8 In the transport field there is little change from last week: British Rail unions continue to block transport of steel (at an estimated net cost to BR of £2½m per week). The Road Haulage Association reports continued picketing of steel stockholders preventing supplies leaving these premises. But the picketing seems largely to involve hire and reward vehicles; stockholders' own vehicles are in many cases being allowed through picket lines.

Further Action on Picketing

9 Officials considered whether it would be worthwhile for Government representatives to stress to union leaders the fact that many instances of picketing go beyond the ISTC leadership's own instructions, and indeed the TUC's guidelines on picketing, neither of which support picketing of private steel producers. However we came to the conclusion that this would probably be counter-productive. The union leadership is well aware of the problem. Such action would draw the Government into day-to-day intervention in the dispute. It would also have implications for the Government's stance on the need for trade union legislation.

10 On the other hand we felt that an approach to the CBI might be useful. This would have two aims. First it could attempt to establish what, if anything, the employers' associations are doing to set up machinery for dealing with complaints that union members are not following ISTC instructions. Second, there might be a more general benefit in exchanging views with the CBI's about the effects of the strike. The unions' overall strategy seems to include demoralising employers enough to pressurise the Government to bring about an early settlement. Some companies' attitudes may be affected more by what they see on the television screen than by actual experience. A sober joint appraisal with CBI (done with due discretion) could bolster the resolve of members. For the Government to publicise beat-the-strike successes would be counter-productive.



11 Ministers' views are invited on the desirability of an approach to the CBI on these lines.

Other Action

12 The Treasury aim to complete shortly an assessment of the possible wider economic implications of the effect of the dispute, on different assumptions about how long it lasts. They are also considering, in conjunction with the Department of Employment, the repercussions on other pay disputes. A more detailed examination of the likely endurance and longer-term effects in different sectors of industry is being carried out by the Department of Industry.

Department of Industry
15 January 1980



16 JAN 1980



Iron & Steel Division
DEPARTMENT OF INDUSTRY
Ashdown House
123 Victoria Street
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Tel: 01 212 8705
Switchboard 01 212 7676

Mr T Lankester, No 10

I don't know if you have seen this!

With the Compliments of

S J Gross
15 January 1980

Getting the record straight on British Steel's pay and productivity

BRITAIN'S first national steel strike since 1926 is less about money than the means by which the British Steel Corporation would pay the increases it wants its employees to have in 1980.

When the negotiations with the TUC Co-ordinating Committee broke down on January 7, the difference between what BSC was offering and what the union team under TUC General Secretary Len Murray were seeking was a mere 1 per cent. It is the Corporation's view that the present industrial dislocation with all its implications for the economy, and the certainty of damage to steel itself and the long-term employment prospects of those who work in it, is not justified or explained by that small negotiating gap.

The real sticking point between the Corporation and its unions is that BSC has coupled its offer of 12 per cent to conditions which would make most of it self-financing and improve BSC's prospects of survival in one of the most difficult and competitive international markets there is; the unions were demanding 13 per cent with diluted conditions. BSC wanted to award 8 per cent nationally and 4 per cent in the steelmaking areas; the unions wanted their full 13 per cent nationally.

BSC's last offer fell into two main parts:

1. A general increase of 8 per cent, based on a national agreement which would include the changes essential to improved efficiency, particularly in terms of improving flexibility in working practices to match those in Continental steel, reduced manning at on-going plants, no more automatic recruitment to replace vacancies caused by natural wastage — so that such an agreement could be self-financing.
2. A further increase of a minimum of 4 per cent, payable in lump sum payments, and arising from locally-negotiated lump sum bonus schemes. BSC were prepared to guarantee this minimum benefit from the schemes, but expected the average payment under them to be higher.

BSC calculates that the national part of the offer was worth £8 a week to the average process worker in the industry. The local lump sum bonus scheme payments would have added at least £52 a quarter, the interval at which these would be made. In addition to these two main components of the offer, steelworkers stood to gain another addition to the value of the package. Last year, the industry's traditional local negotiations yielded an average of 6 - 7 per cent on-top of the national settlement — and these would again operate to 'top-up' the main benefits. BSC believes this offer was fair AND a contribution to the future of all employees. It gave significant increases in earnings to steelworkers while the self-financing aspects improved performance in the Corporation's plants, thereby raising the industry's competitiveness. As an indication of good faith and its confidence in the offer, BSC said it would make an advance payment during the first quarter of 1980 at the rate of 4 per cent of gross earnings of the final quarter of 1979 in respect of the local bonus schemes.

BSC's wish for local, self-financing schemes is based on two main points of experience: firstly, men find it easy to relate to deals struck by their local officials and which can be seen to be adding to their pay packets. Therefore, the motivation which steps up productivity is applied. Secondly, agreements signed centrally in London can suffer from questions over interpretation and their acceptance and application are patchy. The unions themselves have often criticised the "remoteness" of Grosvenor Place and have attacked what they see as its insensitivity to local shopfloor issues. The BSC proposals would remove any substance in the union charge from a large area of negotiation.

Many misleading and untrue statements have been made by the opponents of BSC's proposals. Let's set the record straight on some points:

16 JAN 1960



Productivity

The Iron & Steel Trades Confederation claims an "impressive" 16 per cent increase in productivity since 1975. Fact: 1975 was the worst year of the decade. The full table shows that 1978 was only average - 13 per cent below the best year and 16 per cent above the worst. Hardly "impressive". Fact: ECSC figures put BSC productivity, measured in tonnes per man year (tpmy), well below European standards. For 1979, the figures were

BSC	141
France	180
Germany	237

The union claims that UK productivity is 192 tpm. BSC could achieve that with present ECSC manning only if it made 25 million tonnes a year. BSC's present capacity is 21.1 million tonnes and actual production in the last financial year was 17.3 million tonnes. The unions say Continental steelmakers use contractors for some work done here by BSC employees, therefore comparisons are wrong. Fact: Any difference could only be marginal. And if BSC had the freedom of its European competitors, it could probably increase efficiency and cut costs by employing contractors in some areas.

Job losses

ISTC says more than 44,000 jobs have been shed from steel in the last three years - more than 117,000 since nationalisation. Fact: BSC's reductions have been

1977	8,100
1978	13,300
1979	8,600

Since nationalisation, numbers have been cut by 78,000. Another 15,000 are to go by April, including the Shotton and Corby closures.

Manning

ISTC compares manning at BSC's Appleby-Frodingham works with that at IJmuiden Steel in Holland. It is true BSC's production manning is 75 per cent of the Dutch level. Fact: They do not say that engineering manning is 21 per cent above the Dutch level - nor that the Dutch plant makes more than 40 per cent more steel than Appleby-Frodingham.

Higher Productivity—Higher Pay

That's what the unions claim, and BSC agrees. That's why its offer links improved pay to improved performance. The offer guarantees a minimum increase of 12 per cent, providing local bonus agreements are made.

Fact: This would raise process workers' average earnings for 40 hours from £110 a week with overtime to about £123 a week.

But there is no more money for nothing. It has to be earned genuinely before it can be paid — or BSC's problems would just be swept under the carpet, and the decline would continue.

The unions claim that the money BSC is offering them in these efficiency and productivity agreements is already "theirs", and that the Corporation offer is therefore nil. They say the Government should fund pay increases without strings on top of the £450 million the taxpayer is putting into the industry this year - on top of the £2 billion pumped into steel in the past four years. In fact, the money which would more than satisfy the unions' pay aspirations is frozen in the BSC plants, in the still-untapped productivity which could make British Steel contribute to the wealth of the nation once more and give the majority of its employees job security.

This strike effectively reduces the chances of that happening.

If you want to know more phone British Steel 01-235 1212

British Steel Corporation



Prime Minister Encl. 1

The drafts attached add nothing ^{of substance} to what Sir Keith and Mr Prior said in E today. But in any case, the Sirs/Schrey meeting may change things. It would seem best if Sir Keith and Mr Prior ~~as~~ simply reported orally again.

Ann?

15/1

Will have word on Wed. noon with Sir Robert

CONFIDENTIAL

P.0195
MR LANKESTER

THE STEEL STRIKE

Cabinet last week agreed to resume its discussion of the steel strike on Thursday. There was a general reluctance to take serious decisions on the basis of an oral explanation of the issues. We therefore commissioned separate papers from the Secretary of State for Industry and from the Secretary of State for Employment.

I attach drafts of both these papers. (They might need updating in the light of developments early tomorrow morning.)

But events have moved on. There was an inconclusive discussion in E this morning. Your office are probably better-informed than we are about the latest state of play.

The Prime Minister may judge, when she has read these two draft papers, that it would be inappropriate to have a full-scale Cabinet discussion at this stage. If so, we can defer circulation of the papers.

If however she thinks that the time has come to expose the issues fully to Cabinet, we will arrange for these two papers to be up-dated, and circulated (rather late, and in breach of the 48 hour rule) tomorrow morning.

P Le CHEMINANT

Cabinet Office
15 January 1980

We had better not have these papers included. Day I have brief which summarizes all the arguments. Reason for not including possible changes in structure. I will open by summarizing the arguments and pulling the position with regard to what's done and what's not.



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DRAFT PAPER FOR CABINET

(Secretary of State for Industry)

STEEL STRIKE : WHAT IS AT STAKE AND WHAT WE SHOULD DO

We were elected as a Government to restore economic sanity; to stop supporting inefficient loss-making industries out of public funds; to end subsidisation of wages not financed by higher productivity; to dispel the illusion of a right to wage increases in line with the cost of living.

2 BSC is a classic example. Since the Corporation last made ^a ~~an~~ operating profit in 1974/5 the taxpayer has financed total losses of £1400 million on top of the £2400 million provided for capital expenditure. BSC's losses have not been reduced, as they have in other steel companies here and abroad, for whom trade is equally bad, but who know they can go bankrupt if they do not improve. BSC is a by-word for inefficiency by world standards.

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/3 After



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3 After we took office I set them a tough but realistic external financing limit of £450 million for 1980/81 to cover fixed investment and other essential capital requirements, including the cost of redundancies. I have repeatedly said in Parliament and elsewhere that we do not intend to finance operating losses. As a result the Corporation at all levels has recognised, I believe for the first time, that the Government is in earnest. Management have begun dramatically slimming down capacity to match demand and manning to match competitors abroad. The workforce, by accepting the closure of iron and steel making at Corby and Shotton, have shown that they too can face facts. It is this new-found realism which has led BSC to offer wage increases for 1980 only to the extent that they can be financed from internally generated funds.

4 It remains for BSC to decide what they can afford.

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The point I must emphasise is that there is no easy way for them to find money for an unearned wage increase without making it evident that the taxpayer is paying. It is not only a matter of preserving the cash limit, but how the money within the limit is used. BSC could cut capital expenditure further (at the cost of business's future).

They could try to reduce redundancy compensation (at the risk of deferring closures and prolonging operating losses).

But both would mean using funds provided from within the cash limit to subsidise unearned pay increases. Waiver

of interest would be an even more transparent subsidy.

However, I have already told BSC that they can use money from disposals to cover operating losses.

5 The Government's credibility is at stake. ~~In BSC, both~~
if we pinch from self financing both BSC
management and workforce would be lulled once more into shirking the need to become competitive and profitable.

So, over and above any losses from the strike, we would face the prospect of ongoing BSC losses of the order of



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£300 million p.a or ^{more}~~mine~~. Excessive wage claims elsewhere in the public sector (especially the railways and other loss makers) would be encouraged; each 1% pay increase in this sector costs the Exchequer another £120 million. In the country and in the world we would, I fear, be seen as retreating from the economic



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policies
~~Principles~~

on which we were elected. We may **have** weathered the miners' settlement because of special circumstances.

In non-commercial areas like local government the issues can perhaps be smudged. The case ^{of} ~~in~~ BSC is so glaring that I do not think we could ever have dodged it.

6 The prize is great if we stick successfully to our course. Can we afford the price ? In my minute of 21 December to the Prime Minister I recognised the damage to the steel-using industries from a prolonged strike. BL is the most obvious risk, which we might have to accept despite the consequences. How quickly and severely other firms come under pressure depends on the extent to which non-BSC steel supplies keep flowing. The ISTC's decision this week on extending the strike to private steelmakers (~~now may~~ *now may* ~~providing at least half our remaining supplies~~) will be crucial.



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~~Apart from that~~

7 Of course, any outside initiative such as that by ACAS, which
Apart from that,
achieved an acceptable settlement, would be welcome. / We should in
my view stand firm, waiting for time and lack of success to under-
mine the strike's support. The strike has not begun to bite.

Almost half normal steel supplies still seem to be getting through.

Strikers have yet to suffer personal financial hardship. Outside

the industries directly involved, a long strike will, unlike most

^{other}
~~previous~~ occasions, cause little harm or even inconvenience to ordinary
jeopardise the prospect of an internationally competitive industry
people. We must not ~~throw away the prize~~ by faltering.

8 In the meantime we should continue to encourage BSC to be patient
and imaginative in seeking a settlement within their financial
constraints - including the money they could raise from additional
disposals. They and we should vigorously campaign for public
understanding and support. We should seek industrial backing through
the CBI. We should explore ways of encouraging and supporting those
who want to continue working and go about their business despite
picketing. We should examine with the financial institutions means
of relieving steel-using companies threatened with insolvency.

Above all, we should do our utmost to get



across to the trade union movement the message that we are determined not to be diverted by this self-destructive strike and that we are not seeking confrontation; I would hope that reasonable and moderate leaders would listen.

9 The cost of not succeeding would be calamitous. I do not believe that there is any step that could be taken to hold or recover credibility if the final settlement is not self-financing within the terms of our ~~cash limit~~. *financial constraints.*

then
10 The only step we could *then* usefully take would be to see whether the BSC or elements of it could be made bankruptable like firms in the private sector. Management and employees at unprofitable plants would no longer feel that the Government stood behind them financially; if promises of better performance for higher pay were not fulfilled, bankruptcy and closures would follow.

/11 ...



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11 A preliminary study suggests that it would be feasible to turn BSC into a Companies Act holding company wholly owned by Government with a number of Companies Act subsidiaries based on the present operating divisions. There would need to be a capital reconstruction and write-off of existing debt (which will be necessary at some stage anyway to put BSC on a sound financial footing) and almost certainly new legislation. Because the new company would need an injection of funds if some of its subsidiaries were not to become bankrupt straight away. The proposition would initially be at least as expensive for Government as paying direct for an unrequited wages settlement. And Government would remain vulnerable to later pressure to rescue this or that subsidiary so as to preserve national steelmaking capacity. And legislation would take time. Nevertheless, the proposition would point to a long term solution of the problem of nationalised inefficient industries instead of the short term palliative of buying off opposition to efficiency with taxpayers' money. More work needs to be done.

/Conclusions...



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Conclusions

(a) We have a great chance of consolidating our long-term economic credibility if we can get through the BSC dispute without financing an unearned pay increase. We cannot conceal the loss of credibility if we fail;

(b) there are risks and uncertainties in sticking to this course but we ^{should} do so for ~~as long as we possibly can;~~

(c) we should campaign vigorously to win over public, industrial and general union opinion;

(d) we should take whatever steps are practicable to mitigate the short-term consequences of the strike;

/(e) we should



- (e) we should study the possibility of turning
BSC into a group of bankruptable Companies
Act companies.

STEEL STRIKE

Memorandum by the Secretary of State for Employment

(i) INTRODUCTION

Given the potential economic, industrial and political consequences, we need to consider how and when the strike might be ended. We cannot simply await events, possibly to the point at which we might be compelled to intervene directly in circumstances in which a good deal of industry is seriously affected, the price of a settlement has become the higher and we have lost the support of industry. The likely terms of a settlement, and the means of achieving it, in those circumstances could be disastrous to our overall strategy.

(ii) THE PAY ISSUE

2. Whatever the logic of the British Steel Corporation's (BSC) first offer of only a 2% increase in pay from the consolidation of an existing supplement, together with proposals for local lump sum bonus schemes which could provide further increases of up to 10%, it undoubtedly soured negotiations. The proposed schemes were still not well detailed in further negotiations when a further 3% was offered for the withdrawal of the guaranteed week agreement. ³ The Iron and Steel Trades Confederation (ISTC) and the National Union of Blastfurnacemen (NUB) commenced the strike on 2 January and the General Secretary of the TUC then helped to establish a common negotiating position for all the unions concerned. This was for a general increase of 8% without specific commitments to improved productivity and a further 5% as an advance payment against the negotiation and implementation of local lump sum bonus schemes. All the unions were ready to commit

themselves to joint local arrangements to establish these schemes and for their monitoring.

4. In response, the BSC offered the deferment of the 2% consolidation and proposed instead a 8% general increase in return for specific commitments to its proposals for demanning at existing plants (some 12,000 of the 50,000 redundancies first announced only on 11 December), the possibility of suspending the guaranteed week arrangements by local agreement, a non-recruitment policy against existing manning scales and discussions on the relationships between maintenance and process workers. In addition, an advance lump sum payment of 4% was offered in respect of the bonus schemes for the first three months and further payments of 4% were guaranteed for subsequent quarters once local schemes were agreed.

5. Agreement could not be reached and subsequently the Transport and General Workers' Union (TGWU), the General and Municipal Workers' Union (GMWU) and the nine unions represented on the National Craftsmens' Co-ordinating Committee (NCCC) also declared an official strike.

(iii) PRESENT POSITION

6. The strike is now in its third week and steel stocks available to heavy and continuous users are diminishing. Imports are being progressively reduced and private steel makers picketed. Some companies seem others rather later, likely to be significantly affected by the end of the month/and substantial lay-offs would follow.

7. The TUC's Nationalised Industries' Committee has acted to lift the threat of the Welsh TUC to seek a strike of all coal, steel and railway workers in South Wales from 21 January in protest against the BSC's

proposals for plant closures, but its chairman, Mr Frank Chapple, has nevertheless threatened that widespread stoppages could be in prospect unless an acceptable outcome is reached in the discussions the Committee is seeking with the BSC on these proposals. There is a growing danger therefore that the pay and closure issues could become increasingly fused as the strike on pay continues and that agreement on both issues might come to be the price of ending the strike.

8. The CBI is endeavouring to contain already developing anxieties among its members and to be helpful in its public statements, but Sir John Methven has warned me that pressures will build for an early settlement as steel stocks diminish, given that many employers were weakened by the national engineering strikes, are facing declining orders and are having to contend with the high MLR. We must expect mounting pressures in the House for a settlement and there are already suggestions from the media that the Government should intervene in the dispute.

9. The strike is being solidly observed and there are no indications that support for it will quickly weaken.

Loss of income can be borne for a long time. Eventual lay-offs in other industries in which many of the same unions have members are more likely to increase the pressures on the Government to facilitate a settlement of the strike, rather than influence the unions themselves.

The ISTC and the NUB may have come to increase their settlement price since the last breakdown in negotiations, although this is a long way short of the 20% claim voiced by some members, and none of the unions appear prepared to accept all the specific commitments the BSC has sought for the 8% general increase. They might also be expected

to seek surer guarantees for the payment throughout the year for the commitment in principal to the negotiation of local productivity schemes and cannot now be expected to settle for less than a 13% increase in earnings overall. Prospective pay offers and settlements elsewhere in the public sector (eg water, gas, electricity) could come to make a settlement the more difficult if it is long delayed.

10. The Advisory, Conciliation and Arbitration Service (ACAS) has embarked on a first round of meetings with the BSC and the unions. The BSC, possibly for good tactical reasons, has done no more than justify its last offer. The unions' position is that the initiative for a settlement must now come from the BSC. Given these positions, ACAS are unlikely to be able to take positive steps to secure a settlement unless there is some modification to the BSC's position. None of the parties favours arbitration and in any case it might be thought that the issues are too important and sensitive to be left to the judgement of a third party.

(iv) NEXT STEPS

11. We are agreed that the Government must not be seen to intervene directly. I am sure this is right if only because we could hardly then escape from becoming a party to the negotiations, we could be faced directly with union demands about the closure programme and our intervention could make the price of settlement the higher.

12. The Government has no assessment of how the BSC might now see a settlement being reached and on what timescale. Given the damage that a continuing strike will have on the nationalised steel industry with its implications for public expenditure, as well as the consequences for industry generally, we must look urgently to the BSC for its view on how

an acceptable settlement might yet be attempted. This is not to seek to frame proposals for the BSC and the tactics to be used would be primarily for the BSC itself to consider. ACAS could assist through conciliation and could seek to persuade all the parties to accept the appointment of a mediator to help in further negotiations.

13 If however the BSC is unable to contemplate a renewed search for a settlement which now must inevitably entail some rejigging and improvement of their last offer, I am sure we cannot just allow the strike to continue without any clear view on how it will eventually end. It is unrealistic and misleading to believe that the strike could be endured until it is in some sense "won". I recognise all the difficulties in seeking to prompt the BSC to search actively for a settlement if it is reluctant or feels unable to do so, but I nevertheless believe that the economic, industrial and political consequences would otherwise be such that we should be ready to do so if necessary. Any course that is now adopted will have implications for the BSC's future financial position, but this must inevitably be re-examined in the aftermath of the strike. It need not entail a breach of the cash limit.

JP

Department of Employment
15 January 1980

This minute comments on the Government's negotiating position and outlines a communication strategy following our minute of last night and today's E discussions.

i. GOVERNMENT'S NEGOTIATING POSITION

- 1.1 Government has passed the point of no return as far as overt intervention and settlement is concerned. We have only to look at the statements in the House and on television, the consistent building up of the non-intervention position to see this. It may be possible to prompt BSC to show just enough flexibility within its present cash limit constraints (eg by being more accommodating on the union's productivity proposals) so that a settlement can be reached over the next week or so. But we would pay a heavy price if the public view of the settlement was: "The Government's nerve crumbled at the prospect of a long strike and it proceeded to do what it had emphatically said it would never do - intervene with taxpayers' money". Just as previous settlements (the miners) set up steel, so steel would be the green light to other more militant unions. If productivity strings went out of the window at BSC, how could the BL negotiators settle? British Rail will be close behind, with Weighell saying "we won't be picked off one by one". If we don't stand firm on Steel, where do we stand firm?
- 1.2 Against this, colleagues will be arguing that it is much cheaper to settle than to stick it out. Cheaper in "now" money, but not in political credibility and what follows. If colleagues have not resolved that dilemma, it will clearly be difficult to resolve it in the public mind.
- 1.3 We assume here that if early settlement between BSC and the unions does not happen, we decide that Government cannot intervene and settle, without a fatal loss of credibility. The Government will then be competing with the unions, for public opinion, whether it wants to or not. Non-intervention, like intervention, requires a strategy.
- 1.4 We should remember the background to the dispute, because it will set the tone and framework. A moderate union with a moderate leader is offered substantial cuts in real pay (with productivity upside, but almost certainly at the expense of further job losses) against a background of unacknowledged indexing, or better, for other groups, and a high inflation rate. BSC itself has been a disaster for years, not entirely the fault of its workers - constant Government intervention and fudging, the follies of Finniston, appalling productivity, poor management, huge interest burdens on ill-judged investments - all leading to a large and growing programme of redundancy. There must be latent sympathy for the steel workers and the question is, which way will that sympathy go.
- 1.5 On the face of it, it would not be difficult for us to find a rationale for intervening and settling. We could point to the fact that the steel workers were victims of a situation not

entirely of their own making; to the escalation of secondary picketing because the law has not yet been changed; to the disintegration of TUC's own code of behaviour. This might convince "Thinkers" but most "Feelers" would not absorb this complicated message. They would see it as a loss of Government nerve, and consequent loss of authority. TUC would shout "Victory".

- 1.6 The longer the dispute lasts, the greater the opportunity which may emerge for introducing a tougher Budget and promising other tougher measures: for example, de-indexing, deeming or ending benefits for strikers' families, getting started on other trade union reforms.

2. COMMUNICATIONS STRATEGY

2.1 Winning public opinion

- 2.1.1 The duration of the strike and the standing of the Government will depend on whether the general sense of grievance of the steel workers escalates into a wider trade union sense of grievance or, alternatively, a sense of public grievance and impatience, so that the steel workers begin to feel isolated and other unions acting in sympathy begin to put pressure on their union leaders to call a halt. Workers in private sector steel and steel-using industries - including BL, whose future is already precarious - will eventually start to lose pay and become worried about their future. The resulting pressures must be directed towards their union leaders and thus the ISTC, not towards the Government. Some transport drivers taking sympathetic action may also lose pay. (Unfortunately many drivers - and dockers and railwaymen - will be able to support the strike without cost to themselves. Even when the Employment Bill is amended and passed, contractual links will make railwaymen and many others immune to restraining action by employers like BSC. Hence our concern about the scope of the Bill. Railwaymen and dockers will remain a general purpose industrial army for mobilisation in disputes affecting large companies.)

- 2.1.2 The ISTC is already presenting the issue in moral terms, claiming that steel workers are being cheated. References to the economic logic are deliberately misleading. But neither Government nor BSC can win the debate merely by demolishing the facts and logic of the unions' case.

2.2 "Escalating" the debate

- 2.2.1 As soon as it is clear that the opportunity window for an early settlement is closed, we must take the initiative in communication terms by escalating the debate. Many people - union leaders, rank and file, employers - will be waiting to see whether the Government is going to hold to its position, before they decide which way to jump. What we do influences the chances of our being successful in doing it.

2.2.2 The purpose of escalation is to signal that something new is about to happen, just when people thought they were recognising the familiar ritual of confrontation and Government climb-down. It must introduce "new data" - information, explanation, ideas, new insights - which were previously missing from the debate. At present we see the familiar pattern on the union side where, because they have no new ideas, they simply escalate old ones - hysterical comparisons with the Government's effect on industry with that of the Luftwaffe during the War, accusations of cheating, threats to remove safety men which would put major plants out of action for months after the dispute was over. It is futile to escalate by simply shouting louder or exaggerating. We have to innovate.

2.2.3 The best form of escalation would be a Prime Ministerial broadcast. It would focus maximum attention on a ten-minute message (1,400 words) which could present the Government's case for non-intervention, in a way which gave the cue to others (eg BSC and CBI). It also demolishes any Opposition charge that we do not take the dispute seriously.

If we fail to escalate the debate (whether by Prime Ministerial broadcast or some other approach) moderate union members will not recognise that something new is happening. They will therefore not be motivated to act outside their normal "moderate" behaviour. They will thus continue to be manipulated by activists. Escalation is part of a deliberate effort to encourage moderates, at the thinking margin, to rise to the level of events.

2.3 Establishing the criteria for evaluation

2.3.1 The escalation itself, and all subsequent messages, must establish the criteria by which the public, and especially members of supporting unions, judge our actions, the union actions, and the outcomes. It follows, therefore, that we have to start with opinion research on what is at present in people's minds - how they perceive the principles at issue, the criteria by which they judge, the individual's present assessment of what is "right" in each case. This research is in hand.

2.3.2 The escalation itself should explicitly list all the convenient rationalisations available to Government (see section 1.5 above), if it wants to intervene with taxpayers' money. Then it must explain why we cannot take that route, by reference to the principles involved in the dispute:

- i. The facts of the case. Who is fighting whom, for what? Why are they fighting and who are they fighting for apart from themselves? (Andrew Sykes has often commented on the way Governments have lost the initiative to the unions because the waters have been muddied and the public have lost track of the basic facts of the case.)
- ii. Are the parties in dispute in a genuine mirror-image situation? Who is being reasonable? What is "reasonableness" in this situation? Do they enjoy equal power, do they show equal responsibility? Does what they say make sense?

iii. Does what the different parties are doing make sense in the context of time? What sort of actions in the past have given rise to the present problem? What sort of problems in the future are going to arise from present actions?

2.3.3 The criteria by which people will judge action by BSC and the unions, and Government's action in refusing to intervene, are:

- a. Is it realistic, responsible, sensible?
- b. Is it understanding or hard-hearted? For example, is the Government being cruel to be kind, instead of killing the country with kindness?
- c. Is this a clash between rich and poor? What results would do most to alleviate poverty?
- d. Are the parties being fair, honest? Are the arguments honest, is the offer fair?

These are simply headings. But only if we can persuade people to think about the real principles at issue and then influence the criteria by which they try to judge those principles, can we persuade them to change their minds. We must assume that we start from a position in which the basic principles are simply not understood at all and the answers to the criteria questions, above, are largely unfavourable to the Government (this would fit recent opinion research on how the Tory Party is perceived by the public).

2.3.4 It is no good our having the guts to do difficult things, if enough people think that it's because we're nasty rather than because we're courageous.

2.3.5 Every speech or broadcast should seek to re-establish, again and again, the fundamental principles and the criteria by which they are judged. At its simplest, the mere repetition of words like "kind", "fair", "honest" can begin to suggest that we are not refusing to intervene simply because we are monsters.

2.3.6 We have to remember that all these debates start from a position in which Labour and trade unions have made first claim on all the human virtues, caring, compassionate, brotherhood, fair, social justice etc, etc.

2.3.7 It is also important to make the listener think by asking him questions, putting him in the hot seat, making him think for himself as it was his job to solve the dispute, not someone else's.

2. It may be possible to heighten the sense of public grievance through the media. For example, Solly Gross mentioned that there are "angry letters" from members of the public about BSC workers who earn large overtime and yet manage to have second jobs. The custom in one (or perhaps more) plant of paying a worker for a full further shift if he goes one hour over the first shift, means that he gets free meal vouchers (which he does not need) and there is thus a roaring trade of meal vouchers in exchange for drinks in the canteens. Examples of this kind encourage people to listen more closely to explanations of how their taxes are being used to pay BSC workers.

2.5 The strike will stand or fall by the strength of the links between the ISTC/NUB and supporting unions like TGWU, AUEW, NUR. Our audience is not, therefore, the steel workers, but their allies. We do not need to address the steel workers directly, provided that we do not, by anything we say, increase their sense of grievance, which is probably real and justified. We should also make the most of the support offered by unpopular Left-wing figures (eg Scargill and Robinson).

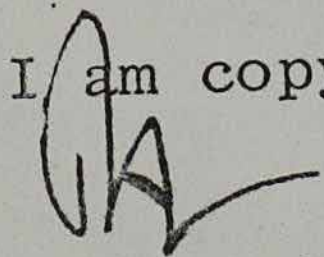
2.6 Tone of voice

The tone of Keith's statement in the House and subsequent answers seemed just right. Calm, patient, firm, more in sorrow than in anger. It is crucially important that every word any Minister says on the issue cannot possibly have the effect of increasing steel workers' sense of grievance or other people's sympathy for them. Explicit comments that today's steel workers are partly the victims of past short-sightedness by Government and misjudgments by management should ensure this. It doesn't alter the fact that if there is no more money, there is no more money. If we accept the principle (and this is an example of the principles which have to be established) that workers can enjoy the success (in terms of better security, good working conditions, higher pay) of successful companies, they must also accept the consequences of failure. The Government can and does provide taxpayers' money for those who are down on their luck (unemployed, sick, etc) within the limits of what the country can afford. But it cannot guarantee everyone a risk-free, problem-free working life.

2.7 If the steel strike does solidify, it will present opportunities for opening up the debate on economic reality generally and the trade union role in particular, which, properly used, should both help get public opinion on our side for this dispute and also begin to change public attitudes more generally, as regards other policy measures in the pipeline.

Over the next few days we will be working on a rough draft for an escalation broadcast which will give you an idea of how our message might come over.

I am copying this to the Secretary of State for Industry.


JOHN HOSKYNS
15 January 1980

✓ Mr. Horder
✓ Mr. Hoskyns

Prime Minister
Nat Ind
R

14/1

PRIME MINISTER

1 I understand that you have asked for a note for the meeting of E on 15 January on the effect the picketing provisions in the Employment Bill and my proposals for changing the law on immunities would have in the circumstances of the current steel dispute. I attach a note prepared by my officials.

2 As you know I feel very strongly that our decisions on changes in the law on immunities should not turn on their relevance to a particular dispute but must take account of long term industrial relations needs and practicalities.

3 I am sending copies of this minute and note to E Committee colleagues, the Lord Chancellor, the Attorney General the Solicitor General and Sir Robert Armstrong.

J P

14 January 1980

THE STEEL STRIKE AND THE LAW ON SECONDARY PICKETING AND IMMUNITIES

Industrial Action in the Steel Dispute

1. In addition to the strike of BSC employees there have been 2 main types of action:

(1) "Secondary Picketing" at stockholders, steel processors, engineering "users" and private steel producers: movement of goods has been restricted by the pickets and the reluctance of people to cross picket lines.

(2) Blacking of imported steel, mainly at East Coast ports: it is not entirely clear who is responsible for this but dockers have given assurances that goods will be unloaded but not moved. Steel movements have virtually halted and the Department of Transport suggest this is due to action by dockers and railmen. Lorry drivers seem willing to move steel so long as there is someone to load it.

The Effect of the Picketing Provisions in the Employment Bill

2. The Employment Bill will make it unlawful for a person to induce breaches of contracts of employment or commercial contracts by picketing other than at their own place of work. This means that if employees of BSC picketed the docks, at private steel producers or at suppliers and customers of BSC, and if in the course of that picketing they persuaded employees at those places not to go into work or interrupted the supply and movements of goods, the employers so affected would be able to seek an injunction in the High Court to restrain the pickets.

3. Hence picketing by BSC employees other than at their own place of work - and all forms of flying pickets - would not attract immunity.

Other Secondary Action and the proposed changes in the law on immunities

4. Under the proposals in E(80)1 other forms of secondary action (ie blacking, blockading and sympathetic strikes) would not attract immunity unless they were undertaken at first customers or suppliers of BSC "in contemplation

or furtherance" of the dispute between BSC and its workers. In other words, only the employees of employers who have a direct contractual relationship with BSC would be able to take secondary action with immunity. This would mean, for example, that in the case of BSC products held at stockholders (assuming these have contracts with BSC) immunity would apply to any action by employees of the stockholder but not to action by employees of the transport company hired by the stockholder or the receiving company.

Similarly blacking by dockers or railwaymen would attract immunity only if their employers had a contract with BSC: on the basis of current contractual relationships this is more likely in the case of British Rail than of dock employers.

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P.0192

PRIME MINISTER

STEEL STRIKE

BACKGROUND

You asked that this should be added to the agenda of E on Tuesday, although there are no fresh papers and, at the present, no further decisions to be taken.

2. You are aware of developments over the weekend and on Monday. You may wish to invite Sir Keith Joseph and Mr Prior to report on these to the Committee. Or you may judge that, at this juncture, it is best to await positive developments.

HANDLING

3. In any case, you might ask Sir Keith Joseph for a brief statement on the effects of the dispute. The latest information is that steel is moving rather better than was thought even on Friday.

4. If you choose, you can then go on to ask him for a report on the prospects for a settlement. If however you would prefer Sir Keith Joseph and Mr Prior not to discuss this part of the problem it would be as well to warn them beforehand.

5. Finally you might consider further handling of this problem. If the current overtures are successful, there is likely to be an Extraordinary Meeting of the BSC Board on Thursday morning. BSC will be trying to work out and approve a new offer within the existing financial limits. You may feel that it would be premature for Cabinet to consider any further action until it is known whether this can be successful. If it is not, then at some stage (this week or next) Cabinet will need to consider the alternatives: sitting out a prolonged strike, or giving way on the Cash Limit. Papers

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setting out the two differing views on this are already being prepared,
~~but you may not want them circulated for discussion this Thursday unless~~
it is clear that matters have come to a head and that an urgent decision
is needed.

CONCLUSIONS

6. These must be framed in the light of discussion.



P Le CHEMINANT

Cabinet Office
14 January 1980

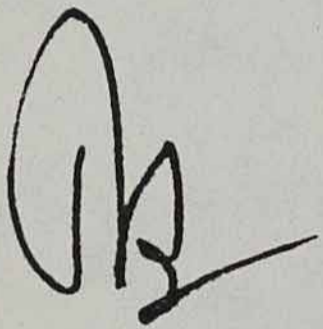
PRIME MINISTER

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to Hoskyns 16.1.80

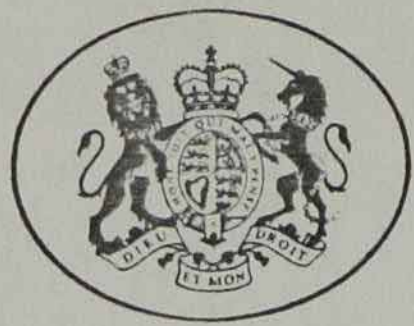
BRITISH STEEL

This note gives you our latest thoughts in preparation for E tomorrow.

1. Our view, now, is that there can be no going back. The price of winning will be smaller than that of losing. Other unions are waiting to see what happens. If ISTC "win", everyone else will want to do the same.
 2. We should decide, as soon as possible, our position: whether to stand firm and refuse to intervene; intervene quickly to settle; or, worst of all, prepare to sit it out without being crystal clear in our own minds about whether or not there are any circumstances in which we would give way and intervene later.
 3. Assuming that we choose the first route - standing firm and refusing to intervene - the sooner we escalate the debate the better. The rule should be, if in doubt "change up". Escalating the debate tells people that this isn't going to be the same old story, that something new is happening. It focuses maximum attention on what we have to say, so that we can get our whole position clear (for others like CBI and BSC to follow). We must establish the principles at issue in a way which does not increase any genuine sense of grievance among the steel workers, and then show how, from those basic principles, there can be no question of intervention with taxpayers' money. The escalation itself could be in the form of a Ministerial or Prime Ministerial broadcast. If that broadcast is well thoughtthrough and of high quality, it will leave a vacuum which will be difficult for the Opposition to fill.
 4. We will have a paper outlining the escalation strategy for you tomorrow evening.
-



JOHN HOSKYNs
14 January 1980



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

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Secretary of State for Industry

14 January 1980

Nick Sanders Esq
 Private Secretary to
 The Prime Minister
 10 Downing Street
 London SW1

Dear Nick,

... I attach a copy of the final version of the Statement which my Secretary of State proposes to make in the House this afternoon.

I am copying this letter to the Private Secretaries to the members of E Committee, the Secretaries of State for Scotland and Wales, the Chancellor of the Duchy, the Paymaster General, the Chief Whip, the Minister of Transport and Sir Robert Armstrong.

Yours truly,
P.S.

PETER STREDDER
 Private Secretary



STATEMENT ON THE STEEL STRIKE

With permission, Mr Speaker, I wish to make a statement about the steel strike and its background.

First, let me say a word about our objectives for BSC since I believe that they are common to both sides of the House and common also to both management and Trade Unions. I quote the Joint Statement of January 1976 agreed between the British Steel Corporation and the TUC Steel Committee. "Both the BSC and the Unions concerned believe that the Corporation should be transformed into a profitable, high-wage, high-productivity industry comparable with its major European competitors".

Two things are needed for this. First, capital investment in new equipment and, secondly, the proper use of that equipment. The equipment has been provided - at a cost of over £2¼ billion in the last 5 years. In 1980-81 we are providing no less than £450m of taxpayers' money to BSC. BSC is entering the 1980s with equipment as modern and as potentially efficient as any steel industry in the Western world.

But that efficiency has still to be achieved. I quote again from the Joint Statement of January 1976 by BSC and Unions "Changes will have to be made now" (that was in 1976) "to reach European levels of productivity". And the Unions acknowledged, in that Agreement of almost exactly 4 years ago, the need for radical

/changes ...



changes in manning and in working practices.

But during these last 4 years, the gap between our productivity and that of our European competitors has not narrowed; it has grown wider. We emphasise productivity as did the last Government. They said in their White Paper of March 1978 "Government will give full, sustained and public support to the BSC in their efforts, including the steps needed to achieve much needed improve productivity in the Corporation ... Such improvement is vital if BSC is to win an assured future as a competitive large-scale steel producer".

That is the policy against which we need to consider the present dispute, to which I now turn. As the House will know, the last round of negotiations between the BSC and the Trade Unions Coordinating Committee, representing all the Unions concerned, took place last Monday, 7 January. The Unions claimed a general increase of 8% with no strings. They also claimed a further 5% as an advance payment against the negotiation and implementation of lump sum bonus schemes on a divisional or works basis, and offered a number of national commitments to help achieve these. BSC have acknowledged that these commitments would be helpful. However, BSC also have regard to the fact that these commitments generally go no further than the commitments made by the Unions in the Joint Statement of January 1976. So they are nothing new and they do not represent any real advance on the undertakings

/given ...



given 4 years ago. Regrettably these undertakings were not fulfilled. Against this background, it is not surprising that BSC are now looking for performance.

What the BSC offered in return was a general increase of 8% based on a national agreement, which would include agreement at national level to changes of the kind recognised by both sides in January 1976 as necessary to achieve improved productivity. So for this element BSC are again willing to put their trust in the union leaders to deliver. BSC offered at least another 4%, from local lump sum bonus schemes when these have been negotiated. BSC offered an advance payment of this 4% in the January/March quarter. The total amounts to a guaranteed 12% for the whole of 1980, subject only to the national agreement and to the negotiation of local lump sum bonus schemes by 31 March 1980. These schemes will be tailored to the particular conditions in each region and linked to output and profitability. Thus, 12% is a minimum. Once the schemes are properly in operation, BSC expect the average payments to be higher. And increases from productivity schemes of the traditional kind would be available on top of all this.

If BSC were instead to offer money without such conditions then the workers in all other industries would have to go on subsidising the workers in the steel industry. And not only this. Our steel would remain uncompetitive and all our user industries, and the workers in them, would be further handicapped. This year the average earnings of a steelworker are £110 a week, over £5,000 a year. The losses in 1979/80 by the BSC represent over £1,800 for
/each ...



each steelworker. So other workers, often lower paid, are having to provide from the taxes they pay more than £1,800 of the average earnings of each worker in BSC. BSC estimate that their offer will bring the average earnings of a steelworker next year up to at least £124 a week. Is it fair that other workers should be asked to give the difference from their taxes or is it right that the difference should be earned by the steelworker himself, from improved productivity?

I well understand and sympathise with all those who work in the industry who face the prospect of unprecedented change arising from substantially reduced steel demand. Their difficulties have been heightened by the previous administration's misguided interventions which have aggravated the problems facing the industry today.

But in the situation we face today, the future of the industry and, in particular, its ability to grant wage increases must be a matter for management and workforce. I very much regret this strike. I regret it for the harm it is doing and will do to the steelworkers and their industry. Even without the strike they are faced with a painful contraction of the industry in order to bring production capacity more in line with demand and to become competitive. With the strike, that demand will reduce still further and costs will go up. Still more jobs will be at risk and the ability to pay better wages will suffer.

/I regret ...



I regret the strike too, because of the damage it is doing and will do to British industry and so many who work in it.

The strike illustrates very clearly the interdependence of industries and companies in our economy.

All these points must be born in mind by the negotiators in this dispute: the Corporation's management and the Unions. I hope they can agree an early settlement.

file
DS
COVERING CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

14 January 1980

I attach a copy of the note of a meeting held here on 11 January to discuss the steel strike.

I am copying this letter and its enclosure to Ian Fair (Department of Employment), Ian Ellison (Department of Industry), Tom Jaffray (Minister of State's Office, Department of Industry), John Wiggins (HM Treasury), Stephen Locke (Financial Secretary's Office, HM Treasury) and Martin Vile (Cabinet Office).

N. J. SANDERS

John Chilcot, Esq.,
Home Office.

GB



PS/Secretary of State

cc PS/Mr Butler
PS/Mr Marshall
Mr Ridley
Mr Gross

STATEMENT ON STEEL DISPUTE

You handed me the Secretary of State's notes, and Mr Gross has passed on some further questions raised at the briefing meeting this morning.

(1) Amendments to statement

On the paragraph spanning pages 3 and 4, I confirm that as I told you on the phone, the first and second sentences on page 4 should read, with the clarification sought by the Secretary of State:

"The losses in 1979/80 by the BSC represent over £1800 for each steelworker. So other workers, often lower paid, are having to provide from the taxes they pay more than £1800 of the average earnings of each worker in BSC".

(2) Documents

I attach a copy of the 1978 White Paper (Cmnd 7149) and a copy of the January 1976 Joint Statement on Reductions in Employment and Improvements in Labour Productivity. I also attach the NEDC report which IS BEING PUBLISHED TODAY.

3 I also attach a short brief on the article in the "Steelworkers' Banner". The brief covers other points raised by the Secretary of State about the EEC.

4 The questions raised by the Secretary of State and answers are also attached.

5 Notes have also been provided on COKING COAL and the burden of interest and depreciation born by BSC by contrast with its competitors.

Jane Cohen

Mrs J Cohen
AS/IS1
801 Ashdown
212 0104

14 January 1980



SCNI Fifth report on BSC's financial targets (published 23 February 1978)

CLOSURES

1 Para 19 refers to the then Secretary of State, Mr Varley's reference to the drastic political consequences of closures as a reason for delay:

2 "The sort of solutions which will have to emerge from the present negotiations* are those the Secretary of State would not contemplate in the summer of 1977. The cost, meanwhile, social as well as financial, has been enormous. In the view of Your Committee, it may well be that if earlier action had been - taken - and, on the figure available then to the Corporation, such action was clearly essential - these costs would have been significantly less".

(* on closures)

3 Calls for delay in BSC's present closure plans can be answered with the Select Committee's comments in 1978.

FINANCIAL CONSTRAINTS

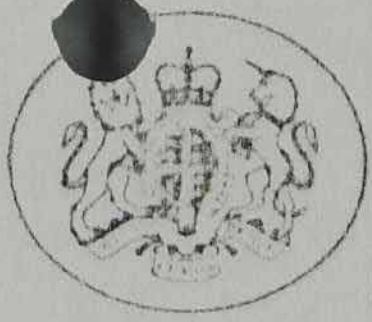
para 16

4 "The Secretary of State drew attention to what would have been involved in political and social terms in trying to eliminate a £350million loss (forecast for 1977/8); the fact is that belated steps are now having to be taken to deal with a £520million loss, which will have a far more severe effect on jobs and investment, even possibly going beyond the Beswick plants".



5 The £520million loss forecast by the Select Committee for 1977/78 was reduced to an actual end-of-year loss of £443m, but only through major preventative action. The SCNI's comments in 1978 bear out the urgent need for BSC's finances to be put in order now. The Government's financial target is designed to do this.

"Tiding BSC over", and putting more taxpayers' money towards further operating losses (as the Opposition demands) would have the same effect now as it did in 1978. Increasing losses would only result in even more painful measures at a later date.



1 Is the UK reducing capacity while other EEC steel industries are not? Are the ISTC's figures at M right?

Comparisons of excess capacity between different countries are extremely difficult to gauge. Most countries have plant still standing which they could in theory bring back into use, but in practice are most unlikely to do so. The attached table shows the best figures available to IS Division; but they are all likely to overstate the effective excess capacity (i.e capacity which could realistically be brought back into use). The UK appears to fare relatively well, but this is partly because BSC works which have been shut in recent years have been demolished to a greater extent on grounds of obsolescence.

Some of the BSC cuts will take the form of mothballing; the plants would then still appear in tables such as this as "excess capacity".

The BSC could reduce its capacity cuts by e.g maintaining exports at their present level. But, because of high costs, a high exchange rate and low prices overseas, they would incur losses. Is this a sensible alternative?

	<u>Community Countries/Operating Ratio</u>	<u>Per Cent</u>	
	<u>First 9 months of 1979</u>	<u>1973</u>	<u>1974</u>
Germany	67	84.2	88.1
Belgium	67	89.6	91
France	69	90	88.5
Italy	65	74.7	82.3
Luxembourg	68	90.7	95.5
Netherlands	71	91.8	95.1
UK	75	92	80.6
	<hr/>	<hr/>	<hr/>
	Average 68	86	87



2

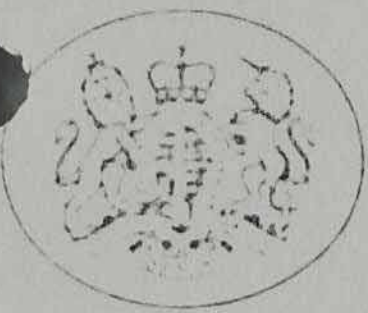
Secretary of State

You asked this morning for the annual 'wastage' of labour for BSC. (Q2)

The turnover for the April-June Quarter 1979 is reproduced below by division. The figures exclude redundancies.

<u>April-June Quarter 1979:</u> <u>Division</u>	<u>Labour Turnover:</u> <u>Percentage (per annum)</u>
Scottish	12%
Teesside	13.7%
Scunthorpe	17.3%
Sheffield	11.3%
Welsh	6.1%
Tubes	17.6%

These percentages were worked out from the average number on BSC's books during the quarter in question.7



3 Is it true that world steel demand has not fallen but that indeed 1979 was a record year?

1979 was almost certainly a record year for the world steel industry. 1978 production exceeded that of 1974 (the previous record year) for the first time, and all the indications were that 1979 production would go higher. Official figures are not yet available.

Total UK production in 1979 was 5.5% higher than in 1978, though at 21.4m tonnes (including private sector) it was below 1973 (26.7m tonnes) and 1970 (the record year for UK production at 28.3m tonnes).

The BSC forecast a sharp decline between 1979/80 (18.6m tonnes liquid steel production) and 1980/81 (15m tonnes liquid steel production), due to a decline in overall UK home demand and a halting of export sales. EEC demand as a whole is likely to fall in 1980 compared with 1979.

As the Secretary of State suggests, the weaker performance of the BSC now and in recent years is due to several factors:

- (a) slower growth in the UK economy as a whole;
- (b) weaker than average performance in several main steel using industries (cars, mechanical engineering, etc);
- (c) poor competitiveness by the BSC itself (not helped by the combination of high inflation and a high exchange rate);
- (d) a general shift away from traditional European and North American areas of steelmaking to new and more competitive areas.



4 What reply do I give if asked whether I intend to insist that BSC "fulfil its obligations under the Iron and Steel Act 1975 to consult its employees about South Wales closures and slimmings?"

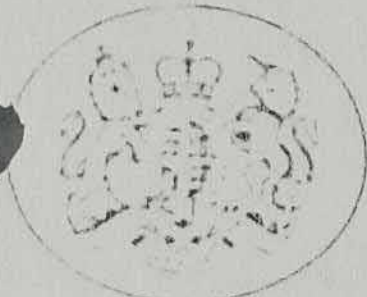
Background Note

The part of the Iron and Steel Act 1975 which might be invoked so as to obtain an injunction that BSC fulfil its obligations to consult before any closures is not at all clear. Whilst the success of such a move cannot be ruled out there must be considerable doubts about it. The Corporation believes that (a) its obligation is fulfilled because it has the machinery to consult and that (b) it is not the intention of the Act that it should be open to action on specific issues.

In any case the Corporation's line is that it began consultations at its meetings early in December and that its statements made at the time of those meetings showed its clear intention to continue consultations at local level. These consultations have indeed proceeded and the Corporation will claim that this is adequate proof of its "honourable intentions".

Line to Take

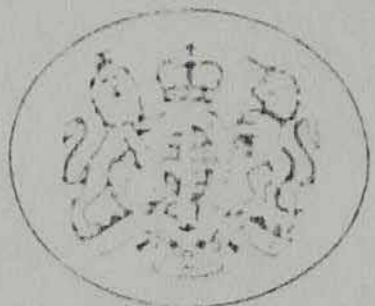
The Corporation has a fully developed machinery for consultations with its workforce at all levels. When it announced its need early in December for further reductions in its workforce it made it very clear that consultations at those plants affected would begin as soon as possible. I understand that since then ^{some} consultations have indeed taken place, and would no doubt be continuing if it were not for this regrettable strike.



5 To what extent did other steelmakers overestimate demand at about the same period as we did?

Other steel industries did overestimate the future growth potential for steel in the early 1970s. Other European, Japanese and American producers have also found themselves with excess capacity in the late 1970s, much of which has now been mothballed. The Davignon measures, and the American trigger price mechanism, are further symptoms of the same disease.

The BSC's plans outlined in the 1973 White Paper increase capacity from 27m tonnes in 1972/3 to 33-5m tonnes by the end of the 1970's and to 36-8 m tonnes by the early 1980's came to particular grief partly because it was more ambitious than some other European industries' plans, and partly because UK demand for steel since has been relatively worse than elsewhere; but also because it was a belated attempt to catch up with developments elsewhere during the preceding 10 years, when the UK industry had been overshadowed by the nationalisation issue.

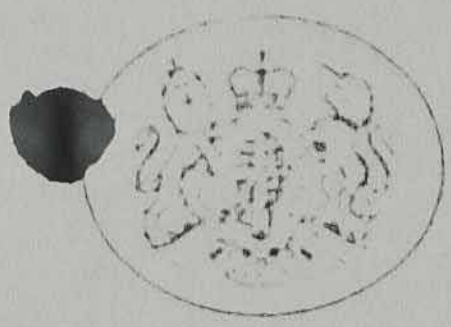


6 Can I validly compare what TUC and the Unions offered in relation to productivity now (unique according to Mr Murray) with what they offered before (only in 1976?) and failed to honour? And was the failure to honour due only to the unions or also to lack of management drive and pay control?

The background note on question 9, page 1 attached, and the line to take gives a view of the attributable blame for failure to honour the 1976 agreement - whilst it was partly down to unions not agreeing to set up local joint bargaining committees the agreement largely failed because there was no way under the then current pay policy for productivity bargains to be reached.

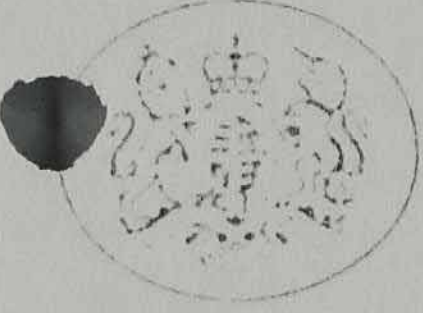
The recent TU offer did include a commitment to the introduction and the principle of local joint bargaining and also offered ^{an} agreement to establish local joint productivity committees. This is a significant offer for the unions to have made and whilst there is no guarantee that the joint committees will agree with management's proposals it has at least removed a barrier caused by failure to agree machinery to discuss. A second major barrier caused by pay policy provisions no longer exists. In addition the very much clearer financial requirements with the threat of closure, redundancies etc, must affect management and union attitudes alike.

It is not felt that a comparison of what was agreed in 1976 and what was offered recently would be useful; except in the sense included in the statement proposed for Secretary of State i.e. in explaining BSC insistence on a tougher agreement before payment is made.



7 Long term capacity plan

The February 1973 White Paper "British Steel Corporation: 10 year development strategy" (Cmd 5226) proposed expanding capacity by the late 1970's to 33-35 m tonnes and to 36-38 m tonnes in the first half of the 1980's. The Labour Government said that this was not enough and proposed 44m tonnes by the mid-1980's. The ISTC supported the Labour line. Between 1964 and 1970 investment was very low averaging little more than £130m in 1970 prices. This level of investment doubled between 1970 and 1974.



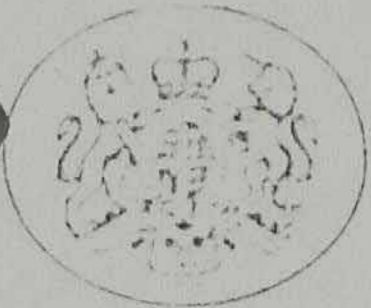
8 How do I minimise the the harm done in USA when saying that we have been subsidising steel more than our rivals?

First, is that true?

Second, how to say it to minimise US harm?

The best course would be to try to avoid the word subsidy and to use instead words like "Government finance" or "Government funds".

It could be pointed out that others might see the funding of BSC as subsidisation unless action is taken to eliminate losses. Others also have had to provide state finance for steel during the crisis and to assist restructuring but it would be difficult to demonstrate that this was more than has been and continues to be done for BSC, and the aim is likewise to return the industry to profitability.



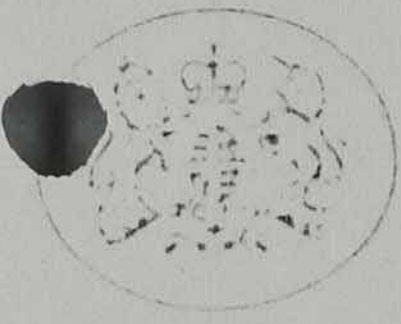
9 Did "monitoring" occur under the 1976 agreement - and with what results? (1d(6) of the agreement provided for it).

A 1d(6) of the agreement says "at the end of six months from the date of this agreement (23.1.76) the Corporation and the Steel Committee will meet to review progress and to decide what further action might be necessary".

Progress on implementing the agreement was slow mainly because of difficulties in setting up the joint management/trade union negotiations locally because the unions wished to maintain their traditional autonomies and objected to joint works representation. The factor which put paid to the agreement was however the insistence of the unions that they could not agree to reduce manning without a financial inducement. Such inducements could not be allowed at that time because the incomes policy in force (from August 1975 but renewed in August 1976) did not permit increased payment for improvements in productivity.

Line to Take

I regret that the undertakings of the 1976 agreement in practice fell so far short of what was expected at the time. I am not seeking to allocate blame for this but a major contribution to the lack of progress was the provisions of the pay policy then in force, from August 1975 and renewed in August 1976, which did not allow the sharing of savings from productivity improvements with the workforce without this no agreement was possible.

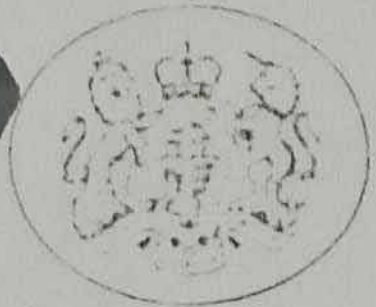


Q. 16 Yes the NEDC report is published (today) copies are in
Library of House

Q. 11 Do other countries subsidise their steel industries as much or more than we do? (we usually talk about losses, but our subsidies have covered major investment as well as losses)
It is very difficult to put figures on a comparable basis. The Germans and Americans do not generally provide government finance for investment (though there can be scope for allowances against tax), nor do they fund losses. Balance sheet reconstructions are for shareholders/bankers. But the Germans do provide some indirect subsidies eg for rail transport. The same is broadly true for the Japanese, though the close interlocking of steelmakers with large financial groups makes the interpretation of their financial position very difficult. The French government has underpinned capital reconstructions, but intends to provide any further capital for the investment on commercial terms. The relationship between the Italian government and the state-owned steel company Italsider is not noted for its transparency.

In short

- i) losses are not always financed by governments, so the existence of a loss does not show the existence of a subsidy
- ii) subsidies can take various forms, and need not be direct to the steelmaker.



12 All the damage - I shall say "TU's fault". Please advise
on the best way to put this.

Line to Take

When the discussions which had been taking place between the Corporation and the TUC Committee led by Mr Murray broke down the Corporation was offering what amounted to 12% for the whole of 1980 whilst the TU side had said that they wanted at least 13%. To have drawn so close together and then to have broken off discussions at that stage so as to embark upon this damaging strike is to say the very least unfortunate. The strike must damage the Corporation, it must put further jobs at risk, it must cost steel workers dear. I regret that negotiations broke down and I hope that an early start can be made to negotiations which will lead to a settlement.



BURDEN OF DEPRECIATION AND INTEREST BORN BY BSC

BSC carry a lesser burden of interest and depreciation than most of their competitors. Depreciation and interest paid by BSC is about £18 per tonne, lower than all the EEC industries except for Luxembourg Arbed (Table 1 refers).

In terms of the amount of interest and depreciation paid per employee, the figure for BSC is £1,600 annually. Figures for our European competitors range from £2,200 up to £8,000 per employee.

BSC and Competition (1978)

	Interest	Deprec.	Total I + D.
	£	£	£
BSC	1085	580	1665
Thyssen	592	1620	2212
Klockner	2074	1858	3932
Estel	1227	1920	3147
Usinor	2622	2115	4737
Italsider	5909	2693	8602
Cockerill	2115	1658	3773
Arbed	1454	1157	2611
^{no.} Belkchem	460	1725	2185
Nippon Steel	4728	6415	11143

based on average employees for year

P.M.C.

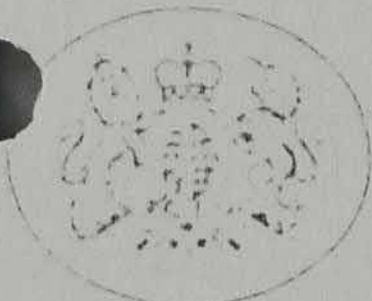
14.1.80

Calculated to
Members of CCI
Mr. John Smith
Mr. Ross Melvin

BSC and Competition: (£ pt)

	1978		
	Deprec.	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 (I)	14	30	44
Cockerill (B)	8	11	19
Arbed (Lux)	6	8	14
Remo:			
Bethlehem (USA)	10	3	13
Nippon Steel (J) (1977)	12	11	23
Notes:			
1. Thyssen's figures include depreciation and interest on non-steel activities (with amount to some 50% of business)			
2. Usinor and Cockerill interest charges reflect partial reconstruction during the year. 1979 levels should be lower.			

P.M. Colman
13.12.79.



COKING COAL

The Secretary of State will wish to know that Mr Moore of the Department of Energy is answering an oral question about what the Government plans to do about coking coal this afternoon. He will say "My rt Hon Friend discussed BSC's plans to import more coking coal with the Chairman of the NCB and the NUM on 18 December. The Board are having further discussions with BSC". If this answer is reached the Secretary of State can answer all coking coal questions by reference to it. If it goes written, Energy have agreed that the Secretary of State can use any bits of this answer. In response to questions about, "Will the Government introduce a subsidy", Energy suggest he should say "That sounds an idea worth exploring. My rt Hon Friend has already had discussions with the NCB and the miners unions".

Prime Minister

2



This is the final
version of the notes
in your steel folder.
Pretty much the same,
I think.

PMG Note 2/80

[Handwritten initials]

SPEAKING NOTE FOR MINISTERS ON THE STEEL STRIKE *R* "||

1 What is on the table? Just what is BSC's latest offer?

The BSC management, not the Government, is negotiating. There is very little between the two sides on the figures. 12% minimum BSC/13% Unions. The difference between them - and it is vital one - is the question of how the increase is to be paid for, by higher productivity or by the taxpayer.

BSC said on 7 January (statement attached as Annex B) that the Board had agreed that negotiations should be based on a general increase of 8% which aims to be self-financing on the basis of a detailed agreement at national level, plus a further increase of a minimum of 4% in lump sum payments from locally negotiated bonus schemes. One advance payment of 4% of gross earnings would be made during the January/March quarter, but subsequent payments would depend on local agreements being negotiated. The statement said 12% was a minimum and the average increase payable was expected to be higher.

Locally negotiated pay increases are not new to BSC or their unions. Last year's national pay settlement was 8% but earnings rose by a further 6% as a result of local agreements. The BSC offer would increase average earnings in the industry from £110 to £122 a week.

2 Why does the Government not intervene?

Negotiations should be properly conducted by management and unions and not by Government. What do you mean by intervention? If /injections you mean further/of taxpayer's money then remember over the last five years nearly £4,000 m of public money has been put into BSC: £700m this year alone and a further £450m next year. Do you really expect the taxpayer to put in more when the steel workers can earn more from higher productivity?



3 Will the Government call in ACAS?

It is for the parties to any dispute to call in ACAS, not for the Government. ACAS is an independent body.

4 But surely the Government can't wash its hands of the whole affair? If the strike goes on for weeks, it will just have to intervene?

Its ridiculous to suggest that Government is "washing its hands" of British Steel. We want to see a thriving steel industry and that is why we are prepared to put more money - £450 million - into BSC again next year. This will go towards new investment and to pay for closure costs i.e. redundancies, which are, regrettably necessary to bring the Corporation's production capacity in line with demand.

Ministers are being very closely informed, on a day-to-day basis, of what is happening in the strike. But we are not prepared to usurp the role of negotiator. Negotiations must be undertaken between the management and the Unions and a settlement reached by them.

5 What really is the position on comparable productivity? Both sides seem to be using statistics which suit their case?

Yes, it is true that there are different figures flying around. As always its difficult to make precise comparisons with BSC's competitors. What is not arguable is that BSC overall has less good productivity than its rivals and there is very considerable scope for increases.

The 1979 NEDO Sector Working Party report [of which Mr Bill Sirs is a Member] gave figures for 1977 which showed:

UK	11.7	hours [manual grades only]
France	7.2	"
Germany	6.5	"

to produce one tonne of steel.



Perhaps the most reliable comparison is from ECSC figures (Eurostat) for 1979 which showed production at:

BSC	141 tonnes per man year
France	180 " " " "
Germany	237 " " " "

i.e. Germany 75% higher.

6 Why does the Government not provide more money by increasing the cash limit for 1980/81 to enable BSC to raise their offer to the steelworkers?

Where is the money to come from? There is no such thing as free money. It has to be at the expense of the welfare services, like housing or health, or it has to come from higher taxation or from increased borrowing which would lead to still higher interest and mortgage rates.

7 Why does the Government not agree to forego interest on their loans to BSC so they could pay the workers more?

Even before deducting interest, BSC have made substantial trading losses for the last three years, and are heading for another loss, which will be even worse than last year when they were paying slightly more interest. In any case, this is another version of the argument that the workers in the industry should get free money. Every other commercial concern has to pay interest on its capital, in fact all monies provided since April 1978 - and this will be more than £1.5 bn - has been provided interest free (under Section 18 of the Iron and Steel Act 1975).

BSC LOSSES

	1975/76	1976/77	1977/78	1978/79	£m 1979/80 (forecast)
Loss for the year	(255)	(95)	(443)	(309)	(300+)
Loss <u>before</u> charging interest, tax or extraordinary items	(129)	69	(275)	(137)	(160+)

The Government itself has to pay interest on the money it borrows to lend to BSC.



8 What are BSC's losses? Are they so bad?

1972/73	£3 million profit
1973/74	£50 million profit
1974/75	£73 million profit
1975/76	£255 million loss
1976/77	£95 million loss
1977/78	£443 million loss
1978/79	£309 million loss
1979/80	£151 million loss
first half year	
second half year	£150 million loss+

Therefore, BSC's losses over the 5 years 1974/75 to 1979/80 will exceed £1,400 million.

9 How much public money has gone into BSC in recent years?

	£m
1975/76	659
1976/77	931
1977/78	801
1978/79	715
1979/80	700 (estimated)

The total over the five years is therefore about £3,100 million, representing £221 for each family in the country (assuming the latter at about 14 million); £50 this year (1979/80) alone. Or £27 this year for each taxpayer. For next year (1980/81) we have promised £450 million, or £32 for each family in the country. Do they really want to pay more than this so that BSC can continue making losses?

10 How can the Government go on insisting that BSC make a profit next year, in the middle of a drastic recession, against a strong pound and massive inflation, none of which have anything to do with the steel workers?

Job security can be given only by an industry that earns its keep by being in the black. So long as BSC is in the red, there is bound to be a question mark hanging over every job in it. So the steel workers are directly affected and they must help BSC get



back into the black by improved productivity - for which there is very great scope.

11 But other countries subsidise their steel industries which are also making losses.

Figures cited for the steel losses in other countries have tended to be for 1978. But the foreign companies have IMPROVED in 1979. The Dutch state company, Estel, and the German state company, Klockner, are now operating profitably. The Belgian state company, Cockerill, and the Luxembourg company, Arbed, have sharply reduced their losses and are moving towards making a profit. The French and the Italian state companies are still making losses but, in the case of the French industry, strenuous attempts are being made to return them to profit. BSC's losses have got NO BETTER and may well be SLIGHTLY WORSE (from £309 million for 1978/79 to something over £300 million in 1979/80, when they are paying £25 million less interest on their capital).
(see table attached as Annex A).

12 Why should the steel workers not be protected from a fall in their standard of living, when other workers in the public sector get 20% without any strings?

It is a question of how much the industry can afford. BSC is struggling for its life against international competition; productivity must be increased, overall costs reduced. Steel workers are being offered the chance to earn a minimum of 12% by negotiating local bonus schemes.

13 What about the plant? Is it good enough?

BSC is entering the 1980s with some of the most modern plant and equipment in the free world. The new Redcar blast furnace is the largest in Europe. All this investment has cost the taxpayer £2,000million in capital investment over the last five years. The steelworker has all this new equipment. The taxpayer now expects him to put it to efficient and profitable use.



14 Are imports ruining the industry? What about import controls?

UK Market Share

	<u>BSC</u>	<u>UK Private Sector</u>	<u>% Imports</u>
1974	56	26	18
1978	53	26	21
1979 (estimated)	54	26	20/21

Figures for the past five years show comparatively little change. However, imports in 1970 were only 6%, and in 1973, 13%. The prime reason for the increase in imports during the past decade to 20/21% has been BSC delivery failures in 1973/74, resulting from industrial disputes and production problems. These led users to look abroad for their supplies. The present strike will only make this worse and hit jobs in BSC.

15 How serious are the effects of the strike for steelmen?

It will be very serious for the steel workers. There is already too much steel in the world. BSC will lose customers, who will go elsewhere. Individual steel workers are very unlikely to gain enough from a strike to compensate them for the loss of money while they are not working.

16 What will be the effect on industries like BL and other industries that are already in trouble?

Stocks are quite good at the moment, but a long strike must put many thousands temporarily out of work and cause some permanent loss of jobs. The future of BL would be at risk.

17 Will the steel strike leave the industry smaller than it need otherwise be?

Yes. A long strike would lose the Corporation some business for good.

Annex A



Data on the current financial performance of BSC's competitors is inevitably incomplete. Also, we have more information from the press on those companies whose performance has improved than on companies in France, Italy and Belgium whose performance in 1978 was worse than BSC's.

		PRODUCTION (M TONNES)	PROFIT/(LOSS) (£million)	PROFIT OR (LOSS)/ TONNE (£ per tonne)
ARBED (LUXEMBOURG)	1976	4.04	(19)	(4.75)
	1977	3.8	(72)	(17)
	1978	4.2	(32)	(6)
	1979	losses sharply reduced in first half of 1979		
ESTEL (HOLLAND)	1976	10.4	(16)	(1.5)
	1977	9.4	(105)	(14)
	1978	10.4	(69)	(6)
	1979	Pre-tax profits made in Q2/3 1979		
SACILOR (FRANCE)	1976	6.6	(84)	(13)
	1977	6.4	(267)	(42)
	1978	N/A	(117)	(18)
	1979	Further heavy loss expected in 1979		
COCKERILL (BELGIUM)	1976	5.1	(18)	(6)
	1977	4.9	(116)	(24)
	1978	5.4	(106)	(20)
	1979	N/A		
ITALSIDER (ITALY)	1976	10.8	(85)	(8)
	1977	10.2	(258)	(25)
	1978	10.4	(214)	(21)
	1979	N/A		
KLOCKNER (GERMAN) (steel interests) estimate	1976	N/A	N/A	N/A
	1977	3.75	(81)	(22)
	1978	4.2	(62)	(15)
	1979	Group now operating profitably		
BSC	1975/6	17.2	(255)	(15)
	1976/7	19.7	(95)	(4)
	1977/8	17.4	(443)	(25)
	1978/9	17.3	(309)	(18)
	1979/80	Loss of £300m+ expected.		



NOTES ON THE "MEDIA BRIEFING" BY THE ISTC (Copy attached)

1. "16% improvement in productivity since 1975" (para 2)

The figure is taken from the NEDC Iron and Steel Report 16 of December 1979. The full extract reads as follows:-

" TABLE 9 - International Comparisons: Man-hours to produce 1 ton of crude steel (manual workers only)

	W.Germany	France	Italy	Bel.	Lux.	UK
1977	6.5 hrs	7.2	5.4	6.2	6.1	11.9
1978	5.9 hrs	6.4	5.2	5.2	4.8	10.9
% Improvement 77-78	9%	11%	4%	16%	20%	8%
% of total workforce made up of manual workers	74%	65%	80%	82%	77%	68%
% overtime working - manual workers (Oct. 1978)	48%	n/a	3%	1%	6%	11%

A.10 Labour productivity rose in the United Kingdom by approximately 7% in 1978 as a result of plant closures and a reduction in employment of 20,000. Labour productivity has now risen 16% since 1975 but remains 13% below 1973 levels. International comparisons of labour productivity are open to many criticisms - differing definitions of the industry, the extent to which sub-contractors are used, etc. For this reason table 9 restricts the comparison to other EEC countries and Treaty of Paris products. Despite the 8% improvement in output per manhour in the United Kingdom recorded in the statistics between 1978 and 1979 the gap is widening with other EEC steel producers because of greater percentage improvements recorded last year there."



According to the NEDC report, signed by Mr Sirs as a member of the Sector Working Party, on the basis of figures prepared on a strictly comparable basis it takes BSC nearly twice as many man hours to produce a tonne of steel as its major European competitors. It is true that BSC has improved manpower productivity by 16% since 1975 but it remains 13% below 1973 levels. Two of our European competitors, Belgium and Luxembourg have improved productivity by 16% and 20% respectively since 1977. Despite the improvement in the UK we are falling still further behind in manpower productivity.

2 BSC production manning at Appleby Frodingham Basic Oxygen Steelmaking plant are only 75% of those at the Dutch plant, Ijmuiden. BSC's labour costs per tonne are significantly lower (paragraph 3).

On manning, the full sentence in Report no. 16, Iron and Steel reads "Production manning was only 75% of the Dutch level but maintenance manning was found to 20% higher".

On labour costs, the sentence reads "Both the labour output per tonne and the capital utilisation rates were poorer than on the Dutch plant although in the case of labour costs since employment costs per man were twice as high on the Dutch Steel plant, the labour cost per tonne of steel produced must have been lower at Scunthorpe".

So production manning may have compared favourably with a Dutch plant but this was more than evened out by the fact that maintenance manning in the BSC plant was higher. / As Mr Sirs acknowledges, there is scope for improvement. Labour costs per tonne are lower because



employment costs in the BSC plant are half those in the Dutch
plant. But labour output is much lower/in the British plant as the
Report makes clear. If we could get labour output up then pay
could rise. BSC have been offering the unions the chance to do just
that through bonus schemes related to performance.

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 Ger-
man 200. (paragraph 4)

The NEDC do not recognise the 192 tonnes figure from any
documents of theirs. The figures produced in the NEDC draft report
(see table above) show that BSC workers, on a strictly comparable
basis, take twice as many hours to produce 1 tonne of steel as their
nearest EEC competitors.

ECSC manning would produce about 192 tonnes if the Corporation were
working to its full capacity of 21 million tonnes per annum.

On a strictly comparable basis, using only workers included in the
ECSC definition, BSC 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 steelworkers has slipped in the earnings league table (paragraphs 6 and 7)

It is true that BSC pay is low in comparison with their European counterparts. So is their productivity - it takes BSC workers almost twice as long as the best of the European Workers to produce 1 ton of steel. BSC workers are being offered the prospect of improving their earnings by improving productivity. The Corporation has said that average earnings for BSC process workers in September 1979 were about £110 per week. These are not low paid workers. (The average industrial wage is £97 p.w and BSC workers have been offered the opportunity to raise earnings by a minimum of 12%).

5. BSC said the cupboard was bare but they are now offering 6% with strings (paragraph 8)

BSC do need to conclude a pay settlement that is aimed to be self-financing/ if they are to be able to compete in this international ^{working practice} business.

6. No other group of workers have been asked to take such a dramatic cut in this standard of living. Pay rises of 13%-20% have been gained in other parts of the public sector (paragraph 9)

Mr Sirs is presumably thinking of the miners settlement. The two cases are not comparable. There is a strong demand for coal and the NCB can sell all it produces. Steel is in surplus, BSC is not competitive and more jobs in the corporation are at risk unless ^{they} / can become more competitive. Steel workers will, if the schemes are successful, receive an increase of more than 12% which will get them a higher increase than some public sector workers..



7 A pay deal has to take account of inflation. The money could be funded. BSC is trading at a profit (paragraph 10)

This is simply not true.

		1978/79		£ million
				1979/80 1st half (provisional)
Sales		3,288		1,554
Cost of Sales		<u>3,317</u>		<u>1,540</u>
Difference	minus	29	difference	14 (a)
Depreciation		<u>111</u>	plus	<u>64</u>
Trading loss after depreciation	minus	140	minus	50
Interest		208		101
Other adjustments	plus	<u>39</u>		included in (a)
TOTAL LOSS		<u>£309 million</u>		<u>£151 million</u>
		=====		=====

Therefore, in 1978/79, receipts from sales were worth £140 million less than the basic cost of these sales. It is true that, in the first half year of 1979/80, receipts from sales were £14 million above the bare cost of sales (ignoring adjustments) but one cannot simply ignore depreciation and interest. Everybody has to pay interest on his house mortgage or his hire-purchase and has to make provision for replacing household goods and repairing his roof. The charges for depreciation and interest taken together are much the same as those born by BSC's European competitors. The fact is that the value added by BSC is no more, if anything a little less, than the wage bill. So the workers as a whole are effectively contributing nothing to the national wealth; meanwhile the taxpayer is still being asked for heavy contributions to maintain the fabric of the industry.



8 If the Government were to subsidise British coking coal to the same extent as other EEC Governments subsidise their coking coal, BSC would save £135m a year, more than enough to pay the claim in full (paragraph 10)

BSC have said recently that they have been suffering a cost penalty of £135m per year as a result of using almost exclusively NCB coking coal. This cost arises partly directly because NCB coal is more expensive than imported coal (this accounts for £70-80m) and partly indirectly because most NCB coal is intrinsically less suitable for use than the Australian, US and other imported coals. It is open to HMG under the Treaty of Paris to subsidise the coal prices down to world levels (i.e. approximately the levels applied for 3rd country imports). The other penalty would still be incurred. The NCB have been told by Ministers that they may subsidise provided they can find the money within their cash limit. However, this obstacle and the current NCB pricing structure effectively prevent full use of the Community subsidy rules.

This is a difficult point to answer since steelworkers are not interested in NCB's problems. Some points can be made; that we would not be able to subsidise coking coal by £135m because not all of this sum is a direct cost difference, some of it arises because much of the coking coal produced in this country is operationally not as suitable for modern blast furnaces as imported coal. And BSC has been given the freedom to import coal at world prices so the cost penalty they incurred under the last Government is being rapidly reduced.

THE TRUTH ABOUT THE STEEL STRIKE

The national steel strike—first for 52 years—could cripple the country. It is therefore important that the issues be understood. As British steelmen, we are appalled by the bluff and half-truths put out by the Government and British Steel Corporation propaganda machines. These are the facts...

1. The steel unions, like BSC, ARE COMMITTED to the achievement of a 'high productivity-high pay' steel industry. But the unions are being cheated. That is what the dispute is all about.
2. On PRODUCTIVITY, the improvement has been impressive. A 16 per cent improvement since 1975 says the most recent report from the National Economic Development Council (Iron and Steel Report 16, December 1979). 44,130 jobs have been taken out of the industry over the last three years - 117,500 jobs since nationalisation in 1967.
3. Today, most BSC plants are as tightly manned as most of their European competitors. An NEDC study team has just completed a comparison of BSC's Appleby-Frodingham basic oxygen steelmaking plant at Scunthorpe and Ijmuiden No. 2 basic oxygen plant in the Netherlands. Its verdict: BSC production manning is only 75 per cent that of the Dutch level - and BSC's labour costs per tonne are significantly lower.
4. Yet still BSC tries to give a false picture. The Corporation has said that the UK steelworker's productivity per man is 108 tonnes against 200 tonnes per man in Germany. That is untrue. Check with the EEC. Check with the NEDC. The Corporation 'conveniently forgets' that continental figures do not include people involved in large areas of coke making, cold rolling, tube making, research laboratories, and ancilliary staffs in catering, nursing and apprentice training. IF LIKE IS COMPARED WITH LIKE, THE UK PRODUCTIVITY FIGURE IS 192 TONNES PER MAN AGAINST THE GERMAN 200.
5. We concede that there is still SOME scope for improvement - though this is chiefly in the maintenance area. We are as anxious as anyone else to continue improving performances. BUT WE HAVE BECOME INCREASINGLY CONCERNED ABOUT THE OTHER SIDE OF THE 'HIGH PRODUCTIVITY-HIGH PAY' BARGAIN. What has happened to the high pay?

6. FACT: despite the sacrifice of tens of thousands of jobs the hourly labour costs for UK manual steelworkers ARE STILL THE LOWEST IN THE EEC. (Source: The EEC Eurostat Iron and Steel Year Book 1978). Latest figures show that the British worker receives 4.05 European units of account per hour compared with 9.44 for the Belgian worker. The rest are in between.

7. FACT: the British steelworker has slipped right down the British earnings league table from 3rd to 18th. So much for high pay. It just hasn't happened. The British steelworker has been cheated.

8. Further evidence of this cheating came last month when the Corporation said it wanted TO CUT A FURTHER 55,000 JOBS - that's more than one in three of remaining steelmen - yet offered in the annual pay round ONLY TWO PER CENT increase in pay. Nothing more was possible, they said. The cupboard was bare. Now the offer stands at six per cent with a lot of strings - plus a local productivity deal.

9. We object to this formula because it does nothing to keep steelworkers abreast of inflation, currently running at over 17 per cent. NO OTHER GROUP OF WORKERS HAS BEEN ASKED TO TAKE SUCH A DRAMATIC CUT IN THEIR STANDARD OF LIVING. Pay rises of 13, 15 and 20 per cent are being offered and accepted by workers in public services and elsewhere. YET IT IS THE STEELWORKERS WHO HAVE SACRIFICED SO MUCH AND RAISED PRODUCTIVITY SO SIGNIFICANTLY.

10. A pay deal with BSC has got to take account of inflation. Where would the money come from? The money could be funded in a number of ways. The important thing to remember is that BSC is trading at a profit. British Steel is hit by a crippling interest burden. If the Government was to subsidise British coking coal to the same extent as other EEC governments subsidise their coking coal, BSC would save £135 million a year - more than enough to pay our claim in full. Savings could be made in many other ways too.

11. So the picture is this.

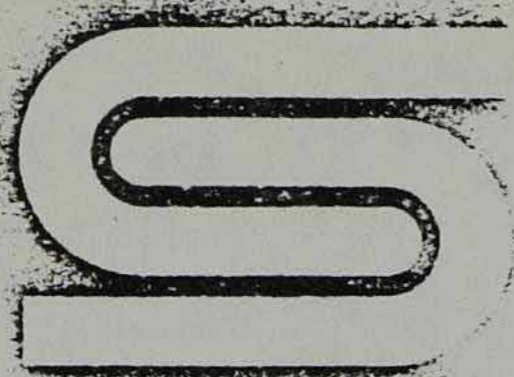
- A high productivity-high pay objective.
- 44,130 jobs out of the industry over the past three years.
- Productivity has been raised 16 per cent during that period.
- But British steelworkers are still at the bottom of the EEC pay league - and slipping in the British table.
- And now BSC have demanded further massive closures, further massive redundancies.

We do not like taking the action we have taken, BUT WE HAVE BEEN FORCED TO DO IT. THE CHEATING HAS TO STOP.

Issued by Britain's largest steel union,
the Iron and Steel Trades Confederation.

General Secretary: Bill Sirs.

MEDIA ENQUIRIES : 01-837 6691

Statement by BSC Board: January 7th 1980

ANNEX B

At its meeting today, the Board received representations from the TUC Coordinating Committee. The Board then gave careful and sympathetic consideration to these views. Following this the Board agreed that negotiations for a pay settlement should be based on:-

(i) a general increase of 8% based on a national agreement to include changes essential to improve the efficiency of the industry, particularly flexibility in working practices, reduced manning at ongoing plants, non-recruitment of labour to fill vacancies caused by natural wastage, in order that such an agreement should be self-financing.

(ii) a further increase of a minimum of 4% (in lump sum payments) arising from locally negotiated lump sum bonus schemes. BSC were prepared to guarantee this minimum benefit from the schemes, but expected the average payment under the schemes to be higher.

In addition steelworkers directly concerned with traditional productivity schemes would receive further increases. Last year locally negotiated schemes yielded an average of 6-7% on top of the nationally negotiated settlement.

The Board of BSC considered that an offer based on these principles would be in line with its own objectives as well as those of the unions i.e. to reconcile:-

- (i) significant increases in earnings for steelworkers, and
- (ii) self-financing of these increases through improved performance by plants in BSC.

In response to the representations from the Trade Union Coordinating Committee, the Board are now prepared to make one advance payment during the January/March quarter at the rate of 4% of gross earnings of the last quarter of 1979 (the minimum guaranteed) in respect of the lump sum bonus schemes. Further quarterly payments would be made only where the lump sum bonus schemes have been negotiated by 31st March 1980.

The minimum increase in earnings achieved on this basis should be 12% per annum provided lump-sum schemes are entered into by 31st March, but the Board would expect the average increase payable to be higher than this.

The Board considers that a pay agreement tied to increases in efficiency in the industry, arising from a national agreement intended to be self-financing, and from the proposed local lump sum bonus schemes, is essential to the competitiveness of the industry and to job security within it.

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STEEL STRIKE

NOTE of a Meeting held at 10 Downing Street
on FRIDAY 11 JANUARY 1980 at 3.00 pm

Present: Prime Minister
Secretary of State for Employment
Minister of State, Department of Industry (Mr Adam Butler)
Financial Secretary, Treasury
Mr D B Smith (Department of Employment)
Mr S J Gross (Department of Industry)
Sir Robert Armstrong } Cabinet Office
Mr P Mountfield }

THE MINISTER OF STATE, DEPARTMENT OF INDUSTRY, said that there had been little change in the situation since yesterday. The independent steel manufacturers were reported to be moving about 95 per cent of their normal output. Supplies from BSC-owned stockholders were stopped, but otherwise, steel supplies from stock yards were moving fairly well. Imports were slowing down, because supplies were not leaving countries of origin. Such supplies as came into the docks were still being unloaded and dispatched from the docks, but on the understanding that they were not allowed to go further than stockholders (thus protecting the earnings of the dockers). There was a particular problem at the BL plant Llanelli, where BL workers were refusing to move sheet steel from their own stock yard to the press shops. Reports from the police suggested that picketing was generally better-tempered than before, though there had been particular problems at Sheffield. The road haulage industry seemed to be moving supplies without too much difficulty, though they were understandably reluctant to explain how this was done. BSC were making arrangements to publicise details of their pay offer in the local press, but were not yet planning to circularise individual steel workers. The Secretary of State for Industry would be making a statement in the House of Commons the following Monday. Attitudes on both sides had hardened. Sir Charles Villiers seemed prepared to stick out a long strike, and Mr Bill Sirs likewise seemed to be digging in. Each was waiting for the other to move first. The ISTC would be meeting the following Tuesday to consider an extension of the strike to the private sector of the steel industry, but it seemed unlikely that they would so decide. The TUC had suggested further talks with the Government and the BSC about the closure proposals, and this would help to avoid - or at least postpone - the threatened further strike of coal and steel workers in South Wales.

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In discussion, a number of further points were made -

i. ACAS was seeking the various parties to the dispute separately, and this would take until the following Wednesday to complete. Although the ISTC and the NUB were prepared to negotiate jointly, the other unions had broken ranks and were seeing ACAS separately. However, the TUC Joint Steel Industry Committee remained in being and would be reactivated if there were a revised offer from BSC.

ii. There was at present no sign of a move on either side. The position remained that the two sides were close together on quantum, but very far apart on conditions. Given that the Government was not prepared to make any more public finance available, the best hope of a solution lay in some re-arrangement of the existing BSC offer, provided that the unions could be brought to accept some further commitment on productivity. It was possible that the informal discussions at ACAS would indicate the scope for such a new move.

iii. Meanwhile, pressure on individual strikers would mount as families ran short of cash; but at the same time, their determination to resist might be strengthened in those areas where jobs were at risk.

THE PRIME MINISTER, summing up the discussion, said that the Group took note of the latest information available. Ministers would meet again to review the position early the following week.

Cabinet Office
14 January 1980

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RH
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JMP
SO
W
bc John Herbyns

10 DOWNING STREET

From the Private Secretary

11 January 1980

Thank you for your letter of 11 January enclosing a draft statement on the steel dispute.

The Prime Minister thinks this draft is excellent, though she has suggested two small amendments:-

- (i) The first three lines of page 3 of the statement should be re-drafted as follows:- "Regrettably, these undertakings were not fulfilled. Against this background, it is not surprising that BSC are now looking for performance".
- (ii) The fourth sentence of the main paragraph on page 3 to read:- "BSC offered an advance payment of this 4% in the January/March quarter." (This is intended to avoid the possible impression that the 4% advance payment is additional to the 4% mentioned in the previous sentence).

In addition, "offer" in the third sentence should read "offered".

I am copying this letter to John Chilcot (Home Office), Martin Hall (Treasury), Ian Fair (Employment), Godfrey Robson (Scottish Office), George Craig (Welsh Office) and to Martin Vile (Cabinet Office).

T. P. LANKESTER

I K C Ellison Esq
Department of Industry

Note
Amendments included in
letter of 9.1.80

cc Mr Wilkinson



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

11th January, 1980

R
14/1

Dear Tim,

BSC STRIKE

I am writing to you to make two corrections to the note about the strike income of BSC workers attached to Martin Hall's letter to you of ~~9th~~ January.

The corrections are two and both in paragraph 1. They are as follows:-

- (i) The £110 referred to in the second line is the overall BSC figure: the figure for manuals, comparable with the others quoted in the note, is £106.
- (ii) The £98 referred to in line 5 of that paragraph was incorrectly typed. It should have read £93.

I am copying this letter to the Private Secretaries to the Secretaries of State for Industry, Employment and Social Services, and Sir Robert Armstrong.

Yours,

Richard.

R. I. TOLKIEN
Private Secretary

T. P. Lankester, Esq.,
No. 10, Downing Street



14 JAN 1980

11 12 1 2 3 4 5 6 7 8 9 10

The following corrections are being made to the report...

The correction in the two and four paragraphs is as follows:

(1) The first paragraph in the report should read as follows...

(2) The 300 referred to in line 3 of page 10 should have been...

A copy of this letter to the Director is being furnished to the Director of State for Information...

Very truly yours,
Private Secretary

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

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

11 January 1980

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Handwritten signature

Dear Tim

ms.

11/11

STEEL STRIKE

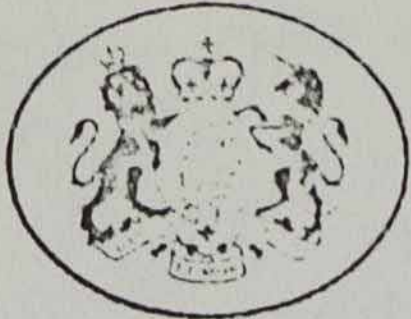
... I enclose the third report of the Interdepartmental Contingency Group on the Steel Strike.

I am copying this letter and its enclosures to the private secretaries to all members of Cabinet, the Minister of Transport and to Sir Robert Armstrong.

Yours sincerely

Ian Ellison

I K C ELLISON
Private Secretary



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STEEL STRIKE : 3rd REPORT OF INTERDEPARTMENTAL
CONTINGENCY GROUP

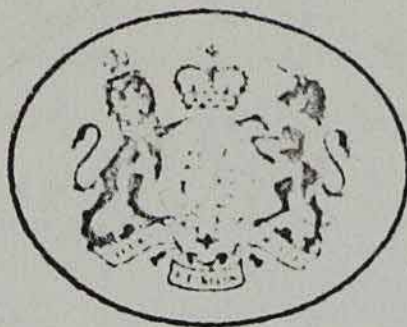
This report summarises the present strike position, covering industrial relations, effects of the strike on steel users so far, and the movement of steel at the docks and internally in the UK.

Industrial Relations

2 An early resumption of negotiations between the BSC and the unions following the breakdown earlier in the week looks unlikely. Both sides talk of sitting out a prolonged strike, and the unions seem now to be thinking in terms of a settlement at 16-17%. ACAS has started a series of fact-finding discussions with each of the five main unions involved, but no joint meetings are currently proposed.

3 It still seems unlikely that the strike will extend to the private sector steelmakers. All the signs are that ISTC members in the private sector wish to continue working. Pay negotiations are still in progress for works in the Midlands covered by the Midlands Joint Wages Board on a new pay deal due to take effect on 1 January. Pay agreements for other areas still have some time to run. And some companies have agreements which pay bonuses for strike-free periods. The experiences of the last year and the prospects for steel generally over the next year or so are sufficiently bleak for the threat of bankruptcy to be a genuine discipline.

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BISPA's interpretation of Mr Sirs's meeting next week with representatives of the ISTC in the private sector is that he is anxious to assess their views, but that this meeting seems unlikely to lead to precipitate action.

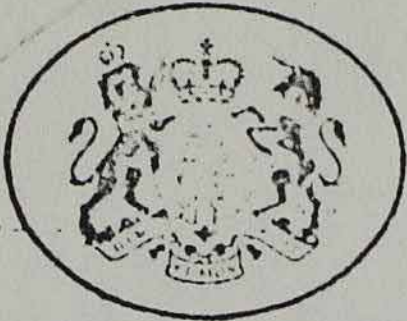
4 Threats from the Welsh TUC of a wider strike on 21 January against the BSC's closure proposals could be defused by the reported intention of the TUC (national) Steel Committee to demand fuller consultation with the Corporation on the plans and if necessary to seek an injunction to prevent the BSC acting on its closure plans on the grounds that it had not so far fulfilled its obligations under the Iron and Steel Act 1975 to consult its employees. The Corporation has anyway to consult over matters like redundancy compensation, and it would be a considerable relief if this could be built up to placate Welsh concern. The danger is of seriously retarding the closures and further damaging BSC's financial prospects. These are primarily matters for the BSC, but in view of their importance the BSC will be keeping us fully informed of their intended response and tactics.

Steel Supplies

5 It remains difficult to build up a reliable picture of the endurance of steel users. The earlier assessment of not less than 4 weeks' stock with users at the start of the strike (ie about 3 weeks now) still seems generally valid, with quite a lot of steel continuing to be delivered from private steelmakers and stockholders. Media reports are still exaggerating the dislocation. Imports seem to be holding up less well. On this basis we could expect no serious general trouble before early February, but some difficult spots sooner and progressive deterioration thereafter especially if picketing and blacking got worse.

6 The private sector steelmakers will deliver over 90% of their normal supplies to UK customers (users and stockholders) this week, and next week as well if picketing etc do not intensify.

The steel stockholders, with a few exceptions affected by heavy picketing, and some of those in BSC ownership, are believed to have maintained good levels of deliveries, with the effects of local picketing being offset by higher offtake generally. Shortages are likely to appear relatively more quickly in areas such as tinsplate and sheet steel eg for motor body pressings where the BSC is the dominant supplier to end users. One specific trouble spot is tht BL's own employees at Llanelli are refusing to handle steel for body pressings for their Marina, Maxi and Rover. This will halt production by early next week. Dealers have ample supplies of these models.



Transport

7 Dock workers are continuing to unload steel (thereby maintaining their earnings) but cargoes thereafter are increasingly being held at the ports by picketing or allowed out only on condition that they are held at stockholders. There are some signs that the flow of bulk shipments to the UK is drying up, probably because consignors are reluctant to ship cargoes which may not get through. Roll-on roll-off traffic is patchily affected.

8 Drivers in the road haulage industry are still reported as having little enthusiasm for supporting steelworkers. 5,000 drivers have been laid off as a result of the strike. Many continue to cross picket lines, albeit with police protection. But intimidation continues and there is apparently increasing reluctance, born in part of the memories of threats and damage last winter, by hauliers and their drivers to brave the pickets. The haulage industry is adept at dealing with this sort of problem, but firms are not surprisingly reluctant to disclose where, when and how steel is being moved. The Department of Transport will be reminding trade associations discreetly of their legal rights to police protection against intimidation and obstruction, and of the usefulness of giving the police notice of deliveries at potential trouble spots.

9 Picketing has generally been peaceful, and media reports of violence are exaggerated. The ISTC is anxious to be seen to be adhering to the TUC guidelines on picketing, given the TUC's general posture towards the Employment Bill. This gives employers some leverage with the unions if they are in difficulties as a result of picketing. The Department of Employment are considering whether there are ways in which, without involving Government, employers could be encouraged to take advantage of this possibility and of the TUC Picketing Guidelines.

Other

10 The Treasury are preparing an assessment of the possible financial consequences for industry of a prolonged dispute, and of ways in which these could if necessary be mitigated.

11 In accordance with the remit from the Cabinet on 10 January the Department of Transport and the Treasury are preparing contingency plans for the use of volunteer transport drivers, as well as for using the Government's regional organisations in a more modest way to support self-help in industry against transport dislocation.

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JAN 1980

PRIME MINISTER

Robens

MEETING ON STEEL

I do not think there have been any major developments over the last 24 hours. But you will want to ask about the reports in today's papers that the steel workers at private plants may be called out. There is to be a meeting of the ISTC to consider this on Tuesday.

Woodrow Wyatt had lunch with Scholey yesterday. I do not know if anything positive came out of this. Lord Robens is seeing Villiers today.

I enclose in this folder Sir Keith Joseph's draft statement for Monday, which you may want to discuss.

Also in the folder is the statement which BSC put out yesterday rebutting Bill Sirs.

R

11 January 1980

- PS Two points on the Robens' initiative:
- i Sir Keith may not know about it. Jim Prior has not told him about it.
 - ii I have just heard that Robens saw Villiers this morning. Robens suggested that Villiers should offer 5 per cent (on top of the basic 8 per cent) simply in return for a general commitment to negotiate local deals. In other words, the unions would not have to sign local deals before being assured an extra 4 or 5 per cent for the full year. Robens thinks Villiers is trying to get just too much.

DISPUTE

- not essentially about the amount; instead about how any pay increase is to be paid for - whether through greater efficiency or by the taxpayer.

PRODUCTIVITY

- scope for improvement very considerable by putting modern, efficient plant to best use. On a strictly comparable basis UK productivity is roughly half - and in some cases less than half - of that of our major Euro competitors. Table in NEDC report, signed by Mr. Sirs, confirms this. UK improvements in recent years have not kept pace with our competitors - so UK steel industry has been falling further behind in the efficiency stakes.

IMPORTS

- not surprisingly an inefficient industry has lost out to foreign competitors whose share of market has steadily risen from 6 per cent in 1970 to over 20 per cent now.

SUBSIDY

- over 5 years taxpayer has put £3,106m. into the steel industry - £221 for each family. Another £450m. committed for 1980-81 representing another £32 for each family.

LOSSES

- in spite of these massive injections of public money, cumulative losses over same period £1,400m. Forecast loss of £324m. in 1979-80 amounts to a subsidy by taxpayers of £1,800 per man employed in the industry, representing nearly a third of average earnings in steel.

COMPETITORS' PERFORMANCE

- while Euro competitors improved their commercial performance in 1979, BSC's losses may actually worsen. Dutch and German state companies now profitable; Belgian and Luxembourg state companies have sharply reduced their losses and are moving towards profit.

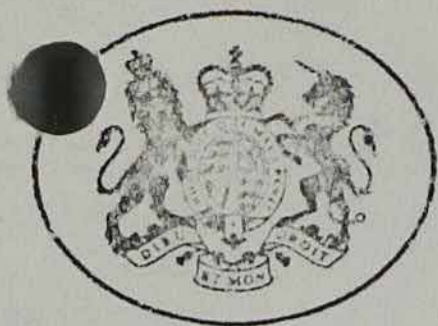
EARNINGS

- average earnings in UK steel in September 1979 were £110 a week compared with £100.50p in manufacturing industry. BSC's offer would raise earnings to £124 - 20 per cent above average industrial earnings.

FUTURE

- no future for a bankrupt corporation
Only way to salvation - and secure jobs - is to compete on price, quality and delivery. BSC has massive scope for improvement in efficiency and therefore, incidentally, earnings. Union objective of high wage - high productivity industry can be achieved - but only if unions and workers cooperate with management to deliver the goods in the plants.

11 January, 1980



*2 1/2 m down
 ending ad.*

For Monday 14 January 1980.

STATEMENT ON THE STEEL STRIKE

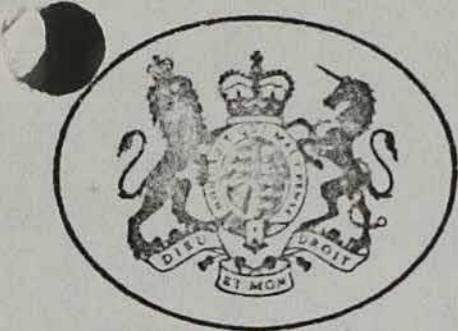
With permission, Mr Speaker, I wish to make a statement about the steel strike and its background.

First, let me say a word about our objectives for BSC since I believe that they are common to both sides of the House and common also to both management and Trade Unions. I quote the Joint Statement of January 1976 agreed between the British Steel Corporation and the TUC Steel Committee. "Both the BSC and the Unions concerned believe that the Corporation should be transformed into a profitable, high-wage, high-productivity industry comparable with its major European competitors".

Two things are needed for this. First, capital investment in new equipment and, secondly, the proper use of that equipment. The equipment has been provided - at a cost of over £2¼ billion in the last 5 years. In 1979/80 the taxpayer is finding £700 million for steel. In 1980-81 we shall be providing £450 million of taxpayers' money to BSC. BSC is entering the 1980s with equipment as modern and as potentially efficient as any steel industry in the Western world.

But that efficiency has still to be achieved. I quote again from the Joint Statement of January 1976 by BSC and Unions "Changes will have to be made now" (that was in 1976) "to reach European levels of productivity". And the Unions acknowledged, in that Agreement of almost exactly 4 years ago, the need for radical

/changes ...



changes in manning and in working practices.

But during these last 4 years, the gap between our productivity and that of our European competitors has not narrowed; it has grown wider. We emphasise productivity as did the last Government. They said in their White Paper of March 1978 "Government will give full, sustained and public support to the BSC in their efforts, including the steps needed to achieve much needed improved productivity in the Corporation ... Such improvement is vital if BSC is to win an assured future as a competitive large-scale steel producer".

That is the policy against which we need to consider the present dispute, to which I now turn. As the House will know, the last round of negotiations between the BSC and the Trade Unions Coordinating Committee, representing all the Unions concerned, took place last Monday, 7 January. The Unions claimed a general increase of 8% with no strings. They also claimed a further 5% as an advance payment against the negotiation and implementation of lump sum bonus schemes on a divisional or works basis, and offered a number of national commitments to help achieve these. BSC have acknowledged that these commitments would be helpful. However, BSC also have regard to the fact that these commitments generally go no further than the commitments made by the Unions in the Joint Statement of January 1976. So they are nothing new and they do not represent any real advance on the undertakings

/given ...



given 4 years ago. Regrettably these undertakings were not fulfilled. Against this background, it is not surprising that BSC are now looking for performance.

What the BSC offered in return was a general increase of 8% based on a national agreement, which would include agreement at national level to changes of the kind recognised by both sides in January 1976 as necessary to achieve improved productivity. So for this element BSC are again willing to put their trust in the union leaders to deliver. BSC offered at least another 4%, from local lump sum bonus schemes when these have been negotiated. BSC offered an advance payment of this 4% in the January/March quarter. The total amounts to a guaranteed 12% for the whole of 1980, subject only to the national agreement and to the negotiation of local lump sum bonus schemes by 31 March 1980. These schemes will be tailored to the particular conditions in each region and linked to output and profitability. Thus, 12% is a minimum. Once the schemes are properly in operation, BSC expect the average payments to be higher. And increases from productivity schemes of the traditional kind would be available on top of all this.

If BSC were instead to offer money without such conditions then the workers in all other industries would have to go on subsidising the workers in the steel industry. And not only this. Our steel would remain uncompetitive and all our user industries, and the workers in them, would be further handicapped. This year the average earnings of a steelworker are £110 a week, over £5,000 a year. The losses in 1979/80 by the BSC represent over £1,800 for

/each ...



each steelworker. So other workers, often lower paid, are having to provide from the taxes they pay more than £1,800 of the average earnings of each worker in BSC. BSC estimate that their offer will bring the average earnings of a steelworker next year up to at least £124 a week. Is it fair that other workers should be asked to give the difference from their taxes or is it right that the difference should be earned by the steelworker himself, from improved productivity?

I well understand and sympathise with all those who work in the industry who face the prospect of unprecedented change arising from substantially reduced steel demand. Their difficulties have been heightened by the previous administration's misguided interventions which have aggravated the problems facing the industry today.

But in the situation we face the future of the industry and, in particular, its ability to grant wage increases must be a matter for management and workforce. I very much regret this strike. I regret it for the harm it is doing and will do to the steelworkers and their industry. Even without the strike they are faced with a painful contraction of the industry in order to bring production capacity more in line with demand and to become competitive. With the strike, that demand will reduce still further. Still more jobs will be at risk and the ability to pay better wages will suffer. I regret the strike too because of the damage it is doing and will do to British industry and to those who work in it.

John Dillinger

- Settlement + govt.
- not respon. - all the time.
- Effects on economy of long strikes.
- Settlement with WPA.
- Discussion with Charles Ulmer

Can't work his hands of consequences of govt policy
 Conspiring income policy,
 Old help.

Why is RWA. so similar to increased currency
~~for increased~~ for increased effort.

Pay up bills ✓ Ballot ✓

Treasury ballot.

Other countries start → - some 2

Publication → 75% 100%
 120% 100%

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✓ Mr Wolfson Mr Hoskyns
Mr Ingham Mr Whitmore



DEPARTMENT OF INDUSTRY

ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

PM dismissed

11 January 1980

Tim Lankester Esq
Private Secretary to the Prime Minister
10 Downing Street
London SW1

*Prime Minister
Sir Keith has
approved this. It
seems pretty good
to me.*

Dear Tim

STEEL DISPUTE: DRAFT STATEMENT FOR MONDAY
14 JANUARY

TL

... I attach a draft of the Statement my Secretary of State proposes to make in the House on Monday 14 January. This is on the lines agreed at the meeting at 10 Downing Street yesterday.

I am copying this letter to John Chilcot (Home Office), Martin Hall (Treasury), Ian Fair (Employment), Godfrey Robson (Scottish Office), George Craig (Welsh Office) and to Martin Vile and John Hoskyns.

Yours we

Ian Ellison

I K C ELLISON
Private Secretary



DRAFT STATEMENT ON THE STEEL STRIKE

With permission, Mr Speaker, I wish to make a statement about the steel strike and its background.

First, let me say a word about our objectives for BSC since I believe they are common to both sides of the House and common also to both management and Trade Unions. I quote the Joint Statement of January 1976 agreed between the British Steel Corporation and the TUC Steel Committee. "Both the BSC and the Unions concerned believe that the Corporation should be transformed into a profitable, high-wage, high-productivity industry comparable with its major European competitors".

Two things are needed for this. First, capital investment in new equipment and, secondly, the proper use of that equipment. The equipment has been provided - at a cost of over £2 $\frac{1}{4}$ billion in the last 5 years. In 1980-81 we are providing no less than £450m of taxpayers' money to BSC. BSC is entering the 1980s with equipment as modern and as potentially efficient as any steel industry in the Western world.

But that efficiency has still to be achieved. I quote again from the Joint Statement of January 1976 by BSC and Unions "Changes will have to be made now" (that was in 1976) "to reach European levels of productivity". And the Unions acknowledged, in that Agreement of almost exactly 4 years ago, the need for radical

/changes ...



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But during these last 4 years, the gap between our productivity and that of our European competitors has not narrowed; it has grown wider. We emphasise productivity as did the last Government. They said in their White Paper of March 1978 "Government will give full, sustained and public support to the BSC in their efforts, including the steps needed to achieve much needed improved productivity in the Corporation ... Such improvement is vital if BSC is to win an assured future as a competitive large-scale steel producer".

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/given ...

CONFIDENTIAL



Regrettably

given 4 years ago. ~~(Those undertakings, I regret to say, were not fulfilled. I am not seeking to allocate blame for this but I do~~ ^{of course} ~~say that it is reasonable for BSC now to look for performance.~~ *not implying that*

thin background

What the BSC offered in return was a general increase of 8% based on a national agreement, which would include agreement at national level to changes of the kind recognised by both sides in January 1976 as necessary to achieve improved productivity. So for this element BSC are again willing to put their trust in the union leaders to deliver. BSC offer ^{ed} at least another 4%, from local lump sum bonus schemes when these have been negotiated. BSC have ~~also~~ offered an advance payment of ^{4%} in the January/March quarter. In total this amounts to a guaranteed 12% for the whole of 1980, subject only to the national agreement and to the negotiation of local lump sum bonus schemes by 31 March 1980. These schemes will be tailored to the particular conditions in each region and linked to output and profitability. Thus, 12% is a minimum. Once the schemes are properly in operation, BSC expect the average payments to be higher. And increases from productivity schemes of the traditional kind would be available on top of all this.

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/earnings ...

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earnings of a steelworker are £110 a week, over £5,000 a year. The losses this year by the BSC represent over £1,600 for each steelworker. So other workers are having to provide from the taxes they pay more than £1,600 of the average earnings of each worker in BSC. BSC estimate that their offer will bring the average earnings of a steelworker next year up to at least £124 a week. Is it fair that other workers should be asked to give the difference from their taxes or is it right that the difference should be earned by the steelworker himself, from improved productivity?

I very much regret this strike. I regret it for the harm it does and will do to the steelworkers: their jobs are at risk if the industry is not efficient and profitable and if users lose confidence. I regret it for the damage it does British industry and those who work in it. I hope it will soon be over.

CONFIDENTIAL

Extract from the Tribune dated

January 11, 1980.

The lesson the steelworkers will teach the Tories when the strike is won

THE steel strike is gathering strength. All over Britain furnaces and mills on British Steel Corporation sites are idle. Gradually stockholders who deal in BSC materials are being squeezed.

Magnificent solidarity has been extended from all three rail unions, from dockers and drivers sections of the Transport and General Workers Union, from the National Union of Mineworkers.

International sympathy action has been the equal of it. Telegrams from all parts of the globe have been received telling us that foreign trade unionists stand with us shoulder to shoulder. In the words of Herman Rebhan of the International Metalworkers' Federation, "a ring of non steel" surrounds Britain.

In negotiations with BSC we have been confronted by an amazing performance put on by an inept management. Contrary to all the experiences of collective bargaining, on Monday (the sixth day of the strike), we were made an offer worth less than earlier offers.

The present BSC position is that all the money on offer is being paid for by us: we finance our own pay increase, whether at national or local level. There is no willingness in the membership of the Iron and Steel Trades Confederation and the National Union of Blastfurnacemen to acquiesce.

We are the lowest paid steelworkers in the EEC. We work the longest working week. We work the longest working year, with fewer holidays. BSC's labour costs are under one-third of its total expenditure. By redundancies and bogus pay offers,



BILL SIRs, general secretary of the Iron and Steel Trades Confederation, and Hector Smith, general secretary of the National Union of Blastfurnacemen.

BSC hopes to drive them down still further. The whole thrust of its policy is to concentrate its economies on labour costs.

Steelworkers have become aware during the last few

by
**BILL
SIRS**

General Secretary,
Iron and Steel
Trades Confederation

days that they are now living through the implications of the 1978 report drawn up for Margaret Thatcher by Nicholas Ridley MP when she was leader of the Opposition. This report singled out steelworkers, among others, as prime targets to be taken on and defeated so that other public sector groups could be demoralised.

In the wider Labour movement the broader significance of this is beginning to dawn. In her interview on the television programme, *Weekend World* last Sunday, Mrs Thatcher feigned neutrality. It was not her place to intervene, she argued, although she was quite prepared to repeat management lies on productivity in the industry.

The truth is that the steel strike has become a test of virility for this Government, but it has picked the wrong industry. Demonstrating its error to it is going to cost Britain dear.

Even now, the strike can be ended if reason breaks through in Grosvenor Place and Whitehall, but it will not happen.

In the fight that lies ahead I know that steelworkers can rely on the active support and sympathy of the whole movement, and when we win — as win we shall — we will have demonstrated collectively to the Government that it will have to change its ways.

CONFIDENTIAL

Handwritten signature



Note
Amended ^{met} included in
letter of 9.1.80

Handwritten initials

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

Handwritten initials

10th January 1980

Dear Sir,

BSC STRIKE

For the record, there is a small corrigendum to be made to the note I circulated yesterday, which does not affect any assessments reached in that note. The words at the top of page 3 "rent payments might take this to around £30" should be deleted and replaced by:

"adding back tax rebates which are themselves payable in full, and rent payments (payable in a strike), would take the total to around £40."

Copies of this letter go to those who received my previous letter.

Yours,

M.A.

(M.A. HALL)

T.P. Lankester, Esq.,
No.10, Downing Street



10 DOWNING STREET

From the Private Secretary

10 January 1980

Dear John,

at
8/1/80

I enclose the minutes of the meeting which was held here on Tuesday morning on the steel strike. I am extremely sorry that these were not circulated earlier.

I am sending a copy of this letter to Ian Fair (Department of Employment), Alistair Pirie (HM Treasury), Richard Prescott (Paymaster General's Office), Tom Jaffray (Minister of State's Office, Department of Industry), Bill Beckett (Attorney General's Office) and Martin Vile (Cabinet Office).

Yours
ew.

Tim Laker.

John Chilcot, Esq.,
Home Office.

of Gumbol (NEDC) HQ
M

Prime Minister
Mr Murray's statement to
the press - follows closely
what he said.

EXTRACT FROM A STATEMENT BY TUC GENERAL SECRETARY, LEN MURRAY
MADE TO THE NEDC - JANUARY 9 1980

(I understood that Mr. Claxton
presented your line faithfully
at his press
conference.)

The situation in the steel industry illustrates the importance
of the points the TUC make in its report on Employment and
Technology. The closures suffered by the industry largely result
from the impact of new technology in the UK and elsewhere. There
has been a remarkable response from the unions concerned over the
years in accepting change and reduced employment. Now they are
faced with new and draconic proposals. But the technological and
structural problems facing the industry have been grossly
intensified by unreasonable, narrow and short-sighted Government
policies.

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91.

I am not concerned here with the merits of the current dispute.
That is a matter for the BSC and the unions. But the parameters
for negotiation have been determined by the Government, and the
Government must accept responsibility. It is not necessary to spell
out here the grave dangers that the steel dispute poses to industry
and the whole economy. It was because of these frightening impli-
cations that the TUC took the initiative in establishing the trade
union Coordinating Committee. The initiatives have all come from
the trade union side, but the BSC response has been largely if not
wholly conditioned by the Government's restrictive approach.

The trade union response involved making an unprecedented offer - to
accept self-funded productivity arrangements, to set up machinery
and procedures to negotiate local productivity schemes on a multi-
union basis, to jointly review productivity locally and to monitor

agreements with

/Coordinating Committee involvement and TUC endorsement and assistance. This broke completely new ground, and it is a tragedy that the BSC were reluctant - or unable - to respond positively. Unless there is confidence on the part of employers and workers, new technology will not get off the ground. But above all the Government must shoulder its responsibilities and assist in the solution of problems. Instead, the Government is hindering the solution of the problems in the steel industry and is not facing up to its own proper responsibilities in the management of the nation's affairs.

Mr. Larkins

MR. JACK PEEL INTERVIEWED BY ROBIN DAY ON "WORLD AT ONE",
WEDNESDAY, 9 JANUARY 1980

Mr. Peel's proposals to break deadlock in steel strike

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JP: I believe the Steel Corporation should make a payment of 14 per cent to the steelworkers now, without any immediate strings.

RD: Hold on, that means instead of what they propose: that is 8 per cent plus 4 per cent from local productivity?

JP: That's right. In other words, it would be 8 per cent plus 6 per cent. That would be the productivity element. Now, the duration of the agreement which is normally 12 months in this case would be determined by the actual productivity increases achieved. If the 6 per cent, which is part of the 14 per cent that is productivity-based, was achieved within one year, then it would be a normal 12 month agreement which has more or less paid for itself. And anything above that 6 per cent productivity increase which is achieved out of the 14 per cent I believe should be given in extra holidays for the steel workers.

RD: What safeguard would the Steel Board have against productivity not being increased to justify their payment of this extra 6 per cent productivity increase minimum being paid?

JP: Well, in that case, I think that if the 6 per cent productivity element is not recorded in one year, then the 12 month agreement should be lengthened pro rata. For example, if only a 3 per cent increase in productivity is recorded in the 12 months, then the agreement should be extended by half by making it into an 18 month agreement. This would enable British Steel Corporation to recoup most of the money which has been paid on account and it would

also encourage them to make the extra payment in the first place, knowing the money can be recovered if things go badly.

RD: But the Steel Corporation have said that they stick to this minimum of 4 per cent, don't they? Why should they go to your minimum of 6 per cent and agree to pay a year in advance?

JP: Well, we have to get a settlement to the dispute. The consequences of the strike going on are traumatic from everyone's point of view. The industry, the steelworkers and the country. The unions have said that an offer of at least 13 per cent will be required to get the negotiators round the table again. This is why I've pitched my suggestion at 14 per cent with what I have described as retrospective obligations. But there's more too. I believe such a formula, if it's accepted, should be put to a secret ballot of all the workers so that a cool, unemotional decision can be taken about it and thirdly...

RD: Hold on a moment. Will that secret ballot be with or without the consent of the unions?

JP: It will be desirable, I would think for it to have union consent but I think the issues are so important that there should be secret ballot anyway.

RD: You want Sir Charles Villiers to take a leaf out of Sir Michael Edward's book?

JP: Yes. I think the situation is big enough to warrant that situation to be copied.

RD: Coming back to your point about holidays which was a point in your proposal, how do extra holidays fit into a situation where the Steel Board's main aim is to increase productivity by, in the main, reducing manpower?

JP: Well, it certainly fits into the idea, I would have thought, of reducing manpower. And in any case, productivity doesn't necessarily go down because you give extra holidays. If you generate a better mood, a feeling that the workers' interest is being taken care of, it's quite likely that this will help the productivity surge.

RD: But the workers on the Continent where you work, haven't they got longer holidays than our people because of higher productivity and not the other way round?

JP: I think you can argue it both ways. I think they've got higher productivity partly because they're happier, they're satisfied, they feel they're more involved. So it's a 2-way argument, but I think this holiday aspect is an incentive to help the workers reach the 6 per cent productivity deal that we're talking about.

RD: Now, you mentioned 2 points. You mentioned the 14 per cent proposal, the secret ballot proposal and you have a third point.

JP: Yes. My third point, knowing that this is a complex formula - and clearly, there is no easy answer to a problem of these dimensions - is to appoint an arbitrator. Both sides should appoint an arbitrator in advance and agree that he should deal with any

problems or disputes arising out of the interpretation of this formula and that his decisions on those problems should be accepted as binding.

RD: Are you going to put your proposal in detail to the Steel Board or the unions or are you simply asking them to listen to this programme?

JP: Well, I should hope that they will listen to this programme and if I get any reactions either from the Board or the union, then I would do my best to help in any way that they felt that I could assist.

Pm 11:15

CBI statement which went
out today.

Very form.

Sir John Methven, Director General of the Confederation of British Industry said: Most of our member companies have good stocks of steel at their works and should be able to maintain production for some weeks. This does not mean, however, that the steel strike will not have serious consequences if it continues for any length of time. It will worsen the already weakened position of the many British companies still struggling to recover from the road haulage and engineering disputes.

TL

9/1

and

I have been warning for many months now that we in Britain cannot afford to pay ourselves more than we earn. Our members fully understand that the British Steel Corporation is running at a loss and that it cannot pay out in wages money that has not been earned from the production and sale of its products. Any additional pay can only be made available through substantial improvements in productivity.

The CBI will keep the situation under daily review and we are paying particular attention to secondary picketing

We are already seeing a repetition of the unreasonable and sometimes violent picketing that we saw last winter of companies which are in no way involved in the dispute. It was precisely for this reason that the Government introduced a Bill to limit picketing to a striker's own place of work. The sooner this becomes law the better.

By

blacking imports and the movement of steel the trade unions are directly putting at risk the jobs of many thousands of workers in other industries. If the output from British factories dries up, the United Kingdom will be subjected to even greater imports of foreign steel in the form of manufactured products, from motor cars to nuts and bolts. Orders and jobs will be lost, many of them permanently. This action by the trade unions can only provide jobs for foreign workers. It can only further reduce the dangerously low profitability of British firms and diminish the money available for new job-creating investment in the United Kingdom.

Our international trading rivals will be delighted that so much additional business is pushed in their direction.

CONFIDENTIAL

Prime Minister

A useful note

Mr Lynton
Mr Holt
Mr Ingham



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

R

9 January 1980

Dear Tim,

BSC STRIKE

...

I enclose a note answering the questions posed by the Prime Minister yesterday about the strike income of BSC workers.

I am copying this letter to the Private Secretaries to the Secretaries of State for Industry, Employment, and Social Services, and Sir Robert Armstrong.

Yours av.

MA

M. A. HALL

T. P. Lankester, Esq..
No.10.

CONFIDENTIAL

1. PAY. When not striking the average BSC worker receives ~~£110~~¹⁰⁶ a week gross pay; only some 10% earn less than £77 a week. This compares with an average for all workers in manufacturing industry of £104, for all workers of £101, and for all manual workers of ~~£98~~³ (males throughout).

All BSC workers on strike are receiving no pay, except that where pay clerks are still working (Scotland and Wales, see below) there is still a residue of overtime etc payments for December for the weekly-paid, while overtime payments for December will be due to all monthly-paid workers at the end of January; in a few individual cases these sums could be significant.

The few BSC workers not on strike (furnace maintenance, some clerks etc) are receiving normal pay - by cheque from the management, where pay clerks are on strike.

2. TAX REBATES. PAYE rebates, one of the major sources of income for strikers, arise because workers pay tax weekly, or monthly, on the assumption that their pay will continue at approximately the same rate throughout the year; if a worker's income falls because he has gone on strike, he therefore becomes entitled to a rebate. In a typical case (gross earnings of £110 per week during the tax year to date) these would amount to -

11.19
 £11.19 per week for a married man
 (irrespective of family size)
 £7.44 per week for a single man

The legal position is that an employer is required to make a tax rebate to his employee on each of the latter's ordinary pay days during a strike, that is to say, at weekly or monthly intervals (depending on whether the employee is weekly or monthly paid). If the employer either cannot or

prefers not to make the refund, he may relieve himself of the obligation to do so by providing the Inspector of Taxes concerned with information about the striking employee sufficient to calculate the level of refunds due (but he must do this not later than the first usual pay-day during the strike). In that case, the tax office is legally obliged to make the repayments and while in practice some delay might occur it is not possible legally deliberately to delay repayment.

In practice, where pay clerks are not on strike (ie in Scotland, where they belong to a non-striking union APEX, and in Wales, where there is a dispensation agreement covering some essential ISTC staff) they are handling the payment of rebates. Where they are on strike (in England) the Inland Revenue believe it likely that BSC have not yet made the requisite information available to the local tax office.

3. SUPPLEMENTARY BENEFIT. This is payable to a married man for the whole duration of a strike: but it is a gross figure against which tax rebate is deductible, except for the first £4 of that rebate. Single men are only entitled to SB in exceptional circumstances of need, and then to a limit of £12-50 a week. A married man without children, earning £110 per week, would receive £24-65 a week gross SB; a married man with two children £28-2 a week gross SB; the entitlement continues to rise with the number of children, and also varies with their age.

4. STRIKE INCOME COMPARED WITH NORMAL INCOME. Leaving aside any residual pay in respect of December overtime (see paragraph 1 above), a striker's net income from supplementary benefit netted off against tax rebates (except the first £4 as described) would thus be about £21 per week in the case of a married man with two children

normally earning £110 gross a week; ^{adding back tax rebates which} ~~rent payments might~~ ^{are themselves payable in full, and rent payments (payable in a strike), would take} ~~take this to around £30.~~ ^{the total to around £40.} This is to be compared with the same man's net weekly pay when not striking, post-tax and national insurance contributions, of about £83-50.

In the case of a single man, strike income would be limited to about £7-50 per week ~~strike~~ tax rebate, as compared with about £79-50 when not on strike.

5. ASSESSMENT. Strike income is on the face of it low, and it could take steelworkers six weeks at work to recoup (after tax) the income foregone in each week of the strike. Nonetheless, financial pressure is unlikely to force an early return to work. Many wives have jobs; in some areas there is much scope for moonlighting. Payment of electricity, gas and telephone bills can be delayed, and it takes many months of bureaucratic process to catch up on this. Workers may use their personal holiday savings to buy food. In sum, striking workers should manage, with some tightening of belts, for two or three months at least.

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CONFIDENTIAL



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9 January 1980

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Dear Tim

STEEL STRIKE

Ian Ellison sent you on 8 January the second report of the Interdepartmental Contingency Group on the Steel Strike. The Home Secretary has seen this, and has two comments on paragraph 5(c)(ii) dealing with the enforcement of the existing law.

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has
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First, the paragraph could be taken, wrongly, to imply that a threat to deprive someone of his union card amounts to unlawful intimidation and constitutes a criminal offence. This is not so, and it is important to emphasise that the scope of the criminal offence of intimidation is more limited than that.

Second, the Home Secretary has seen the suggestion that employers might be encouraged to arrange for "volunteer witnesses" to be organised to attend at picketing sites. The Home Secretary does not believe that the suggestion is feasible.

I am sending copies of this letter to Ian Ellison and the other recipients of his letter.

*Y
am
John*

J. A. CHILCOT

Tim Lankester, Esq.

CONFIDENTIAL

9 JUN 1940

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Original returned
to Mr Hoskyns.

PRIME MINISTER

British Steel

This note suggests some lines of thinking for handling the British Steel situation. It is mostly questions at this stage, and follows from the discussion this morning with David Wolfson and Solly Gross.

1. THE POSITION HAS CHANGED

As you know, before Christmas we urged early behind-the-scenes intervention to prevent the strike taking place. We took the view that Villiers' original offer was ridiculous, that Government was involved (whether it realised it or not) and that, since the position had not been thought through properly - with or without Villiers - we should avoid a strike until we had worked out whether it was winnable and how. Once the battle-lines are drawn, however, we have to think again.

2. THE PRESENT SITUATION

2.1 The rapid raising of BSC's offer has weakened the Board's credibility. There is a danger that Government credibility is thereby weakened also, even if it does no more than stand pat behind BSC. To intervene and try and "fix it" after BSC's own crumbling would be difficult to do without a real loss of credibility.

2.2 Nevertheless, everyone knows that this is the type of dispute which Government can fix very easily if it wants to. We must assume that neither unions nor public opinion are sure that Government will refrain from doing so.

2.3 If the £450 million cash limits are going to be quickly blown away by the strike, to what extent do those cash limits remain sacred?

3. NEGOTIATING STRATEGY

3.1 Who is negotiating? There appear to be two sets of negotiations. On the face of it, BSC negotiates with ISTC/NUB. Behind that there is a "confrontation" between the union movement and the Government.

/ 3.2 NEGOTIATING OBJECTIVES

3.2 Negotiating Objectives

3.2.1 Each of the parties has a different reward/penalty for winning/losing.

3.2.2 BSC Board has little to lose by a strike which muddies the waters, blows away their cash limits and obscures the fact that they were not going to break even. They may have something to win if winning delivers big changes in manning, agreement to further closures, organisational changes to make different parts of BSC perform better and compete for funds, (though some BSC Board members might not welcome such changes).

3.2.3 ISTC/NUB had nothing to lose at the outset. Sirs could never accept the 2 per cent, so any alternative outcome was better. It is more evenly balanced now, with BSC offering something which could be presented as not too far below the inflation rate (which is what the strike is all about - the insistence on at least partial indexing if other groups are being indexed).

3.2.4 The TUC and supporting unions have much to gain or lose in terms of face and political ascendancy.

3.2.5 Government can win or lose credibility. It also has the chance to give the public a bit more education in economic reality. Both will be purchased at a heavy economic price but that may not matter provided that price can be well and truly converted into political stepping stones. Government's fallback position (snatching victory from the jaws of defeat) if a long-drawn-out strike does force Government intervention to fix it, might be to prepare a shock economic budget designed to bring home the lessons of such industrial civil war and get some of the big budget numbers right, faster, at the same time.

3.3 Strengths and Weaknesses of Negotiating Parties

3.3.1 ISTC/NUB. We can live without steel for quite a while. People will not die or starve. There is no obvious jugular to go for in a steel strike. Steel comes in many shapes and forms, scattered around the whole country. Secondary picketing is therefore harder. Pressures on Sirs will come from marginal plants facing closure, public opinion, lay-offs in other industries, loss of face as the TUC picketing code is broken and, most important of all, cumulative loss of members' earnings.

/ 3.3.2. TUC

3.3.2 TUC and supporting unions. They have now taken up a position but are not really in control of events. The uglier it gets, the more TUC's credibility, especially on trade union reforms, will suffer.

3.3.3 BSC Board. Can afford to be brave because it is not their money, more to gain than lose perhaps. They need only capitulate if the Government tells them to do so. We suspect there is little public sympathy for Villiers and Co. but we have no data.

3.3.4 Government. Economic impact on output, exports, sterling, PSBR. The lack of real hardship (food, medical, etc.) coupled with growing indignation about bankruptcies, lay-offs, etc., gives the Government quite a strong hand. But unless we succeed in establishing our criteria, all the blame will in the end switch to Government. The true costs of a strike of this kind tend to come after the strike is over as people import to make up shortage.

3.4 Choice of Strategy

3.4.1 We have two choices - either to intervene, whether covertly or overtly, and settle the dispute quickly, or else to sweat it out to the finish. We may decide that the first option has already been missed.

3.4.2 The question really is whether we are trying to minimise the cost (political and economic) of losing, maximise the rewards (again political and economic) of winning or something inbetween.

3.4.3 It may be possible for BSC to make one more concession in order to settle the dispute, but it would have to be clearly signalled that it was the end of the line, so that, if it was accepted, BSC did not itself lose all remaining credibility (which means that Government will lose credibility too, whether we like it or not).

3.4.4 Another possibility might be that Government lifts the restriction on BSC's use of public money to fund operating losses (provided it stays within cash limits). There may be differences in the treatment of other nationalised industries, to justify this.

3.4.5 If we did decide on sweating it out, there might be a psychological moment when BSC could start to reduce their offer, (perhaps as a result of Government overtly reviewing the cash limit situation in view of the strike costs). Similarly, BSC

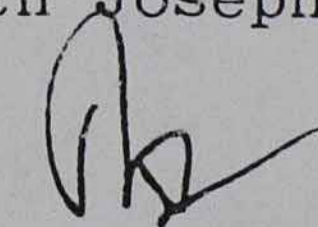
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might increase the redundancy requirement needed for settlement, putting further pressure on marginal plants. There may also be a point at which Villiers could, on the basis of opinion research, propose balloting the workforce. This would itself carry heavy risks for Sirs, who might then make concessions, to head off a ballot which could have an embarrassing outcome for him.

4. IMMEDIATE ACTION

- 4.1 The most urgent task is to establish the criteria by which the public and BSC workers can evaluate and understand both what is happening and the final outcome, as and when it occurs. This task can be done by Government, BSC and any other interested parties - e.g. the CBI - because it is not negotiation, it is interpretation, explanation and education.
- 4.2 The Secretary of State for Industry's statement on Monday can develop this communication process. He should seek to underline BSC's objectives, whilst making it clear that the method of achieving them is still their responsibility alone. He needs to reiterate the Government's position on cash limits and any other constraints imposed by Government, in a way that will not close off other options which our strategy (when it is agreed) may contain.
- 4.3 It looks increasingly as if the moment for quick intervention and settlement is past. We may want to escalate the debate, about a week later, with a Ministerial broadcast. However, the broadcast would not be an intervention in the dispute. Rather it would be an amplification and fresh explanation of why Government cannot intervene. We are already putting some thoughts together on such a broadcast.
- 4.4 You will inevitably face Questions next week after Keith's statement. It is important that you each speak about the problem from your respective positions (Departmental and national) in such a way that you say different - though consistent - things. While Keith must spell out the industrial and economic realities, you should set it all in the context of a country which has been running away from such realities for most of the last 16 years.
- 4.5 CRD is putting in hand preparation for opinion research early next week to check both worker and public opinion in key steel towns, and public opinion nationally. It should produce first results by Thursday, 17 January.

I have copied this minute to Keith Joseph, Solly Gross and David Wolfson.



John Hoskyns

9 January 1980

CONFIDENTIAL

Prime Minister

See also note

by The Hon. Mr. Hore

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and Tracy note on

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Ref. A01102

PRIME MINISTER

Cabinet: Steel Strike

(Mr. Ellison's letter of 8th January to Mr. Lankester; Attorney General's minute of 9th January to Prime Minister)

BACKGROUND

You agreed at your small meeting on Tuesday that the whole question of the steel strike should be discussed at Cabinet tomorrow. It will be the first chance that the full Cabinet has had to discuss this situation.

2. Since your meeting on Tuesday there have been two new developments:
 - (i) Both BSC and the unions have now made a clear statement of the offer and the claim, so that the facts are on the public record.
 - (ii) The ISTC is now threatening to extend the strike to those private sector steel companies which have not yet settled. This would of course have the effect of bringing them formally into the dispute, and turning much of the existing secondary into primary picketing.

HANDLING

3. I suggest you begin by telling the Cabinet that a small group of Ministers under your own chairmanship has been keeping the situation under regular review. The time has now come for the full Cabinet to consider the situation. The paper enclosed with Mr. Ellison's letter of 8th January is a convenient checklist of points to be covered, though there are one or two extra things to be fitted in.

- (1) State of negotiations (not covered in the paper).

The Secretary of State for Industry should report on this, with any comments necessary from the Secretary of State for Employment. The key points are:

- (a) The reasons for the breakdown: the increased demands of the unions, the improved offer by BSC, and the union refusal to meet the conditions attached to it.
- (b) The separate negotiations for the craftsmen (which have ~~not~~, so far, broken down). How important is it to keep them at work - for safety and maintenance reasons?

(c) The private sector. What is the latest news of the extension of the strike into private sector steel?

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(2) Effect of strike (paragraph 2 of paper, and detailed annexes 1 and 2).

The position generally seems as satisfactory as could be expected. You might seek comments from the Secretary of State for Industry and from the Secretary of State for Employment (who has been in separate informal touch with the CBI). Other Ministers may wish to join in. In particular:

- (a) Are any major companies in serious difficulties?
- (b) Is there a particular bottleneck problem for the canning industry (I see that Metal Box is being picketed)?
- (c) How quickly will the strike hit BL, and with what results?
- (d) Will the strike cause problems for the cash flow of NCB and BR? If so, what can Government as banker do about it?

Mr. P. M. ...
for ...

(3) Dealing with a prolonged strike (paragraphs 3-6).

The Secretary of State for Industry proposes general reliance on self-help, with a certain amount of discreet guidance:

(a) Publicity. The position now seems much more satisfactory. BSC have made a real effort to get the facts across (see for example page 1 of today's Times). All Ministers can be encouraged to take up this theme. The Paymaster General might be asked to comment and to describe the arrangements he has made to co-ordinate the Government's publicity.

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(b) Other public sector wage claims. The suggestion here is that, where possible, other settlements should be deferred if they would be likely to give comfort to the steel workers. The potential problems seem to be:

- (i) Local authorities (13 per cent likely; no new productivity strings; all cash found by taxpayer or ratepayer).
- (ii) BL (5 per cent - with more on conditions; an early settlement would be positively helpful).

- (iii) Water (high settlement probable; but cost can be passed on in charges).
- (iv) Shipbuilders (the unions are apparently holding off pending a settlement for steel).

Ministers may also want to think about the knock-on effects of an eventual steel settlement on other industries - particularly deficit ones. The main case is BR. What are the prospects for a low settlement (or a higher one with productivity/demanning conditions)? What will be the effects of a continuing steel strike for the cash limits (this year and next) of BR and the NCB?

(c) Picketing.

- (i) Private sector. The position (at private sector steel companies (though not at stockholders) will be changed if ISTC succeeds in making the dispute here official. Meanwhile is there any merit in the proposed approach to the TUC about their last winter's guidelines on picketing? What does Mr. Prior think?
- (ii) Enforcement of existing law. This is the point at which to remind Cabinet of the differences between criminal and civil law. Starting with criminal law: you could ask the Home Secretary to report on the guidance he has given to Chief Constables and the arrangements made for him to be kept informed. Does he - or the Secretary of State for Employment - see any advantage in reminding people of their right to police protection against intimidation or in providing volunteer "witnesses"?

At this point you might ask the Attorney General to report on the position in civil law. He has circulated (with his minute to you of 9th January) a note on the state of the civil law in the light of the McShane judgment. Cabinet had not so far had a chance to consider the implications of this judgment. As you put it yesterday, the situation is now worse than that which

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faced the Labour Government last winter. The legal restrictions on picketing have for all practical purposes disappeared. This means that employers no longer have the option of taking civil action against unions or individuals who disrupt their business.

(iii) Changes in the law. What then should be done in the light of this new development? You have asked the Secretary of State for Employment to report orally on his latest proposals for amending the Employment Bill. (He was in any case planning to bring proposals forward to E next week.) His proposals are confined solely to the civil law. They amount to restoring to employers some, though not perhaps all, of the rights they were believed to enjoy before 1974. Is this enough? Does the Cabinet wish to go further? In the light of Cabinet's reactions, you have two choices:

- (1) To go ahead with discussion in E, and introduction of Government amendments at Committee Stage, as originally intended; this does not rule out rather more far-reaching amendments than Mr. Prior originally contemplated if E so decides (and Cabinet may wish to give him a preliminary steer).
- (2) Some accelerated procedure, either by speeding up the present Bill or introducing a separate one on picketing. Mr. Prior's initial advice yesterday was that this would be damaging to the industrial relations climate and could provoke a general strike. His preferred course is to let any union excesses in the steel strike influence public opinion, so as to provide the most favourable climate for the passage of his general legislation.

(d) Use of volunteers etc.

- (i) Transport. The prospects do not look promising. The question here is whether Ministers want more work done. If they do, it is for the Department of Industry (in the chair of the Interdepartmental Group) to undertake it and report back - either to Cabinet or to E, through the Secretary of State.

- (ii) Ports. The conclusion here is that it is not worth trying to use volunteers in the ports. Do Ministers - and in particular the Secretary of State for Employment - agree?
- (iii) More far-reaching measures. The paper explains that use of troops and requisitioning of vehicles is not possible under existing legislation (in practice, troops could probably be used under standing Defence Council Instructions, but vehicles could not be requisitioned). This is because the 1920 Act is confined to "food, water, fuel or light and the means of locomotion". It apparently does not cover the steel industry. Would such powers be useful and could troops help? Do Ministers want the possibility of extending the Act examined - given that it would almost certainly not be possible to legislate in time to affect the present dispute? If so, you might wish to establish a small group of Ministers for the purpose: presumably the Home Secretary, the Secretary of State for Defence, the Secretary of State for Industry, the Secretary of State for Employment and the Attorney General, as a minimum.

At this point you may want to move on to points not covered in the paper:

- (e) The way forward. Ultimately the dispute must be resolved. It seems generally agreed that there must be an interval of two weeks or so before any fresh attempt is made to resume negotiations. What will be the catalyst which will bring the two parties together again? Will it be pressure from workers in other industries, whose jobs are put at risk? Will the Government come under pressure from its own supporters and from the CBI to force BSC into a settlement? Or will BSC itself, with its viability next year at risk, venture a fresh offer? Does the Cabinet agree that the Government should stand well back for at least two weeks? If not, should it offer the services of ACAS, or of an independent arbitrator/court of inquiry? At their Board

meeting last Friday BSC set up a "Cash Committee" to examine BSC's financial prospects. When will we know their conclusions? How long must the strike last before it becomes impossible for BSC to keep within their cash limit - this year or next? This is of considerable presentational importance, because the Government's position rests on its refusal to make any more cash available. At some point (if the strike lasted for say three months), this position would become untenable, because the cost of the necessary redundancies would exceed the cash limit, even with maximum disposal of assets.

CONCLUSIONS

4. This discussion could range very wide and require a long list of remits to Ministers. The main ones are likely to be:

- (1) To note the position reached in the negotiations, the current state of the dispute, and the likely damage caused by the strike.
- (2) To invite the Paymaster General, in consultation with the Secretary of State for Industry, to circulate notes for Ministerial guidance for weekend speeches.
- (3) To agree that, for the moment, the Government should take no further steps to promote an early settlement.
- (4) To invite the Secretary of State for Industry to arrange for officials to continue to monitor the effects of the strike and to advise Ministers of any particular problems.
- (5) To note the arrangements which the Home Secretary has made to inform Chief Constables about the legal position and to keep himself informed about the picketing position.

Possibly,

- (6) To invite the Home Secretary, in consultation with the Secretary of State for Employment and the Paymaster General, to arrange for publicity about the rights of individuals to police protection against intimidation by pickets.
- (7) To note the Attorney General's assessment of the present civil law position on picketing in the light of the McShane decision.

Either

- ✓ (8) To note the proposals of the Secretary of State for Employment for amendments to the Industrial Relations Bill and to agree that E Committee should consider them in detail next week and to invite the Secretary of State to modify his proposals in the light of the Cabinet's discussion.

Or possibly

- (9) To agree that immediate legislation is required to tighten up the civil law on trade union immunities as they affect blacking and picketing and to invite the Secretary of State to prepare fresh proposals and circulate them to his colleagues urgently.

Possibly,

- (10) To invite the Secretary of State for Industry to arrange for officials to study the scope for use of volunteers to move steel by road transport, and to bring urgent proposals to Ministers.
- (11) To agree that the use of volunteers in the ports should not be pursued.

Possibly,

- (12) To note that you will establish a group of Ministers to consider amendments to the Emergency Powers Act 1920 which would allow Emergency Powers to be used in the steel industry.
- (13) To invite the Secretary of State for Industry to report on the effects of the strike on BSC's financial position and the prospects of any settlement being contained within the cash limit.
- (14) To invite the Secretary of State for Industry, in consultation with the Secretary of State for Employment, to consider how the strike might eventually be resolved.

Stephen White

for ROBERT ARMSTRONG

9th January, 1980

Free

DSG

9 January 1980

I am writing to acknowledge your telegram about the steel strike, which I have placed before the Prime Minister.

T. P. LANKESTER

A. J. Littler, Esq.

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Prime Minister's Office

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TO IMMEDIATE THE PRIME MINISTER INFO IMMEDIATE SIR KEITH JOSEPH.
FROM INTERNATIONAL STEEL TRADE ASSOCIATION.

FOR PRESS RELEASE THROUGH LONDON CHAMBER OF COMMERCE

=====

THE INTERNATIONAL STEEL TRADE ASSOCIATION IS A SECTION OF THE LONDON CHAMBER OF COMMERCE AND IS THE LARGEST MOST DIVERSE ORGANISATION CONCERNED WITH THE STEEL TRADE IN THE UNITED KINGDOM. OUR MEMBERS INCLUDE STEEL MANUFACTURERS, BOTH BRITISH AND FOREIGN, STEEL WORKS AGENTS, MERCHANTS AND STOCKHOLDERS. AS SUCH WE HAVE A UNIQUE VIEW OF HOW STEEL MOVES IN AND AROUND THE UK AND HOW IT IS EXPORTED. WE WISH TO STRENUOUSLY POINT OUT TO YOU THAT MATTERS ARE ALREADY FAR WORSE THAN IS BEING REPORTED BY THE PRESS, AND WITH THE APPARENT BREAK DOWN OF NEGOTIATIONS BETWEEN THE STEEL WORKERS UNIONS AND THE BSC WE FEAR A VERY RAPID ESCALATION OF THE DISPUTE.

UNFORTUNATELY MANY INNOCENT PARTIES ARE ALREADY BEING DAMAGED BY THIS STRIKE AND WE CAN FORSEE IN THE EVENT OF A PROTRACTED DISPUTE MANY OF OUR MEMBERS AND INDEED MANY OF THEIR CUSTOMERS BEING FORCED OUT OF BUSINESS.

MANY OF OUR MEMBERS HAVE GOODS IN WAREHOUSES THROUGHOUT THE UK WHICH HAVE BEEN THERE IN MANY INSTANCES SINCE WELL BEFORE THE STRIKE AND THEY ARE NOW UNABLE TO DELIVER GOODS TO FULFILL CONTRACTS DUE TO VARIOUS UNIONS ACTIONS. AT LOCAL LEVEL, PARTICULARLY AT THE PORTS, CERTAIN TRADE UNIONISTS SEEM TO HAVE TAKEN IT UPON THEMSELVES TO DECIDE JUST WHO AND WHO MAY NOT MOVE STEEL.

THE SITUATION AT THE PORTS IS VERY VARIED BUT THE MAJOR PORTS OF ENTRY ARE ALREADY AT A VIRTUAL STANDSTILL. CERTAIN VESSELS ARE BEING DISCHARGED BUT THE GOODS ARE NOT BEING ALLOWED OUT OF THE DOCKS, IN THESE CIRCUMSTANCES MANY VALUABLE CARGO'S MAY BE LEFT TO DETERIORATE IRREPARABLY DUE TO LACK OF SUITABLE COVERED STORAGE AREAS.

WE RESPECTFULLY REMIND YOU THAT THIS COUNTRY IS STILL A NET EXPORTER OF STEEL AND OUR MEMBERS PLAY A VERY FULL PART IN THAT TRADE. THIS BUSINESS ALSO HAS CEASED AND THIS MAY WELL MEAN CONTRACTS GOING INTO DEFAULT, LETTERS OF CREDIT EXPIRING AND ENORMOUS ADDITIONAL EXPENSES FOR ALL PARTIES CONCERNED.

THE BRITISH STEEL CORPORATION, IF IT IS TO FULFILL EVERYONES WISHES AND BECOME A VIABLE BUSINESS IN THE INTERNATIONAL STEEL WORLD, MUST INCREASE ITS STEEL EXPORTS. WHAT IS NOW HAPPENING IS TO HAND ON A PLATTER TO OUR FOREIGN COMPETITORS BUSINESS AND MARKETS WHICH MAY NEVER BE WON BACK.

Prime Minister

This suggests a
more serious than the
latest DoI assessment
I have advised.

IMMEDIATE:

C91150Z

TO IMMEDIATE THE PRIME MINISTER INFO IMMEDIATE SIR KEITH JOSEPH.
FROM INTERNATIONAL STEEL TRADE ASSOCIATION.
FOR PRESS RELEASE THROUGH LONDON CHAMBER OF COMMERCE

=====

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UNFORTUNATELY MANY INNOCENT PARTIES ARE ALREADY BEING DAMAGED BY THIS STRIKE AND WE CAN FORSEE IN THE EVENT OF A PROTRACTED DISPUTE MANY OF OUR MEMBERS AND INDEED MANY OF THEIR CUSTOMERS BEING FORCED OUT OF BUSINESS.

MANY OF OUR MEMBERS HAVE GOODS IN WAREHOUSES THROUGHOUT THE UK WHICH HAVE BEEN THERE IN MANY INSTANCES SINCE WELL BEFORE THE STRIKE AND THEY ARE NOW UNABLE TO DELIVER GOODS TO FULFILL CONTRACTS DUE TO VARIOUS UNIONS ACTIONS. AT LOCAL LEVEL, PARTICULARLY AT THE PORTS, CERTAIN TRADE UNIONISTS SEEM TO HAVE TAKEN IT UPON THEMSELVES TO DECIDE JUST WHO AND WHO MAY NOT MOVE STEEL.

THE SITUATION AT THE PORTS IS VERY VARIED BUT THE MAJOR PORTS OF ENTRY ARE ALREADY AT A VIRTUAL STANDSTILL. CERTAIN VESSELS ARE BEING DISCHARGED BUT THE GOODS ARE NOT BEING ALLOWED OUT OF THE DOCKS, IN THESE CIRCUMSTANCES MANY VALUABLE CARGO'S MAY BE LEFT TO DETERIORATE IRREPARABLY DUE TO LACK OF SUITABLE COVERED STORAGE AREAS.

WE RESPECTFULLY REMIND YOU THAT THIS COUNTRY IS STILL A NET EXPORTER OF STEEL AND OUR MEMBERS PLAY A VERY FULL PART IN THAT TRADE. THIS BUSINESS ALSO HAS CEASED AND THIS MAY WELL MEAN CONTRACTS GOING INTO DEFAULT, LETTERS OF CREDIT EXPIRING AND ENORMOUS ADDITIONAL EXPENSES FOR ALL PARTIES CONCERNED.

THE BRITISH STEEL CORPORATION, IF IT IS TO FULFILL EVERYONES WISHES AND BECOME A VIABLE BUSINESS IN THE INTERNATIONAL STEEL WORLD, MUST INCREASE ITS STEEL EXPORTS. WHAT IS NOW HAPPENING IS TO HAND ON A PLATTER TO OUR FOREIGN COMPETITORS BUSINESS AND MARKETS WHICH MAY NEVER BE WON BACK.

WE ACKNOWLEDGE THAT YOU DO NOT WISH TO BE INVOLVED DIRECTLY WITH THIS DISPUTE BUT IN OUR VIEW THE EFFECTS OF SECONDARY PICKETING SHOULD BE THE GOVERNMENTS CONCERN AND WE HOPE THAT YOU CAN TAKE SOME POSITIVE MEASURES WHICH WILL END THIS PERNICIOUS TECHNIQUE WHICH HAS RECENTLY INVADDED OUR INDUSTRIAL SCENE. PENDING THE ENACTMENT OF LEIGISLATION TO CONTROL THIS PARTICULAR ASPECT OF INDUSTRIAL RELATIONS WE REQUEST THAT URGENT REMEDIAL ACTION BE TAKEN AT ONCE AS PROPOSED LEGISLATION IN ANY CASE WILL BE MUCH TOO LATE TO EFFECT THE PRESENT CALAMITOUS SITUATION. FUTHER MORE WE TRUST THAT YOUR VARIOUS DEPARTMENTS WILL DO ALL POSSIBLE TO ENABLE THE STEEL EXPORT TRADE TO RESUME AS SOON AS POSSIBLE.

A J LITTLER
CHAIRMAN

INTERNATIONAL STEEL TRADE ASSOCIATION.

GUIDANCE FOR PRESS OFFICERS

The following papers take you sequentially through the NEDC meeting today to the extent that it relates to steel and the Prime Minister's contributions.

The Prime Minister made a very brief introduction (see guidance). Mr. Murray attempted to raise the steel dispute early in the meeting (see guidance). The Prime Minister replied very briefly as indicated in the guidance.

During the discussion only Mr. Duffy, AUEW, brought up steel again. He made two attempts - one very briefly in the body of the discussion which brought no response from the Prime Minister and again at the end (see guidance).

When he left the meeting, Mr. Murray was interviewed by ITV. He looked angry and discomfited and complained that the Government had washed its hands of the dispute and the consequences "of what is happening on steel which they have caused". The Government had not been concerned to argue its case. It was not Government; it was an abrogation of responsibility.

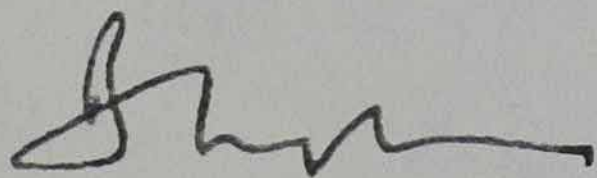
Sir Charles Villiers attended the meeting. He spoke very briefly but not on the steel dispute.

LINE TO TAKE

See the Prime Minister's response to Mr. Murray's comments.

Stress that the Government is not involved in the negotiations.

Do not give Mr. Murray's comments currency - they are reproduced for your guidance.



B. INGHAM

9 January, 1980

In her opening remarks the Prime Minister said she was very pleased to be attending her first meeting of the NEDC as Prime Minister. She had been looking forward to the visit and had very much enjoyed the discussion when she attended sometime ago as Secretary of State for Education. Of particular interest to her was the rate at which the United Kingdom could introduce new technology into industry. It was vital that we should keep up with our competitors in this. If we did not, we should lose our jobs to them.

Responding to comments by Mr. Murray on the steel dispute, the Prime Minister said that she deeply regretted that the talks had broken down. As Mr. Murray had recognised, the NEDC was not a place for negotiation. There were well established avenues for conciliation. She hoped that for the sake of the steel and other industries, and the economy as a whole, ~~that~~ the dispute would not be prolonged and that an early settlement would be reached.

NOTE OF MEETING WITH NEDC

Summing up the discussion, the Prime Minister said she thought there was a large measure of agreement in the Council in that everyone accepted that the UK must introduce new technology quickly. Otherwise other countries who did so would get the business and the jobs and the UK would lose out. The question was not whether we should introduce new technology but how best to do so.

There were in fact some marvellous examples of British industry adopting new technology, for example, in gas and North Sea oil where there were also good labour relations.

"We have all seen it work well. We know it can work well. We know we have to change and welcome it."

The Prime Minister added that the UK acquired a prominent industrial position because it was the first to change. We had, however lost our first 'ness' and speed was therefore essential. Countries like Japan which has introduced the most modern technology had the lowest rate of unemployment.

"They have got our jobs," she said, "And I want our jobs back here."

Dealing with research and development, the Prime Minister added that it was not only a question of the amount spent on it but also how and the direction in which that expenditure was applied.

At the end of her summing up, Mr. Duffy tried to raise the steel dispute again.

The Prime Minister, in reply, said that, while she recognised why Mr. Duffy was trying to do this, it was also generally recognised that negotiations could not take place in the NEDC. There were well-established avenues for conciliation. She regretted the strike as much as any one of those present.



B. INGHAM

9 January, 1980

THE FOLLOWING IS FOR THE GUIDANCE OF PRESS OFFICERS AND NOT FOR USE.

Mr. Murray raised the issue of steel in introducing the TUC papers on unemployment and technology. He said it illustrated one of the problems set out in those papers. He argued that there had been a positive and constructive, if at times reluctant, response from the steel unions over the years to problems which could not be avoided but which were now intensified, unreasonably and unnecessarily, by the narrow approach of Government policy. Government management of the economy was of critical importance.

He said he did not wish to get involved in the steel issue or the merits of the dispute. But he maintained that parameters and negotiating possibilities were determined by the Government's actions and decisions. It was because of the enormous and frightening implications of the dispute for the whole economy that the TUC became involved in it. It had created a coordinated Trade Union Committee and took an initiative in the negotiations to seek a rapid solution. The response by the BSC was conditioned largely, if not wholly, by the Government's attitude towards the future of the steel industry.

He argued that the TUC's actions and those of the coordinating Committee, were quite unprecedented because of the potential consequences of the dispute and he had found it astonishing that the BSC were reluctant to respond.

/Unless there

Unless there was confidence on the part of workers and employers the technological revolution would not get off the ground.

This issue was critical. And the Government had a responsibility to engineer confidence. He did not think, however, that the Government was facing up to its proper responsibilities.



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9 January 1980

[Handwritten signature]

Bernard Ingham Esq
 Press Secretary
 Prime Minister's Office
 No 10 Downing Street
 SW1

Prime Minister

There is some good material here. BSC handed out their own "facts" sheet to industrial commentators today, and will be publishing a rebuttal to Sirs in the Press Gazette on Monday. They are also considering advertising in the newspaper.

Dear Bernard,

Steel Strike Briefing

I attach a new Question and Answer briefing for Ministers on the strike together with a detailed rebuttal of the case made by Bill Sirs in the UK Press Gazette advertisement "The Truth About Steel". BSC are considering taking a similar amount of advertising space in the Gazette to put their case. As I explained on the telephone to Andy Wood this material has not yet been cleared by Ministers here. I will let you have any comments they might make as soon as possible.

You will see that the latest briefing on productivity and international comparisons is embodied in the rebuttal of Mr Sirs. All this material has been shown to BSC representatives and we have incorporated their comments.

The matter of a reply to the ISTC in the UK Press Gazette is, of course, entirely for the BSC but we would expect to see a copy of their material before it is published.

I am copying this material to the Paymaster General's office.

[Handwritten signature]
 JOHN WOODROW



SPEAKING NOTE FOR MINISTERS ON THE STEEL STRIKE

1 What is on the table? Just what is BSC's latest offer?

The BSC management, not the Government, is negotiating. There is very little between the two sides on the figures. The difference between them - and it is vital one - is the question of how the increase is to be paid for, by higher productivity or by the taxpayer.

BSC said on 7 January (statement attached as Annex B) that the Board had agreed that negotiations should be based on a general increase of 8% which aims to be self-financing on the basis of a detailed agreement, plus a further increase of a minimum of 4% in lump sum payments from locally negotiated lump sum bonus schemes. One payment of 4% of gross earnings would be made in advance, but subsequent payments would depend on locally negotiated agreements. The statement said 12% was a minimum and the average increase payable was expected to be higher.

Locally negotiated pay increases are not new to BSC or their unions. Last year's national pay settlement was 8% but earnings rose by a further 6% as a result of local agreements.

2 Why does the Government not intervene/sponsor talks/call in the parties?

Negotiations should be properly conducted by management and unions. The unions have rejected higher pay through productivity. Perhaps they still expect the taxpayer to contribute more. The taxpayer has contributed nearly £4,000m over the last five years. Is it reasonable to ask the taxpayer for more when the steel workers can earn more through higher productivity?

3 Will the Government call in ACAS? : It is for the parties to a dispute to call in ACAS, not for the Government. ACAS is an independent body.



4 Why does the Government not provide more money by increasing the cash limit for 1980/81 to enable BSC to raise their offer to the steelworkers?

Where is the money to come from? There is no such thing as free money. It has to be cut from services like housing or health, or taken from the pockets of the individual taxpayer.

5 Why does the Government not agree to forego interest on their loans to BSC so they could pay the workers more?

Even before deducting interest, BSC have made substantial trading losses for the last three years, and are heading for another loss, which will be even worse than last year when they were paying slightly more interest. In any case, this is another version of the argument that the workers in the industry should get free money. Every other commercial concern has to pay interest on its capital, in fact all monies provided since April 1978 - and this will be more than £1.5bn - has been provided interest free (under section 18 of the Iron and Steel Act 1975).

<u>BSC LOSSES</u>	1975/76	1976/77	1977/78	1978/79	£m 1979/80 (forecast)
Loss for the year	(255)	(95)	(443)	(309)	(300+)
Loss <u>before</u> charging interest, tax or extraordinary items	(129)	69	(275)	(137)	(160+)

6 What are BSC's losses? Are they so bad?

1972/73	£3 million profit
1973/74	£50 million profit
1974/75	£73 million profit
1975/76	£255 million loss
1976/77	£95 million loss
1977/78	£443 million loss
1978/79	£309 million loss



1979/80 £151 million loss
first half year
second half year £150 million loss +

Therefore, BSC's losses over the 5 years 1974/75 to 1979/80 will exceed £1,400 million.

7 How much public money has gone into BSC in recent years?

	£m
1975/76	659
1976/77	931
1977/78	801
1978/79	715
1979/80	700 (estimated)

The total over the five years is therefore £3,106 million, representing £221 for each family in the country (assuming the latter at about 14 million); £50 this year (1979/80) alone. Or £27 this year for each taxpayer. For next year (1980/81) we have promised £450 million, or £32 for each family in the country. Do they really want to pay more than this so that BSC can continue making losses?

8 How can the Government go on insisting that BSC break even this year, in the middle of a drastic recession, against a strong pound and massive inflation, none of which have anything to do with the steel workers?

Job security can be given only by an industry that earns its keep by being in the black. So long as BSC is in the red, there is bound to be a question mark hanging over every job in it. So the steel workers are directly affected and they must help BSC get back into the black by improved productivity - for which there is very great scope and which is within their control.



9 But other countries subsidise their steel industries which are also making losses.

Figures cited for the steel losses in other countries have tended to be for 1978. But the foreign companies have IMPROVED in 1979. The Dutch state company, Estel, and the German state company, Klockner, are now operating profitably. The Belgian state company, Cockerill, and the Luxembourg company, Arbed, have sharply reduced their losses and are moving towards making a profit. The French and the Italian state companies are still making losses but, in the case of the French industry, strenuous attempts are being made to return them to profit. BSC's losses have got NO BETTER and may well be SLIGHTLY WORSE (from £309 million for 1978/79 to something over £300 million in 1979/80, when they are paying £25 million less interest on their capital). (see table attached as Annex A).

10 Why should the steel workers not be protected from a fall in their standard of living, when other workers in the public sector get 20% without any strings?

It is for BSC to determine what they can afford. Steel workers are being offered the chance to earn a minimum of 12% by negotiating local bonus schemes. There can

be no automatic protection for the workers in an industry struggling for its life against international competition; productivity must be increased, overall costs reduced.

11 What about the plant? Is it good enough?

BSC is entering the 1980s with some of the most modern plant and



equipment in the free world. The new Redcar blast furnace is the largest in Europe. All this investment has cost the taxpayer £2,000 million in capital investment over the last 5 years. The steelworker has all this new equipment. The taxpayer now expects him to put it to efficient and profitable use.

12 Are imports mining the industry? What about import controls?

UK Market Share

	BSC	UK Private Sector	% Imports
1974	56	26	18
1978	53	26	21
1979 (estimated)	54	26	20/21

Figures for the past 5 years show comparatively little change. However, imports in 1970 were only 6%, and in 1973, 13%. The reasons for the increase in imports over the past decade to 20/21% are:

- (a) entry into the Common Market and BSC's competitive weakness;
- (b) BSC delivery failures in 1973/74, resulting from industrial disputes and production problems, led users to "double source" as a safeguard against disruption in supplies. The strike will only strengthen this trend to "double source" abroad.

By comparison with other European countries, domestic steel producers in the UK - the BSC and the private sector - have a high, (nearly 80) share of the home market. But that market is, if anything, declining. And, so long as BSC are inefficient, they cannot



compete more successfully overseas. The remedy for the latter lies in the hands of the Corporation and its workforce, but at present the prospects for increased sales at a profit are very poor. Selling at a loss helps no one in the end.

13 How serious are the effects of the strike?

It will be very serious for the steel workers. There is already too much steel in the world. BSC will lose customers. They will go elsewhere. Individual steel workers are very unlikely to gain enough from a strike to compensate them for the loss of money while they are not working.

14 What will be the effect on industries like BL and other industries that are already in trouble?

It is impossible to judge at this stage. Stocks are quite good - but a long strike must put non-steel jobs at risk too.

15 Will the steel strike leave the industry smaller than it need otherwise be?

Yes. A long strike would lose the Corporation more business for good. The BSC has its doors open ready to continue negotiations. Steelmen cannot be unwilling to consider the extra money earned from higher productivity. Steel workers are a very intelligent bunch of people. They must realise the damage they may do to themselves and the damage they may do to others. Just think of how much money their households are losing each week of strike.



Data on the current financial performance of BSC's competitors is inevitably incomplete. Also, we have more information from the press on those companies whose performance has improved than on companies in France, Italy and Belgium whose performance in 1978 was worse than BSC's.

		PRODUCTION (M TONNES)	PROFIT/(LOSS) (£million)	PROFIT OR (LOSS)/ TONNE (£ per tonne)
ARBED (LUXEMBOURG)	1976	4.04	(19)	(4.75)
	1977	3.8	(72)	(17)
	1978	4.2	(32)	(6)
	1979	losses sharply reduced in first half of 1979		
ESTEL (HOLLAND)	1976	10.4	(16)	(1.5)
	1977	9.4	(105)	(14)
	1978	10.4	(69)	(6)
	1979	Pre-tax profits made in Q2/3 1979		
SACILOR (FRANCE)	1976	6.6	(84)	(13)
	1977	6.4	(267)	(42)
	1978	N/A	(117)	(18)
	1979	Further heavy loss expected in 1979		
COCKERILL (BELGIUM)	1976	5.1	(18)	(6)
	1977	4.9	(116)	(24)
	1978	5.4	(106)	(20)
	1979	N/A		
ITALSIDER (ITALY)	1976	10.8	(85)	(8)
	1977	10.2	(258)	(25)
	1978	10.4	(214)	(21)
	1979	N/A		
KLOCKNER (GERMAN) (steel interests) estimate	1976	N/A	N/A	N/A
	1977	3.75	(81)	(22)
	1978	4.2	(62)	(15)
	1979	Group now operating profitably		
BSC	1975/6	17.2	(255)	(15)
	1976/7	19.7	(95)	(4)
	1977/8	17.4	(443)	(25)
	1978/9	17.3	(309)	(18)
	1979/80	Loss of £300m+ expected.		



NOTES ON THE "MEDIA BRIEFING" BY THE ISTC (Copy attached)

1. "16% improvement in productivity since 1975" (para 2)

The figure is taken from the NEDC Iron and Steel Report 16 of December 1979. The full extract reads as follows:-

"TABLE 9 - International Comparisons: Man-hours to produce 1 ton of crude steel (manual workers only)

	W.Germany	France	Italy	Bel.	Lux.	UK
1977	6.5 hrs	7.2	5.4	6.2	6.1	11.9
1978	5.9 hrs	6.4	5.2	5.2	4.8	10.9
% Improvement 77-78	9%	11%	4%	16%	20%	8%
% of total workforce made up of manual workers	74%	65%	80%	82%	77%	68%
% overtime working - manual workers (Oct. 1978)	48%	n/a	3%	1%	6%	11%

A.10 Labour productivity rose in the United Kingdom by approximately 7% in 1978 as a result of plant closures and a reduction in employment of 20,000. Labour productivity has now risen 16% since 1975 but remains 13% below 1973 levels. International comparisons of labour productivity are open to many criticisms - differing definitions of the industry, the extent to which sub-contractors are used, etc. For this reason table 9 restricts the comparison to other EEC countries and Treaty of Paris products. Despite the 8% improvement in output per manhour in the United Kingdom recorded in the statistics between 1978 and 1979 the gap is widening with other EEC steel producers because of greater percentage improvements recorded last year there."



According to the NEDC report, signed by Mr Sirs as a member of the Sector Working Party, on the basis of figures prepared on a strictly comparable basis it takes BSC nearly twice as many man hours to produce a tonne of steel as its major European competitors. It is true that BSC has improved manpower productivity by 16% since 1975 but it remains 13% below 1973 levels. Two of our European competitors, Belgium and Luxembourg have improved productivity by 16% and 20% respectively since 1977. Despite the improvement in the UK we are falling still further behind in manpower productivity.

2 BSC production manning at Appleby Frodingham Basic Oxygen Steelmaking plant are only 75% of those at the Dutch plant, IJmuiden. BSC's labour costs per tonne are significantly lower (paragraph 3). On manning, the full sentence in Report no. 16, Iron and Steel reads "Production manning was only 75% of the Dutch level but maintenance manning was found to ^{be} 20% higher".

On labour costs, the sentence reads "Both the labour output per tonne and the capital utilisation rates were poorer than on the Dutch plant although in the case of labour costs since employment costs per man were twice as high as on the Dutch Steel plant, the labour cost per tonne of steel produced must have been lower at Scunthorpe".

So production manning may have compared favourably with a Dutch plant but this was more than evened out by the fact that maintenance manning in the BSC plant was higher. / As Mr Sirs acknowledges, there is scope for improvement. Labour costs per tonne are lower because



employment costs in the BSC plant are half those in the Dutch plant. But labour output is much lower/in the British plant as the Report makes clear. If we could get labour output up then pay could rise. BSC have been offering the unions the chance to do just that through bonus schemes related to performance.

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. (paragraph 4)

The NEDC do not recognise the 192 tonnes figure from any documents of theirs. The figures produced in the NEDC draft report (see table above) show that BSC workers, on a strictly comparable basis, take twice as many hours to produce 1 tonne of steel as their nearest EEC competitors.

ECSC manning would produce about 192 tonnes if the Corporation were working to its full capacity of 21 million tonnes per annum.

On a strictly comparable basis, using only workers included in the ECSC definition, BSC 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 steelworkers has slipped in the earnings league table (paragraphs 6 and 7)

It is true that BSC pay is low in comparison with their European counterparts. So is their productivity - it takes BSC workers almost twice as long as the best of the European Workers to produce 1ton of steel. BSC workers are being offered the prospect of improving their earnings by improving productivity. The Corporation has said that average earnings for BSC process workers in September 1979 were about £110 per week. These are not low paid workers. (The average industrial wage is £ and BSC workers have been offered the opportunity to raise earnings by a minimum of 12%).

5. BSC said the cupboard was bare but they are now offering 6% with strings (paragraph 8)

BSC do need to conclude a pay settlement that is aimed to be self-financing/ if they are to be able to compete in this international ^{practices} business.

6. No other group of workers have been asked to take such a dramatic cut in this standard of living. Pay rises of 13%-20% have been gained in other parts of the public sector (paragraph 9)

Mr Sirs is presumably thinking of the miners settlement. The two cases are not comparable. There is a strong demand for coal and the NCB can sell all it produces. Steel is in surplus, BSC is not competitive and more jobs in the corporation are at risk unless / ^{they} can become more competitive. Steel workers will, if the schemes are successful, receive an increase of more than 12% which will get them a higher increase than some public sector workers.



7 A pay deal has to take account of inflation. The money could be funded. BSC is trading at a profit (paragraph 10)

This is simply not true.

		1978/79	£ million	1979/80 1st half (provisional)
Sales		3,288		1,554
Cost of Sales		<u>3,317</u>		<u>1,540</u>
Difference	minus	29	difference	14 (a)
Depreciation		<u>111</u>	plus	<u>64</u>
Trading loss after depreciation	minus	140	minus	50
Interest		208		101
Other adjustments	plus	<u>39</u>		included in (a)
	TOTAL LOSS	<u>£309 million</u>		<u>£151 million</u>
		=====		=====

Therefore, in 1978/79, receipts from sales were worth £140 million less than the basic cost of these sales. It is true that, in the first half year of 1979/80, receipts from sales were £14 million above the bare cost of sales (ignoring adjustments) but one cannot simply ignore depreciation and interest. Everybody has to pay interest on his house mortgage or his hire-purchase and has to make provision for replacing household goods and repairing his roof. The charges for depreciation and interest taken together are much the same as those born by BSC's European competitors. The fact is that the value added by BSC is no more, if anything a little less, than the wage bill. So the workers as a whole are effectively contributing nothing to the national wealth; meanwhile the taxpayer is still being asked for heavy contributions to maintain the fabric of the industry.



8 If the Government were to subsidise British coking coal to the same extent as other EEC Governments subsidise their coking coal, BSC would save £135m a year, more than enough to pay the claim in full (paragraph 10)

BSC have said recently that (if) they have been suffering a cost penalty of £135m per year as a result of using almost exclusively NCB coking coal. This cost arises partly directly because NCB coal is more expensive than imported coal (this accounts for £70-80m) and partly indirectly because most NCB coal is intrinsically less suitable for use than the Australian, US and other imported coals. It is open to HMG under the Treaty of Paris to subsidise the coal prices down to world levels (i.e. approximately the levels apid for 3rd country imports). The other penalty would still be incurred. The NCB have been told by Ministers that they may subsidise provided they can find the money within their cash limit. However, this obstacle and the current NCB pricing structure effectively prevent full use of the Community subsidy rules.

This is a difficult point to answer since steelworkers are not interested in NCB's problems. Some points can be made; that we would not be able to subsidise coking coal by £135m because not all of this sum is a direct cost difference, some of it arises because much of the coking coal produced in this country is operationally not as suitable for modern blast furances as imported coal. And BSC has been given the freedom to import coal at world prices so the cost penalty they incurred under the last Government is being rapidly reduced.



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PS/ Secretary of State for Industry

8 January 1980

Tim Lankester Esq
Private Secretary to the Prime Minister
10 Downing Street
London SW1

Ann Austin

Dear Tim

*R
9.*

STEEL STRIKE

I enclose the second report of the Interdepartmental Contingency Group on the Steel Strike. My Secretary of State suggests that the proposals for action described in paragraphs 5 and 6 of the paper should form the basis for a discussion at Thursday's meeting of Cabinet.

At the Prime Minister's meeting earlier today the question of BL's position was raised. We have no reason to alter our earlier forecast that BL would survive a further three weeks of strike. So far BL's only problem is with springs for heavy commercial vehicles, but the company is vigorously pursuing alternative sources of supply.

As instructed at this morning's meeting, Mr Gross of this Department has approached Sir Charles Villiers who is putting in hand the preparation of a clear statement of BSC's case which will be in short sentences to ensure that it is readily understandable.

Mr Gross has also spoken with Mr Scholey who accepts privately that the Corporation's public relations on the evening of 7 January were less than adequate; the union negotiators spoke to the press on leaving the building whilst the BSC negotiators were reporting back inside the building. BSC have, however, stepped up considerably their public relations campaign as can be seen from the two attached notes prepared by BSC which list separately the broadcast appearances by members of Head Office executives and by executives in the main BSC regions.

I am copying this letter and its enclosures to the private secretaries to all members of Cabinet, the Minister of Transport and to Sir Robert Armstrong.

*Yours sincerely
Peter Morrison*

PP I K C ELLISON
Private Secretary



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STEEL STRIKE : 2nd REPORT OF INTERDEPARTMENTAL
CONTINGENCY GROUP

Following the breakdown of negotiations between the BSC and the main steel unions, this paper summarises the present strike position, and sets out possible courses of action on the assumption that a prolonged strike is now **probable**.

Effects of the Strike so Far

... 2 The attached notes at annexes 1 and 2 give the latest situation reports on the physical effects of the strike for producers and consumers of steel, and on the movement of steel, respectively. The general picture is still that the private sector steelmakers and the stockholders are mostly operating normally, despite a steady increase in the intensity of picketing. Steel imports are also flowing fairly normally at least as far as stockholders (though some efforts are being made to black them once they have reached the stockholders). There is no reason at this stage to alter the original judgment that a strike is unlikely to have significant effects on the majority of steel users in under a month. Indeed heavy last-minute movement from stockholders to users is likely to have increased endurance in many cases by 2-3 weeks.

Dealing with a Prolonged Strike

3 Now that negotiations between the BSC and the unions have broken down, union attitudes towards both private sector steel production and the transport of steel are expected to harden. The ability of steel users to withstand a prolonged dispute will depend on private sector and imported steel continuing to reach customers; transport is probably the more vulnerable area. The following paragraphs consider what might be done, by the BSC, by third parties (eg BISPA and the road hauliers) and by government, to minimise the damage which the strike might cause (both to productive industry and to the government's

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overall economic strategy), and thereby to maximise the chances of eventually obtaining an acceptable settlement to the dispute.

4 Generally speaking it still seems best to rely on self-help on the part of producers, transport undertakings, port authorities etc. A good deal is going on unobtrusively and precipitate public action by Government would still be likelier to endanger their success than to improve matters.

5 The immediate areas for action and further contingency work are as follows:

a) Publicity/Public Handling of the Dispute

The BSC must make every effort to keep putting its case across publicly: DoI Ministers and officials are doing what they can to encourage and help in this respect. It will be particularly important for them to try to exploit any disaffection with the strike among the union rank-and-file. Government must also keep up a steady campaign to keep the fundamental issues before the public, whilst keeping off the details of the BSC's offer. The main themes are that 'free money' (Bill Sirs's term) cannot be provided by the taxpayer except at the expense of something else - higher taxes, cuts in other public spending or 'printing money'; and that the stoppage impoverishes everybody, most of all steelworkers themselves, and puts their jobs at risk. Ministers might also privately encourage the CBI and its members to take a helpful line in public, and discreetly with their unions. But direct appeals to steelworkers are unlikely to be productive: like miners, steelworkers tend to live in tight and close-knit communities. Relations with its workforce must remain for the BSC itself.

b) Other Public Sector Wage Claims

It will be important to minimise the impact on the BSC negotiations of other "comparable" public sector wage claims which may be, or appear to be, settled on markedly more generous terms than the BSC offer. This seems unlikely in the cases of BL (5% offer with better working practices) and British Shipbuilders (no offer as yet in reply to 20% claim). A 20% settlement for the National Freight Corporation is about to be announced, though this should contain a substantial local productivity element; hopefully the latter will be emphasised in publicity. The local authority manual workers, and NHS auxiliaries, seem likely to settle for about 13% with no productivity strings;

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the water workers for a good deal more. In public, the government can try to narrow attention to loss-making nationalised industries, and point out that excessive settlements elsewhere in the public sector (eg local authorities) are liable to lead both to job losses in due course and to other public expenditure cuts.

c) Picketing.

(i) Private Sector Steelworks

BISPA has already taken up some cases with the ISTC and the TUC, on the grounds that their members are not in dispute, and have received some assistance from the ISTC leadership. They are taking legal advice on the possible use of injunctions against secondary picketing should the problem snowball. A direct approach to the TUC by the Department of Employment, in terms of the TUC guidelines on picketing (especially the provision that picketing should be limited as far as possible to the striker's own employer, or his customers and suppliers - which should exclude many private steelworks) could have some PR advantages whether or not they succeeded, but would put at risk the Government's continued ability to avoid direct intervention in this (and other) dispute.

(ii) Enforcement of Existing Law

There are signs of intimidation in some isolated cases, eg threats to report drivers who cross picket lines with the risk that they lose their union cards. If the practice spreads there will be a case for publicly reminding people of their rights to protection. Intimidation is a criminal offence, but victims are reluctant to report incidents to the police, as are witnesses. There might be scope also for employers to provide some visible support for their own workforces or for road haulage drivers eg by the presence of volunteer witnesses at sites where intimidation is to be feared. Home Office officials will be examining this possibility further.

(iii) Changes in the Law

The Employment Bill will enlarge the scope for civil actions against secondary picketing, though the decision to initiate action in individual cases would of course remain with the aggrieved party. The criminal law will be unaffected. It is unlikely that this Bill will be enacted during the course of the present dispute.

d) Use of Volunteers etc.

(i) Transport

The most promising scope for voluntary action lies in road transport from the docks and from stockholders to users where regular haulage drivers will not cross picket lines. In the

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first instance firms in the steel trade itself can be expected to organise this for themselves - turning owner-operators etc. Government could in the longer run play a rôle by the discreet use of Regional Transport Commissioners and DoI Regional Offices to effect liaison between users producers and hauliers eg in alerting the police to potential trouble spots well in advance. But trade associations would be equally effective and less provocative. Direct government involvement would require the procurement of a substantial fleet of vehicles (purchase or hire), and the establishment of an organisation capable of matching users' demands to the availability of vehicles. The effect on industrial relations in the road haulage industry generally would be unquantifiable. Ministers are invited to indicate whether further work should be undertaken on the practical arrangements necessary (including finance).

(ii) Ports

While imports may enter the UK ports during the dispute through channels which do not traditionally handle much steel (eg roll-on roll-off container ports), there is unlikely to be much scope for government involvement beyond the facilitation of road transport already mentioned. It is questionable whether MoD port facilities are large enough to make a significant impact on UK steel requirements. Government involvement of this kind or any attempt to use volunteer labour to move steel through the ports themselves would run a severe risk of provoking widespread industrial action in the docks, involving products other than steel.

6 Farther-reaching Government measures, ranging from the use of troops and requisitioning vehicles to proscribing certain forms of secondary action would probably require the enactment of new emergency legislation - present legal advice is that the existing 1920 Emergency Powers would not cover the present strike. The Interdepartmental Group have not examined this area in any depth and I believe would need specific Ministerial guidance about the scope of the powers envisaged before doing so.

BRITISH STEEL CORPORATION STEEL STRIKE SITUATION AS AT
8 JANUARY 1980

Reports have been received from the majority of industry Divisions and the Regional Offices. Picketing appears to be intensifying and is starting to effect the Private Sector and stockholders.

Isolated reports of imminent shortages of steel have been reported but most user industries appear to be coping.

BSC

and GMW likely to be today

TGW workers now officially in dispute. No TGW people now at work in tinplate works, but they have turned up for work again at the West Midland tube works. Supplies of oil and coal for safety purposes are moving normally. At Ravenscraig (Scotland) ISTC have withdrawn their safety cover of coke ovens which are now being kept at minimum heat levels by staff. In South Wales there was a need for police assistance for staff to cross picket line, yesterday at Port Talbot. At Llanwern pickets are very active in trying to discourage non union staff. This is also happening at Corby where fewer staff are at work than last week.

BSC reports refusal of dockers to unload a cargo of Japanese pipes at Leith.

BSC stockholders reported no change to yesterday but expect picketing to intensify and stop most centres today.

The Private Sector

Templeborough is still not producing and Ductile Iron ^{Still,} have threatened to lay off workers at 5 sites in the Midlands without pay, this evening if picketing is not relaxed. (The ISTC pickets claim that Ductile are taking on BSC work). Discussions between management and their own ISTC workers are in progress. Hadfields restarted yesterday after the New Year shut down in spite of heavy picketing and local road hauliers are managing to get in and out of the works. This morning 6 pickets were arrested.

A special picketing drive is threatened for Sheffield today though there is no suggestion of interference with production as yet.

In general, road transport has continued to operate without significant harassment but as the attitudes of the pickets is hardening some hauliers are becoming edgy, especially those delivering to Stockholders. Bright bar producers are particularly sensitive if the situation worsens. Still no movement of imports from Kings Lynn but, so far, efforts have not been particularly intensive.

BISPA and NASS have written to Bill Sirs expressing views of their members.

Stockholders

Picketing is becoming more widespread and is having most effect in Yorkshire, the North East and in parts of the Midlands. NASS estimate that about a dozen of its 250 members have been shut down (mainly BSCs) but they are aware that several Small non-member Stockholders in the Midlands have been similarly effected. In general the pickets are hardening but no violence has been reported.

North Sea

An Inverness fabricator is concerned about supplies for a £50m steel jacket contract for North West Hutton. They need 13,000 tonnes and may have difficulty meeting the "weather window" even if the strike is settled quickly.

Truck Industry

Coventry climax will be in real difficulties in 6 weeks or so.

Domestic Appliances

Generally secure to end of January (Hoover are possible exception).

Mechanical Handling

Large companies generally hold 4-6 weeks stocks but medium and smaller size ones would be affected immediately if supplies from stockholder were interrupted. Freight container manufacturers are most at risk, taking account of the threat from serious competitors.

MAFF

Say that stocks of tinplate for the canning of foods and petfoods are adequate for continued production for some weeks to come. Food canning is largely seasonal and large stocks of a wide variety of foodstuffs are held ready for distribution and sale. Supplies of canned foods in the shops are consequently expected to be normal in present circumstances. This is confirmed by:

Metal Box

Reports 4 weeks stocks for manufacture of food and beverages cans but only 2 weeks in the case of the 16oz tin (representing some 20% of total food can production). France, Belgium and West Germany are reported to be unwilling to dispatch tinplate due to doubt about supplies being allowed to pass through the docks. Holland and Norway are still prepared to send material, but no extra supplies will be available before March.

Mining Machinery

Makers. Douty Meco estimate unofficially that they could be in difficulties by the end of January.

The Post Office

Report no immediate difficulties but could be affected by secondary picketing at stockholders or interruptions to components for vans and lorries.

Scottish Office

Report that industry is only just restarting after the holiday. Apart from a requirement later this month for fresh supplies at Robb Caledon for work on a new dredger the office knows of no user reaction and has received no enquiries. They are not aware of any picketing other than at BSC.

Northern Ireland Office

Have little to report, having only a few stockholders of general steel products. Stocks of specialist manufacturing steels are low (3-4 weeks) but constructional steel in stocks are higher.

Yorkshire and Humberside Region

Report more widespread and effective secondary picketing, notably in Sheffield/South Yorkshire although not yet total. Press reports say that the BSTC plan to step up picketing and that BSC transport workers plan to join in. BSC electricians may also picket power stations if the craftsmen's pay negotiation break down.

There are no significant reports of any effect on user industries although small companies could be quickly affected by picketing of steel stockholders. A supplier of oil and lubricants in Leeds has only a 3 weeks supply of 45 gallon drums; if further supplies are affected this could have serious implications.

East Midlands Region

Report little immediate impact on user as most firms have at least three weeks supplies and average size in small and medium sized firms. The most vulnerable groups appear to be high volume users like the metal box manufacturers and manufacturers supplying the NCB with underground supports. These groups we suspected to be in difficulty by the end of January.

The local press reported flying pickets from Corby on 4 January attempting to stop steel imports at Boston and Kings Lynn.

South West Region

Secondary picketing reported at Gloucester docks involving small quantities of foundry pig iron and at GKN, stockholders at Newport where drivers were reported to be crossing the picket line. There were no pickets at GKN Bristol.

North West Region

There is no evidence of non-BSC imports being blocked nor picketing at a possible unrepresentative sample of stockholders. The CBI suggest general engineering stock levels are about 4 weeks.

West Midlands

Reports picketing of stockholders

Welsh Office

Report widespread secondary picketing particularly in West Wales, targets being industrial sites where steel stockholders are situated. The CBI say that lay-offs must be soon. Leyland cars at Llanelli have had their steel warehouse at Portardluis picketed and have been unable to transfer steel to the body pressing shop. They will be in a serious difficulty at the end of the week if talks with the ISTC are unsuccessful.

Northern Region

No specific complaints, significant or otherwise, have been made to the office and the general position is virtually unchanged from last week with steel users living on existing stocks. Three ships have been blocked in the Tyne Tees area including a 700 tonne load of steel coil at Seaham and 600 tonnes of steel from Europe at South Shields. Picketing is generally increasing and one stockist has appealed through legal advisors for the removal of the secondary pickets.

Transport of Steel

Docks

No major problems at docks (except King's Lynn where there is no movement of steel) and steel is moving freely but only as far as the stockholder. Steel in crates is still coming through and Southampton and Dover are said to be as busy, if not busier than usual.

Rail

No abnormalities reported on rail movement except for the docks areas of Immingham. A new work roster to take effect next week will effect overtime and weekend work.

Road

No signs of enthusiasm in support from road haulage workers themselves. More a case of reluctance to cross picket lines where these are heavy eg stockholders and private steel. The National Freight Corporation is not particularly effected but some 10% of the private sector is closely tied to steel.

In general the mood of the hauliers is to cross the picket line whilst employers are exploring the use of court injunctions against pickets.

A NOTE BY THE DEPARTMENT OF TRANSPORT

STEEL DISPUTE : TRANSPORT SITUATION 1700 HOURS 7 JANUARY 1980

British Rail

1. Little to report. Most of BR's steel consignments are BSC steel and as expected there is no movement. The BR Emergency Committee meets again on Wednesday 9 January when new rosters cutting out overtime and weekend working on Freightliners will be discussed. These new rosters will operate as from Monday 14 January and will hit many railmen's pay packets.

Road Transport

2. The layoffs reported in the Press are at a level anticipated by the Industry. As much as 10% of all traffic in the Midlands and the North is tied to steel movement. There are no reports of union refusal to carry steel loads and as yet no evidence of any clarification of the TGWU HQ call for support for steel workers. The Industry continues to report that there is little evidence of enthusiasm by drivers to support their steel colleagues. Indeed, there is increasing evidence of a mood to cross picket lines rather than lose earnings. Employers are said to be considering the use of Court injunctions where appropriate in an effort to stop secondary picketing.

3. The Department is taking soundings from Road Haulage Association and Freight Transport Association contacts as to what might be done to move steel over picket lines in the event of a lengthy strike.

Ports & Docks

4. The British Transport Docks Board and the National Association of Port Employers report no major problems today. After the tough line taken by BTDB at Hull in sending men home without pay for refusing to load private steel all is now well. Steel machinery for Russia was loaded on Sunday and steel pylons for Indonesia (the subject of a refusal on Friday) were loaded today.

5. A somewhat sophisticated approach is now being adopted by the TGWU in that while steel imports are being off-loaded and then moved

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by road to stockholders, this is strictly on the understanding that there they remain. The aim is apparently to avoid Port congestion and so protect jobs and earnings of Port workers and lorry drivers.

6. After the media focus on King's Lynn last week there is no movement in or out of the Port for steel products and latest reports suggest that King's Lynn may soon become congested.

7. Many other Ports are reported to be working normally and steel in crates/containers is being handled at Southampton and Dover.

8. A late report causes some concern. One large International operator has reported that Townsend Thoresen Ferries have conceded a National Union of Seamen's demand to refuse ro-ro facilities to any lorry carrying steel. We are now investigating whether other Ferry operators have been subjected to the same pressures and what, if anything, might be done about it.

Broadcasts by Executives of Head Office, BSC

Thursday
3 January Mr Scholey: 60 minute "Phone-in" on LBC
Press Conference, Grosvenor Place
All National Papers,
BBC TV & Radio
ITN TV

Friday
4 January Press Conference, Grosvenor Place
All National Papers
BBC TV & Radio
LBC Radio
ITN TV
Independent Radio News

Saturday
5 January Telephone Briefings for all Sunday Papers & BBC TV & Radio
ITN
Independent Radio News
LBC

Telephone Interviews (Mr Scholey & Dr Grieves)
Sunday Times
Observer
Sunday Telegraph

Sunday
6 January Telephone Briefings for National Dailies and
BBC TV & Radio, Independent Radio News, LBC

Monday
7 January Press Conference, Grosvenor Place
All National Papers
BBC TV & Radio
ITN TV
LBC Radio
Independent Radio News

Tuesday
8 January Mr Scholey: 10 minutes LBC News Interview
Mr Scholey: 10 minutes, Jimmy Young Programme, BBC Radio
Chairman, 8 minutes - World at One, BBC Radio
Chairman, 5 minutes, Nationwide, BBC TV

Broadcasts by Executives in the Main BSC Regions

	Scotland	Teesside	Sheffield	Wales	Scunthorpe
Thursday Jan 3	Statement issued to all Scottish media and used widely by TV, radio and press	Press Conference covered by all media and BBC TV and radio, Tyne Tees TV, Radios Cleveland & Tees	DMD, Yorkshire TV 6 p.m. (5 mins.)	Mansel Jones appeared on BBC Wales "Heddiw" (Today)	Don Ford appeared on Radio Humberside 'phone-in. (1 hour) with Mike Brown MP and Les Bromley ISTC
Friday Jan 4	DMD on STV news (3 minutes)			DMD on HTV (30 mins) with Adam Butler MP	
Saturday Jan 5					
Sunday Jan 6	DMD on Radio Clyde talk-in (1 hour)		DMD on Calendar Weekend, YTV (5 minutes) World at One		
Monday Jan 7		DMD on BBC World at One. Radio Cleveland and Radio Tees news			
Tuesday Jan 8	DMD on BBC TV and radio news programmes (3 mins)	Chief engineer interviewed for BBC 'Today' (5 mins)	Radio Sheffield 'phone-in (1 hour)		

Newspapers, television and radio in Divisions have given extensive coverage to DMD statements.

of Master Set

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STEEL STRIKE

NOTE OF A MEETING HELD AT 10 DOWNING STREET AT 11.30AM ON 8 JANUARY 1980

PRESENT

- PRIME MINISTER
- HOME SECRETARY
- SECRETARY OF STATE FOR EMPLOYMENT
- CHIEF SECRETARY, TREASURY
- PAYMASTER GENERAL
- MINISTER OF STATE, DEPARTMENT OF INDUSTRY (MR ADAM BUTLER)
- ATTORNEY GENERAL
- MR D B SMITH Department of Employment
- MR S GROSS Department of Industry
- MR N J MONCK Treasury
- SIR ROBERT ARMSTRONG) Cabinet Office
- MR P MOUNTFIELD)

The Meeting was called to review the situation in the light of the breakdown of negotiations the previous night between the British Steel Corporation (BSC) and the Trade Union Co-ordinating Committee for the Steel Industry.

The following points were made in discussion:

- (a) There was no prospect of an early resumption of negotiations. The union line appeared to have hardened during the talks.
- (b) The BSC had not handled the negotiations well; but they had made no attempt to blame the Government or to seek any extension of their present financial limits. Their public relations continued to be poor. They should be encouraged to put the facts clearly on record, notably the existing average level of pay in the industry and the size of the offer already made.
- (c) The Government should refrain from commenting directly on the breakdown. Comments should be confined to regret that the talks had broken down, and hope that they would be resumed quickly, in the light of the consequences for the industry and for the country.

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Ministers and Government spokesmen could also, with advantage, repeat any facts and figures which BSC might put on record about the size of the offer, the conditions attached to it, etc. It could be emphasised that the two sides were not very far apart on the percentage pay increase, but that the union's side were not prepared to give the undertakings on productivity which BSC regarded as essential.

(d) There would now have to be an interval before talks could be resumed, and it was not clear at present what new factor would bring the parties together. The Government could take no overt role during this period.

(e) It was too early to assess accurately the effect on the rest of British industry. The Department of Industry would need to keep in close touch with the CBI and with individual companies, notably British Leyland. Whilst stocks, both at manufacturers and at stockholders, were generally high, shortages would probably develop in particular supplies. Much would depend on the level of picketing.

(f) The union line on picketing seems to have hardened. It was receiving considerable press and television coverage. This might in due course have some effect on public attitudes to the strikers, which at present were generally sympathetic to the steel workers.

(g) The legal position on picketing has been changed by the House of Lords decision in the McShane case. The scope for picketing and blacking within the law had been greatly enlarged by this decision. The civil remedies available to employers directly or indirectly affected by the strike were correspondingly reduced.

(h) The McShane judgement did not affect the position in criminal law. Intimidation and obstruction remained offences. It was difficult for the police to deal with intimidation, unless it was visible, because victims were reluctant to report such cases and the police rarely had first-hand evidence of their own. It was rather easier for the police to deal with cases of obstruction. The

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Home Secretary had arranged for the Chief Constables in areas concerned to be reminded of the legal position, and to be kept informed of the position as it affected the police.

(i) It was for consideration whether the civil remedies available to employers should be strengthened by accelerating the proposed Amendments to the Industrial Relations Bill. Alternatively, the proposed Amendments could be included in a separate Bill which might be rushed through all its stages very quickly. It would, however, be difficult to complete such moves in time to effect the outcome of the present dispute and the consequences of trying to do so could be extremely serious for industrial relations. Mounting public opposition to excesses by pickets in the present dispute would, by contrast, help the Government secure support for its proposed legislation if this took its normal course.

(j) The financial position of strikers needed further study. Some but not all the unions engaged in the dispute would provide strike pay. Since many pay clerks were ISTC members and engaged in the dispute, it might be difficult for BSC to make the normal PAYE refunds to strikers. It would then be necessary for the BSC to pass the papers to the Inland Revenue, who could arrange for refunds to be made in due course. The entitlement of strikers' families to social security benefits in these circumstances would also need consideration.

(k) There would be mounting Parliamentary pressure for an early statement as soon as the House resumed, and for a Debate. The Secretary of State for Industry should make a statement on Monday 14 January; and, since an early debate could hardly be resisted, ~~it~~ would be wise for the Government to offer a day of Government time for an early Debate. The Government's line in such a debate would need more thought, but should probably be confined to a clear exposition of the facts of the dispute, emphasising the need for improved productivity and the threat continued action would pose to jobs in the steel industry.

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THE PRIME MINISTER, summing up the discussion, said that the Cabinet should consider the situation at its meeting on 10 January. The Attorney General should prepare a statement of the legal position on picketing following the McShane judgement which could be available to Cabinet then. The Secretary of State for Employment should be ready to explain his proposals for amendments to the Industrial Relations Bill in the light of that judgement. The Minister of State, Department of Industry, should arrange for the British Steel Corporation to make a clear statement about the offer, emphasising the levels of pay in the industry, the amounts on offer, and the conditions attached to the offer. Ministerial comments should so far as possible be related to these facts and figures provided by the BSC. Cabinet could consider further the need for a statement and a Debate the following week. The Home Secretary should arrange for reports from Chief Constables on the conduct of pickets. The Minister of State, Department of Industry, should arrange for his Department to obtain information on the effects of the strike on the rest of British industry. The Chief Secretary, Treasury, should arrange for a note to be prepared for her on the financial position of strikers, including their entitlement to PAYE refunds and to social security payments. No publicity should be given to the present series of Ministerial meetings about the steel strike, but if questioned, Government spokesmen could say that Ministers were keeping the situation under review.

9 January 1980

CONFIDENTIAL

Dominic Austin

You wanted this
back.

cc Mr Hughes
Mr Hughes.

PRIME MINISTER

R. 9/1

The Treasury have provided figures for total Government financing of the major nationalised industries, and their profit and losses over the last 5 years (Flag A). Besides BSC, the NCB and British Rail show very large figures for both total financing and losses. In contrast to BSC, both these industries are forecasting sizeable losses over the next few years. The forecast of losses for NCB is over £200 million in both 1980-81 and 1981-82 - although roughly half of this is due to deficiencies in the miners pension scheme and costs of pit closures. In the case of BR, operating subsidies are necessary for social/regional reasons.

Why are we allowing NCB to run at a loss while expecting BSC to break even from 1980-81 onwards? Apart from the fact that half of NCB's losses are due to special factors, it seems to me there are two arguments:-

1) In the short run, we have to produce coal since our ability to import is limited by availability and by the capacity of our ports. If we reduce the operating subsidy to zero, NCB would put up their prices. In either case, the consumer/taxpayer has to pay. With steel, imports are readily available and BSC cannot put up their prices. Any operating subsidy is therefore an extra charge on the consumer/taxpayer.

2) The long run prospects for steel demand are poor unless BSC can radically improve its competitiveness. This is not true of coal - though every effort must be made to make the coal industry more efficient.

/BSC employs

BSC employs 183,000 workers (of whom 153,000 are in iron and steel activities). Against the operating loss of £324 million for 1979-80, therefore, we are paying a subsidy of ^{1,800} ~~£1,934~~ per man. Against the total Government financing of £700 million for 1979-80, we are providing £3,825 per man. (David and I will work on these figures further in the morning).

The operating subsidy to NCB for 1980-81 has not been announced yet. The Department of Energy have agreed to postpone this for the time being. Their Ministers were to have announced it next week, but have now said it can be put off until the second reading of the Coal Bill in February. I have asked them to come back to us before they finally decide to make the announcement - the second reading of the Coal Bill could be put back if necessary.

TZ
..



cc Nat. Ind (Policy)
Mun 79

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

8 January, 1980

Dear Tim,

I understand that the Prime Minister has asked for figures setting out the total external financing requirements of the nationalised industries over the past five years, together with figures for their profits/losses.

...

The attached table provides this information for the major industries. There are two points to be borne in mind in interpreting these figures. First, the external financing figures provide only one component of the industries' capital requirements, a further contribution coming from internally generated funds. Second, the profit or loss figures are not directly comparable with each other. The figures for the years 1975/76 to 1978/79 are taken from the industries' published accounts and thus reflect a variety of accounting practices. They are post interest and therefore reflect differences in the capital structure of the industries i.e. both the timing of any capital reconstructions and the form in which the capital has been provided e.g. the proportion of non-interest bearing PDC in the case of steel. The estimated out-turn figures for 1979/80 are taken from the industries' monitoring returns, and unlike the earlier years' figures make no allowance for tax. This is only likely to make a significant difference in the case of British Gas. An adjustment has been made in each year to the rail and coal figures to eliminate the substantial grants to those industries which are treated as revenue in their accounts.

Sorry about the typing!

Yours,

Richard

R. I. TOLKIEN

T. P. Lankester, Esq.,
No. 10.

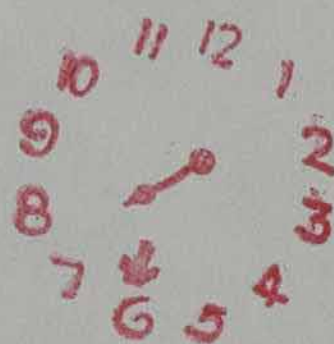
NATIONALISED INDUSTRIES

£m at outturn prices

	1975/76	1976/77	1977/78	1978/79	1979/80	
<u>Total External Finance</u>						
National Coal Board	340	316	328	604	607	←
Electricity Council and Boards	382	69	23	-102	- 68	
British Gas Corporation	184	-204	-495	-429	-450	
British Steel Corporation	654	946	806	752	700	←
Post Office	310	216	-138	- 72	150	
British Airways Board	71	17	87	66	172	
British Railways Board	582	501	532	620	713	←
<u>Profit (Loss)</u>	1975/76 ¹	1976/77 ¹	1977/78 ¹	1978/79 ¹	1979/80 ²	
National Coal Board ⁵	(27.1)	(27.3)	(54.6)	(191.4)	(273)	←
Electricity Council and Boards	8.5	206.5	132.8 ³	251.4 ³	188 ³	
British Gas Corporation	25.1	31.5 ³	103.9 ³	172.3 ³	395 ³	
British Steel Corporation	(255)	(95)	(443)	(309)	(324)	←
Post Office	147.8 ³	290.6 ³	367.3 ³	375.1 ³	213 ³	
British Airways Board	(16.3)	35.1	32.5	77.3	20	
British Railways Board ^{4&5}	(327.6)	(333.7)	(347.4)	(443.3)	(662)	←

- (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

8 JAN 1980



PRIME MINISTER

The Lobby resumes today and I need a line for 11 a.m. Are you content for me to take this line:

Great regret talks have broken down when money is still available to be earned through productivity.

Maintain view parties should continue to negotiate.

Importance to recognise BSC is bust.

Massive injections of taxpayers' money over last five years - some £4 billion.

Massive losses, too - about £1.4 billion.

Productivity half that of Eurocompetitors.

Not surprising therefore that much higher productivity there for getting.

By some token, substantial increases in earnings available through efficiency schemes which improve BSC's competitive position.

But there cannot be any question of something for nothing.

That attitude is totally unrealistic.

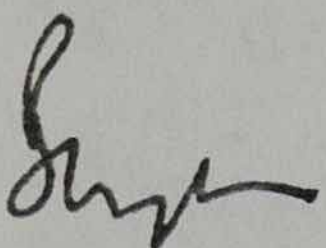
As in all things money has to be earned; otherwise BSC's position worsened and still more jobs in jeopardy.

Govt.'s commitment of taxpayers' money - £450m. in 1980-81 already very substantial.

Vital for British Steel and its employees' ^{then} efficiency, productivity is greatly improved.

Secondary picketing will not alter facts of life - British Steel cannot afford to pay out money which is not covered by higher productivity.

No question of Government intervention.



B. INGHAM
8 January, 1980

PS/Secretary of State

cc All Ministers
 Secretary
 Mr Ridley
 Mr Lippitt
 Miss Mueller
 Mr Lanchin G
 Mr Monck Treasury
 Mr Littler Treasury
 Mr Woodrow
 Mr Clay
 Mr Long
 Mr Spencer

R

STEEL STRIKE: YESTERDAY'S NEGOTIATIONS

1. At the meeting between the BSC Board and the Trade Union Co-ordinating Committee, the five members of the latter re-stated their views but adhered closely to their offer of 4 January (Annex 1 to my minute of 5 January to PS/Prime Minister). Mr Murray said that the proposals covered the two main issues, mainly the Unions' wish for more money and BSC's wish for improved performance. He accepted the principle of self-financing and claimed that the Union commitment in paragraphs (iii)-(v) of their proposals provided this. Each union leader then addressed the Board. Mr Sirs, (ISTC), Mr Hector Smith (NUB) and Mr Moss Evans (T&G) were clearly much less committed to the self-financing principle, inclining to the line that the workers were entitled to "free money", equal to the minimum being offered elsewhere in the public sector. Mr Sirs' line (developed more starkly to the media later) was that to seek productivity benefits against wage increases meant that the workers were paying for their own pay increases. He also referred to the 13% claim as the "basis" for a settlement, ie the latter would have to cover "other points", perhaps more than those indicated in the footnote to Annex 1.
2. The Chairman did not respond other than to say that the Board would consider the Unions' representations.
3. The Board considered that the commitments by the Union leaders, while encouraging, were only of an "enabling" kind and were not directly linked to productivity improvements; accordingly, they could not be regarded as "self-financing", the intention accepted by the Board. One or two of the Worker Directors also said that the ISTC Executive Committee were not likely to welcome some of the TU leaders' commitments on local joint bargaining. The Board therefore decided that the 8% general offer (which was confirmed) must be set against acceptance of conditions more directly linked to improved productivity such as flexibility in working practices, reduced manning at ongoing plants and non-recruitment of labour to replace natural wastage. However, as a response to the Unions' representations, it was agreed that the Board should offer one advance payment of 4% during the January-March quarter, in respect of the lump sum bonus scheme. Further quarterly payments would only be made at Divisions or Works where the lump sum bonus schemes had been negotiated by 31 March. (The minimum pay increase guaranteed under these schemes was made 4%).
4. The Board was generally united and resolute and there was little need for Mr Monck or myself to intervene. Board Members did not seek a "Government" view about whether more money was available.

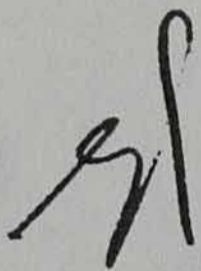
It was generally accepted that there was none; Mr Monck confirmed this. I intervened only to support the suggestion for the advance 4% payment for January quarter against the local bonus schemes. The Board agreed a statement, to be issued after the discussions of their negotiators and the Unions (text in my minute of 7 January)

5 The BSC negotiators (Mr Scholey and Dr Grieves) then met the union officials again. Mr Sirs and Mr Hector Smith said that the attitude of their membership was hardening; some were now pressing for a minimum of 20%. Therefore, unless the Corporation accepted immediately the more moderate terms put forward by the Co-ordinating Committee, the final terms were likely more onerous.

6. Mr Scholey explained the Board's view. Mr Murray privately explored whether there was room for manoeuvre; and Mr Scholey said that flexibility was possible on the arrangements for the lump sum bonus payments although not for the period of advance payment. The unions then rejected the BSC offer. ^{NCCC} Although the GMW have now joined the T&G, ISTC and NUB in "formal" dispute, the NCCC (the craftsmen - AUEW plus other craft unions) are still in negotiation. They represent about 25% of the total workforce of BSC and about 33% of the manuals. At a meeting with BSC yesterday, the NCCC confirmed that they still wanted to negotiate and a further meeting has been fixed for NCCC tomorrow Wednesday at 10 am. In response to the Union request BSC will then table a proposed pay agreement.

ACAS

8 BSC remains discreetly in touch with ACAS but ~~is~~ has suggested that ACAS delay any move until after BSC's meeting with the NCCC tomorrow.



S J GROSS
IS
8 January 1979



PART

2

ends:-

IL to Industry to CAW 8.1.80

PART

3

begins:-

Industry internal note 8.1.80

