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PREM 19/311

Confidential Filing

The Steel Industry.

NATIONALISED
INDUSTRIES

Part 1 : June 1979

Part 6 : March 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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PREM 19/3/11

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PART 6 ends:-

Pm to David Watkins MP 30-9-80

PART 7 begins:-

E(80)102 12-9-80

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(80) 11 th Meeting, Item 1	24/03/80
CC(80) 14 th Conclusions, Item 5 (Extract)	27/03/80
E(EA)(80) 25	09/06/80
E(EA)(80) 26	09/06/80
E(EA) 80, 11 TH Meeting, Item 3	12/06/80
E(80) 21 st Meeting, Item 1	25/06/80
CC(80) 25 th Conclusions, Item 1	26/06/80

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed Wayland

Date 27 July 2010

PREM Records Team

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 01/05/80
British Steel Corporation (Chairman) Columns 1630-1641

House of Commons Hansard 19/06/80
Steel Industry Columns 1784-1797

House of Commons Hansard 26/06/80
British Steel Corporation Columns 754-765

British Steel Corporation
Annual Report and Accounts 1979-80 HMSO

Signed AWayland Date 27 July 2070

PREM Records Team

BRITISH STEEL CORPORATION

Members of the Board

Chairman - Sir Charles Villiers MC

Deputy Chairman - R Scholey (Chief Executive)
~~M Littman QC (non-executive)~~

Members
(full-time) - D G S Waterstone
F Holloway
G H Sambrook

Members
(part-time) - C W Abrahams
Sir John Buckley
The Lord Gregson
S J Gross CMG
R Halstead CBE
N J R Lee
J D Lloyd
J D McLaren
N J Monck
R A Morton
Sir Melvyn Rosser
J Twiddle
A White



10 DOWNING STREET

Nat Ind. MS
cc: Bill
Correspondence
in G.R.

THE PRIME MINISTER

30 July 1980

Dear Mr. Watkins,

Thank you for letting me have the "Save Consett Steel Campaign" petition.

It is obviously distressing when a works with so long and distinguished a history as Consett has to close, and I can understand that people will feel perplexed if they believe that the works in question is profitable and highly productive. But as I understand it, the true position on Consett's performance is as follows. In the four years from 1975/76 to 1978/79, Consett made annual losses of between £3.3 million and £17.5 million. After a further loss in the first half of 1979/80, it made a profit of £0.5 million in the last quarter of 1979. The works was closed down by the steel strike in the period January to April 1980 and returned to a loss-making position since the end of the strike on 3 April with losses of £2.0 million in April, £0.4 million in May and a profit of £187,000 in June, making a net loss of £2.2 million for the April/June quarter as a whole. No-one could claim that this profit/loss record is one of consistent success.

However, the B.S.C. have to take their decisions on the future of individual works in the context of the future of the business as a whole - and as you know - we regard it as very important that these decisions should be taken by the B.S.C. management, without interference from Ministers. The Corporation sees the future U.K. and overseas demand for B.S.C. billets as being substantially lower in the future than

/ it has

it has been in the recent past (a prospect which the recent three-month strike can only have worsened further). This lack of demand means that the B.S.C. has to close some works, regardless of overall levels of efficiency or profitability in the past. If this is not done, the Corporation would end up either with plant standing idle or making steel that no-one wished to buy. The B.S.C. say they chose Consett for closure rather than one of their other billet producing works because it results in an appropriate reduction in capacity; because it can be carried out without commercial disadvantage in the sense that all of Consett's orders can be produced readily at other B.S.C. works; and because it provides the greatest savings in costs for the B.S.C. (estimated by them at £40.5 million per year).

I do of course recognise and am deeply saddened by the industrial and human distress that lies behind the B.S.C.'s decision to close a works such as Consett, the more so when the local community has been so heavily dependent on it for employment. As you know, both the Secretary of State for Industry and I have actively encouraged the idea of a private sector takeover of the works, which would enable Consett to compete as an independent concern and would welcome it if a willing purchaser appeared upon the scene. But the sad fact is that no potential interest in a takeover of the works has materialised to date, so the prospects do not seem good. (This may, of course, reflect Consett's poor profitability in recent years, coupled with the current low level of demand for steel.) We should be equally willing to see the workforce there take the plant over themselves, provided it did not involve the injection of taxpayers' money to get such a venture off the ground.

Nevertheless, we are determined to do what we can to improve the employment prospects of those made redundant by the B.S.C. in Consett, and this was the purpose of the package of remedial measures Keith Joseph announced for Consett and the other steel closure areas on 19 June.

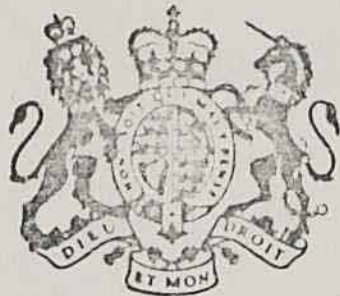
/ As you

As you will know, the main items affecting Consett are a factory building programme costing £12 million over the next five years; up to £10 million in Derelict Land Clearance Grants for approved reclamation schemes (this figure covers Scunthorpe as well as Consett, but it is not expected that much expenditure will be required there); and some additional work by the Manpower Services Commission on retraining and job placement schemes. Consett is of course already a Special Development Area and, as such, qualifies for the highest level of regional investment incentives including Regional Development Grants (at the rate of 22 per cent) and Regional Selective Financial Assistance under Section 7 of the Industry Act 1972.

David Mitchell (Parliamentary Under Secretary of State at the Department of Industry) will be visiting Consett shortly to discuss the implementation of these measures with the local authority, and I understand that his office has been in touch with you about the arrangements for this visit.

(SGD) Margaret Thatcher

David Watkins, Esq., M.P.



10 DOWNING STREET

143
cc 5/11
Correspondence
in G.R.

THE PRIME MINISTER

30 July 1980

Dear Mr. Smith.

Thank you for your letter of 8 July about the closure of BSC's Consett works, and the NUB Conference resolution on it.

First the facts on Consett's profitability. As I understand the position, Consett made annual losses of between £3.3 million and £17.5 million in the four years from 1975/6 to 1978/9, after interest and depreciation. After a further loss in the first half of 1979/80, it made a profit of £0.5 million in the October/December quarter of 1979. The works were closed down by the steel strike in the period January to April 1980 and has returned to a loss making position since the end of the strike with losses of £2.0 million in April, £0.4 million in May and a profit of £187,000 in June making a net loss of £2.2 million for the April/June quarter as a whole. No one could claim that this profit/loss record is one of consistent success.

As far as Consett's future as part of the BSC is concerned, it is for the Corporation to argue the case for closure. All that I would say is that they are bound to take their decisions in the context of the future (as they see it) of their billet business as a whole, and what makes the best commercial sense in that broader context, rather than considering the future of each works in isolation.

I do of course recognise and am deeply saddened by the industrial and human distress that lies behind the BSC's decision to close a works such as Consett, with its long and distinguished history; the more so when the local community has been so heavily dependent on it for employment. As you know, both the Secretary

/of State

State for Industry and I have actively encouraged the idea of a private sector takeover of the works, which would enable Consett to compete as an independent concern, and would welcome it if a willing purchaser appeared on the scene. But the sad fact is that no potential interest in a takeover of the works has materialised to date, so the prospects do not seem good. This may, of course, reflect Consett's poor profitability in recent years, coupled with the current low level of demand for steel.

Nevertheless, we are determined to do what we can to improve the employment prospects of those made redundant by the BSC in Consett, and this was the purpose of the package of remedial measures Keith Joseph announced for Consett and the other steel closure areas on 19 June. The main items affecting Consett are a factory building programme costing £12 million over the next five years; up to £10 million in Derelict Land Clearance Grants for approved reclamation schemes (this figure covers Scunthorpe as well as Consett, but it is not expected that much expenditure will be required there); and some additional work by the Manpower Services Commission on retraining and job placement schemes. Consett is of course already a Special Development Area, and as such qualifies for the highest level of regional investment incentives including Regional Development Grant (at the rate of 22%) and Regional Selective Financial Assistance under Section 7 of the Industry Act 1972.

(SGD) Margaret Thatcher

H.C. Smith, Esq.



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

28 July 1980

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

~~Milk~~
195

Dear Tim,

... You spoke to me on Friday requesting a background note and line to take on the publication tomorrow of BSC's Annual Report and Accounts which will reveal that the steel strike cost the Corporation £200 million. I attach appropriate material.

2 I am copying this letter to Martin Hall.

Yours ever,
Pete

PETER STREDDER
Private Secretary

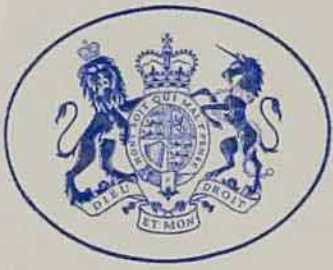
DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1 6BB
TELEPHONE DIRECT 101 1011
TELEGRAMS DIRECT 101 1011



Department of State for Industry

28 JUL 1980

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GOVERNMENT INTERVENTION IN THE STEEL STRIKE

Since the steel strike cost BSC £200m, why didn't the Government intervene to secure an earlier settlement at a much lower cost?

The BSC was - and still is - in a heavily loss-making position. Like any other firm in trouble, they could not afford to pay more unless they got value for money in terms of increased productivity. A settlement which was not "earned" in this way would have increased BSC's unit labour costs, made BSC still more uncompetitive on both the UK and overseas markets, and in the end would have led to even more plant closures, and even more job losses. Government intervention would not have helped - it would have made things worse, particularly for the longer term security of jobs in the industry. Intervention in these cases is only a polite way of saying that the employer must be made to pay more than he can afford - with the result that he goes bust if he is a private company or the Government makes up the difference if it is a nationalised industry. Even the last Government finally jibbed in March 1978 at the amount of taxpayers' money going to BSC on their then policies and retreated - much too late - from the Beswick closure deferments. We do not intend to make the same mistake of counter-productive intervention - either on pay or on bringing capacity into line with demand.



GOVERNMENT INTERVENTION IN THE STEEL STRIKE

Background

In their annual report and accounts (publication intended for Tuesday 29 July, but subject to a possible last minute delay), BSC will reveal a loss in 1979-80 directly attributable to the strike of "over £200 million". This compares with an estimate given by the Corporation in late June of £160 million. The increase is due partly to the availability of more accurate accountancy data, and partly to an increased provision for physical deterioration in stocks of materials (notably coke).



28 JUL 1980



Nat Unds



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

25 July 1980

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

12
25/7

BRITISH STEEL CORPORATION BOARD

will request if required

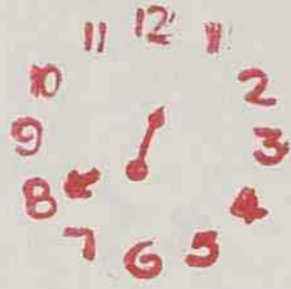
I have seen your letter of 9 July to Nicholas Edwards, and agree that it is vitally important for the BSC Board to be made more effective, the better to return the Corporation to viability as soon as this can be achieved.

The current review of steel making capacity is clearly of the very greatest importance for both Scotland and Wales. I am content with your suggestion that the CPRS should be asked to consider how Scottish and Welsh interests should be represented on the BSC Board.

I am copying this letter to recipients of yours.

GEORGE YOUNGER

25 JUL 1980





CABINET OFFICE
Central Policy Review Staff

With the compliments of
J. R. Ibbs

70 Whitehall, London SW1A 2AS
Telephone 01-233 7765



Not ind

CABINET OFFICE
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: J. R. Ibbs

Qa 05080

22 July 1980

R

23/7

Dear Secretary of State,

BSC BOARD

will request
if required

In your letter dated 9 July to the Secretary of State for Wales, you suggested that the Study by the CPRS of the duties and responsibilities of BSC Board members should also cover the question of representatives from Wales and Scotland.

As you know, the Study is a quick examination of the duties and responsibilities as formerly laid down or accepted by acknowledged convention, and a comparison of these with those of Directors of a large company in the private sector. In the light of this Study we should be able to offer some comment on the case for having regional representatives, but it may be that there are wider issues that would need to be examined in order to get a fully balanced view on this question. I mention this because I should not like you to hope for too much from the immediate Study which we are trying to complete as soon as we can.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Wales, the Secretary of State for Scotland and Sir Robert Armstrong.

yours sincerely,
J.R. Ibbs

J R IBBS

The Rt Hon Sir Keith Joseph, Bt MP
The Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

23 JUL 1960

10 11 12 1 2 3
8 7 6 5 4

BSC file
Mrs.

JIM CALLAGHAN'S STATEMENT

"I am stunned to learn the reports that the new Chairman of BSC is working on a scheme that would mean that steel making in South Wales would be completely closed.

Is there no limit to the madness of our present rulers? This shattering statement must be denied forthwith and I demand that Mrs. Thatcher, who will speak in South Wales tomorrow, should immediately repudiate this statement and should try to restore some measure of confidence to South Wales.

Her Government's policies have done enough damage."

* * * * *

In addition to this statement, Mr. Callaghan was on News At Ten tonight: He repeated very specifically that the Prime Minister should state clearly to the people of South Wales tomorrow that steel making would continue at Port Talbot and Llanwern and only by making such a clear-cut statement could the Prime Minister undo some of the damage that her policies have done.

18 July 1980

British Steel Corporation, responding to the Financial Weekly report, said today:

"The Corporation is of course, carrying out a review of capacity which is still in excess of demand and no BSC plant is excluded from that.

There is no question, however, of any conclusion having been reached and anything which goes beyond that position is pure speculation".

18 July 1980

Under a headline South Wales Steel to Close? The writer is their labour correspondent John Rawlings.

"British Steel's new Chairman, Ian MacGregor is working on a radical scheme to salvage the bankrupt nationalised industry. It would involve closing steel-making in South Wales altogether.

This would slash BSC's capacity from the current 15.2 million tonnes by at least another 2.7 million tonnes and would put another 10,000 South Wales steel workers on the dole queue.

Closure of the two key steel plants in South Wales, Port Talbot and Llanwern, could take place as early as October this year. At the same time BSC is considering the possible closure later of the Scunthorpe works; a move which would reduce overall capacity by a further 3.1 million tonnes and could make another 5,000 jobless.

Taking into account the capacity BSC holds in reserve or could create at its plants in Scotland, Sheffield and at Teesside, this will leave British Steel with a total steel-making capability of about 11.5 million tonnes - little more than the capacity available at the beginning of this year.

The other major moves which Mr. MacGregor is understood to be considering are:

Expansion of the sales of finished products -
in a bid to capture new markets;

Concentration on special steels mixtures and
alloys to capitalise on British expertise in the
metallurgy field;

/ A complete

A complete re-vamp of BSC's commercial division with the hiring of a new "selling team" and the direct linking of salesmen to steel plants to combat the Corporation's poor sales record.

These moves would almost change the British Steel Corporation into a British metals corporation. The change of emphasis to finished products and new metals are considered by senior BSC executives to be long-term projects. They are both close to Mr. MacGregor's experience at the US Mining Group AMAX of which he was formerly Chairman.

The end of bulk steel making in South Wales will have to be put to the Industry Secretary, Sir Keith Joseph, for approval. He must consider the inevitable knock-on effect on Welsh coal mines, 12 of which are under closure threat at the moment due to the decrease in BSC's activity, its increased purchase of cheaper imported coal and the eventual shut-down of Scunthorpe.

But he might even consider the new closure plan does not go far enough and consequently withhold the additional cash, over and above the £450 million Government cash limits which former Chairman Sir Charles Villiers considered necessary.

The key steel union, the Iron and Steel Trade Confederation's, comment about the BSC plant: "We are stunned but nothing BSC does surprises us any more". "

18 July 1980

Dictated to Debbie Green

15/7/80

FINANCIAL WEEK

p. 74

July 18-24, 1980

South Wales steel to close?

by John Rowlings, Labour Correspondent

British Steel's new chairman, Ian MacGregor, is working on a radical scheme to salvage the bankrupt nationalised industry. It would involve closing steel-making in South Wales altogether.

This would slash BSC's capacity from its current 15.2m tonnes by at least another 2.1m tonnes, and would put another 10,000 South Wales steelworkers in the dole queue.

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Taking into account the capacity BSC holds in reserve or could create at its plants in Scotland, Sheffield and on Teesside this will leave British Steel with a total steelmaking capability of about 11.5m tonnes - little more than half the capacity available at the beginning of the year.

The other major moves which Mr MacGregor is understood to be considering are:

- expansion of the sales of finished products - in a bid to capture new markets.
- concentration on special

steels, mixtures and alloys to capitalise on British expertise in the metallurgy field.

• a complete revamp of BSC's Commercial division with the hiring of a new "selling team" and the direct linking of salesmen to steel plants, to combat the Corporation's poor sales record.

Finished products

These moves would almost change the British Steel Corporation into a British Metals Corporation. The change of

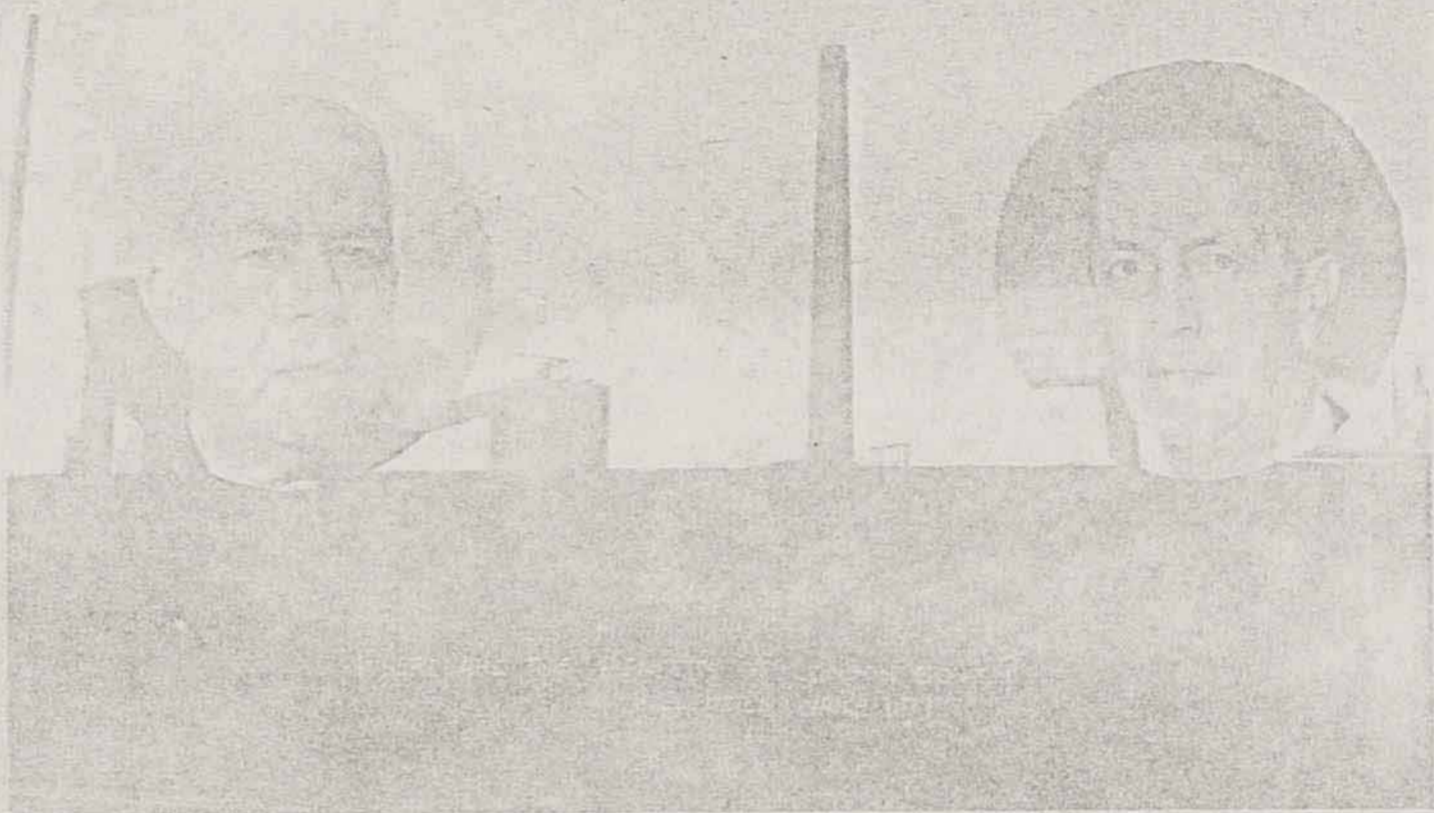
emphasis to finished products and new metals are considered by senior BSC executives to be long term projects. They are both close to Mr MacGregor's experience at the US mining group AMAX, of which he was formerly chairman.

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purchase of cheaper imported coal, and the eventual shut-down of Scunthorpe.

But he might even consider the new closure plan does not go far enough, and consequently withhold the additional cash, over and above the £450m Government cash limits, which former chairman Sir Charles Villiers considered necessary.

The key steel union, the Iron and Steel Trades Confederation, commented on the BSC plans: "We are stunned, but nothing BSC does surprises us any more."



Port Talbot reads the writing on the wall.

INSID

Bahia

William Davis hopeful invest

Brit

Give oil licence Fleet

Mrs'

Gran

The Prime Min policies pretty

Bull

back

The EEC has

Clen

Out-of-this-w

Call

imp

THE British p mill industry, 53,000 jobs spread closure months' action is taking of cheap input

This warning Industry Secretary Joseph, on a delegation from mill manufacturers

Trading in the is said to be 1 years Labour ing the Nat. Association has to foreign

Charterhouse £60m oil gusher



Defence industry

British Steel statement

The Corporation is, of course, carrying out a review of capacity, which is still in excess of demand, and no BSC plant is excluded from that.

There is no question, however, of any conclusion having been reached and anything which goes beyond that position is pure speculation.

J Callaghan's statement

I am stunned to learn the reports that the new chairman of BSC is working on a scheme that would mean that steelmaking in South Wales would be completely closed.

Is there no limit to the madness of our present rulers? This shattering statement must be denied forthwith and I demand that Mrs Thatcher, who will speak in S ansea tomorrow, should immediately repudiate this statement and should try to restore some measure of confidence to South Wales.

Her Government's policies have done enough damage. (1)

CONFIDENTIAL



FILE

RH

Nat Inds.

10 DOWNING STREET

From the Private Secretary

3 July, 1980

BR 17/100

In the light of the discussion in E Committee about BSC's finances on 25 June, the Prime Minister has asked the CPRS to undertake a quick study of the duties and responsibilities of BSC Board Members. She would be grateful if your department would provide whatever assistance they can.

I am sending a copy of this letter to Martin Hall (Treasury), Sir Robert Armstrong and Robin Ibbs.

I. P. LANKESTER

I K C Ellison, Esq
Department of Industry

CONFIDENTIAL

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

MR. J. R. IBBS

BSC

The Prime Minister has read your minute of 25 June and agrees that the CPRS should undertake a quick study of the duties and responsibilities of BSC Board members.

I am sending a copy of this minute to Sir Robert Armstrong.

T. P. LANKESTER

26 June 1980

CONFIDENTIAL

CONFIDENTIAL

Prime Minister

Qa 05062

To: MR LANKASTER
From: J R IBBS

Yes I don't think it will take long.

BSC

From what CICS should undertake a quick study as proposed?

*R
26/6*

1. After this afternoon's meeting of E Committee I suggested to the Prime Minister that one of the problems in the BSC situation might be that the duty of directors on the BSC Board might be less clear than that of their opposite numbers in private industry. In particular, because BSC is protected by statute from going into liquidation, the efforts made by directors to prevent financial decline might be less vigorous, and their sense of personal disgrace if associated with a company in severe financial difficulties might be less painful than if they were on the Board of a private company that went bankrupt. As a result, for example, non-executive directors might be less inclined to demand information, record dissent and, if necessary in the extreme, resign.

2. It seems to me this subject might justify a quick study. What I have in mind is to seek clarification of the following questions:

- (a) What are the formal responsibilities of directors of BS as laid down at present?
- (b) How do these compare with corresponding responsibilities in the private sector?
- (c) How in practice have the duties been discharged, and what have been the apparent attitudes of people concerned?
- (d) What modification in the formal responsibilities, or what guidelines on the way in which they should be interpreted, appear desirable?

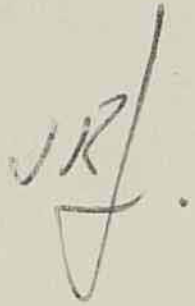
3. Such a study might be useful as background before the BS Board is restructured (a matter on which you will recall I have been asked to advise). To be useful for this purpose it would need to be done quickly and without too great refinement, and that is what I have in mind. However, if anything

CONFIDENTIAL

worthwhile emerged, the findings might have wider implications for other nationalised industries and might be developed further.

4. If the Prime Minister were to believe it would be worth having such a study carried out I think the CPRS could do it. Obviously in making the necessary discreet enquiries we would need the support of the Secretary of State for Industry.

5. I am sending a copy of this minute to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'JR' with a stylized flourish below it.

25 June 1980



Embossed text or name, likely the name of the organization or institution, located directly below the seal.

Faint, illegible text or a very light stamp located in the upper middle section of the page.

25 JUN 1960



Nat Ind.

PRIME MINISTER

Parliamentary Affairs

In the light of the discussion at E this afternoon, you might ask the Secretary of State for Industry to tell colleagues about his statement on the finances of the British Steel Corporation.

(copy of revised draft - which you saw last night - attached)

MS

25 June 1980



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

25 June 1980

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

Revise

*Revised draft in the
light of this afternoon's
discussion.*

Dear Tim,

Following the meeting of E Committee this afternoon my Secretary of State has revised the draft statement on BSC's finances. I attach a copy of the revised draft.

...

I am copying this letter to the Private Secretaries to the Chancellor, the Secretaries of State for Employment, Scotland, Wales and Trade, the Chief Secretary, the Chief Whip and Sir Robert Armstrong.

*Yours ever,
Pete*

PETER STREDDER
Private Secretary



REVISED DRAFT STATEMENT FOLLOWING E COMMITTEE

With permission, Mr Speaker, I wish to make a statement on the serious financial position at the British Steel Corporation and the Government's reaction to it.

2 For the last financial year, unaudited estimates show a loss by BSC of £450 million from ordinary activities. There are also extraordinary items, consisting of redundancy and other closure costs and a write-off of £1144m of fixed assets. The latter is needed because the book value of BSC's assets is over-stated in the accounts in the light of expected future earnings.

3 For this financial year, as the House knows, the Government have made £450 million of taxpayers' money available as the external financing limit. The Chairman has warned me for many months that, without further corrective action, BSC's cash needs were likely to exceed the external financing limit but he also told me that he was seeking solutions and was not asking for more cash. On 6 June, however, he told me that, even after allowing for the measures on which they were proceeding, his Board saw an additional cash requirement of around £400 million in the financial year 1980/81 over and above the EFL. He also said that

/BSC ...



BSC could not carry on trading and would have to recommend the liquidation of the business unless the Government agreed to the factoring of home debtors and the sale and leaseback of major assets outside the EFL. Such measures would of course only postpone the day of reckoning. The £400 million figure is based on provisional trading forecasts: a firmer figure, which may well be larger, will have to await an up-to-date assessment of BSC's trading position.

4 Over the past year, the market has fallen away both at home and abroad with a depressive effect on prices. Meanwhile, BSC's costs have been rising sharply. The long strike has, as we warned, made BSC's sales and job prospects and the cash problems worse, at least in the short term.

5 The Government have replied that, whilst we recognise these special factors, we are not satisfied that the Corporation have yet taken with sufficient speed and determination all the action open to them to reduce their cash requirement in 1980/81. I propose to discuss with the new Chairman,

/Mr MacGregor ...



Mr MacGregor, how long it will take him to produce new proposals for corrective action.

6 Until Mr MacGregor has made his proposals and we are satisfied that the Corporation is taking the necessary measures we are not prepared to reconsider the level of the external financing limit. For this reason, I only expect to be able to indicate a new figure to the House later in the year although it now seems clear that a revised cash provision for 1980/81 will be needed. Any additional amount required will involve a Winter Supplementary Estimate and if needed before then will be provided by a repayable advance from the Contingencies Fund.

7 Meanwhile, having considered the Corporation's concern about taking on fresh financial commitments, I have asked BSC to continue trading as an on-going business. I have told them that in the last resort HMG would have to ensure that creditors of the Corporation had their claims met in full.

8 BSC have for years suffered from political interference and insulation from the market realities. The taxpayer has already contributed over £4,000 million to BSC over the past 5 years; a further £450 million is being made available in the current year and now additional calls are being made on the taxpayer. BSC are still faced by excess capacity and lack of competitiveness in what is an intensely competitive market. It is for the new Chairman to use all practicable means including a further review of capacity and disposals, to bring the Corporation's cash requirements as close as possible to the EFL and to restore the Corporation's financial and trading position.



25 JUN 1980



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PRIME MINISTER

BSC Finances

BACKGROUND

You discussed the BSC financial situation with a small group of colleagues last week. The outcome was that Sir Keith Joseph was invited to make an early statement in the House. This statement is now due to be made on Thursday, 26th June and the Secretary of State for Industry has just circulated a draft to colleagues on E. In addition you approved yesterday the terms of a letter which Sir Keith Joseph sent to Sir Charles Villiers on the subject yesterday. The Chancellor of the Exchequer, the Secretary of State for Employment, the Chancellor of the Duchy of Lancaster and the Paymaster General have seen this letter, but other colleagues have not.

2. The purpose of the meeting is to give a wider circle of colleagues the opportunity of expressing a view on a matter which is not only of great intrinsic seriousness but may well lead to the resignation of the present Board of BSC and a considerable political rumpus. We have invited, for this item, the Secretaries of State for Scotland and Wales and the Chief Whip (but not the Chancellor of the Duchy of Lancaster). The Paymaster General is in Wales and unable to be present.

HANDLING

3. You might begin by inviting the Secretary of State for Industry to explain the position reached and to introduce his proposed statement. Other colleagues can then weigh in as they wish.

CONCLUSIONS

4. The conclusion you will wish to aim for is endorsement of the Secretary of State for Industry's statement, subject to any amendments agreed in discussion.

5. You will wish to consider whether the matter needs to be mentioned in Cabinet tomorrow. If so, the Secretary of State for Industry could be asked to report, under Parliamentary Affairs, his intention to make a statement and what he proposes to say.

RA

(Robert Armstrong)

25th June 1980

CONFIDENTIAL



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

24 June 1980

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

Private Secretary to the

*cc Mr Hodgson
 Mr Hoffman
 Mr Lyburn*

*R
 24/6*

Dear Tim,

When I wrote to you last night I said that my Secretary of State expected to make his Statement on the British Steel Corporation's finances this coming Thursday. The Prime Minister, the Chancellor of the Duchy and the Chief Whip have all signified their agreement to this timing. Moreover, the Prime Minister has instructed that my Secretary of State's Statement should be on the agenda for E Committee tomorrow afternoon. ... Accordingly, I attach the draft of the Statement my Secretary of State proposes to make.

I am copying this letter to the Private Secretaries to the members of E Committee, the Lord Privy Seal, the Secretaries of State for Scotland and Wales, the Chancellor of the Duchy of Lancaster, the Paymaster General, the Chief Whip and Sir Robert Armstrong.

*Yours ever,
 Pete*

PETER STREDDER
 Private Secretary



DRAFT STATEMENT

With permission, Mr Speaker, I wish to make a statement on the serious financial position which has arisen at the British Steel Corporation and the Government's reaction to it.

Sir Charles Villiers

2 The Chairman has told me that, unless special financial measures are taken, the Board could not carry on trading and would have to recommend the liquidation of the business. In fact, the Iron and Steel Act 1975, makes no provision for liquidating BSC. But unaudited estimates show a loss of £450 million for 1979/80 - that is, the last financial year - from ordinary activities. There are also extraordinary items, namely, a £359 million net in redundancy and other closure costs and the write-off of £1,144 million of fixed assets, less £300 million from reserves. The write-off does not involve expenditure of cash but acknowledges that the book value of BSC's assets is over-stated in the accounts in the light of expected future earnings.

3 I turn now to the current financial year. As I have previously told the House, the Government have made £450 million of taxpayers' money available in 1980/81 as the external financing limit to fund capital investment, working capital and redundancy costs but not operating losses. The Chairman, Sir Charles Villiers, told

/me ...



me on 6 June that the Board saw an additional cash requirement of around £400 million in the financial year 1980/81 over and above the EFL. This was based on a preliminary estimate of a loss for the year of £350-375 million, after depreciation and interest, with a possible additional requirement of £100 million for contingencies. The Board's view, having considered all the options open to it, was that the only measures that appeared to exist for remaining within the cash limit were the factoring of home debtors and the sale and leaseback of major assets. Otherwise, as I have said, the Board considered that the Corporation could not carry on trading. These figures may not tell the whole story; the first full assessment of BSC's trading position following the strike will not be completed until the end of the month.

4 The Government have noted this situation with grave concern. The long strike has, as we warned, made BSC's sales and job prospects [and the cash problem] worse, at least in the short term. Moreover, the market in general has fallen away sharply, both at home and abroad.

5 The Government have told the Corporation that, whilst we recognise these special factors, it is clear that before the strike other factors within the Corporation's control were affecting the situation. We are not satisfied that the Corporation took or are taking with sufficient speed and determination all the action open to them to reduce their



cash requirement in 1980/81. As the Board knew, money raised from factoring of debts or sale and leaseback of assets is counted against the EFL so it is not a real alternative. Also, I am advised that bankers would not normally agree to such expedients for a private sector company in BSC's financial and trading position and with its prospects.

6 I propose to discuss with the new Chairman, Mr MacGregor, how long it will take him to produce new proposals for corrective action on the cash position. Until Mr MacGregor has made his proposals and we are satisfied that the Corporation is taking the necessary action to remedy the position, we are not prepared to reconsider the level of the external financing limit. For this reason, I do not expect to be able to indicate a new figure to the House before the Recess although it now seems clear that a revised cash provision for 1980/81 will be needed. Any additional amount required will involve a Winter Supplementary Estimate and if needed before then will be provided by a repayable advance from the Contingencies Fund. The House has already been informed that we plan legislation during the next Session to provide for a capital reconstruction of BSC as envisaged in Command 7149 of March 1978.

7 Having considered the Corporation's concern about taking on fresh financial commitments, I have asked BSC to continue trading as an on-going business. I



have told them that in the last resort HMG would have to ensure that creditors of the Corporation had their claims met in full.

8 If BSC were in the private sector it would long ago have been in receivership, with all the steel and other redundancies that this would entail. The taxpayer has already contributed over £4,000 million over the past 5 years; a further £450 million is being made available in the current year and now additional calls are being made on the taxpayer. BSC are still faced by excess capacity and lack of competitiveness in what is an intensely competitive market. It is for the new Chairman to use all practicable means to bring the Corporation's cash requirements as close as possible to the EFL, to restore the Corporation's financial and trading position and then to achieve enduring profitability. It is not for me to specify the measures needed but they are bound to include a further review of capacity and of disposals.

24 JUN 1960



Faint, illegible text covering the majority of the page, likely bleed-through from the reverse side. The text is too light to read accurately but appears to be several paragraphs of a letter or report.



hcc: B. Lingham
J. Hoskyns

SK

File

Handwritten signature/initials

10 DOWNING STREET

From the Private Secretary

24 June 1980

BSC Finances

This is to confirm that the Prime Minister is content with the letter enclosed with yours of 23 June which your Secretary of State intends to send to Sir Charles Villiers this morning. She also agrees that your Secretary of State should make a statement in the House on Thursday.

I am sending copies of this letter to John Wiggins (HM Treasury), Richard Dykes (Department of Employment), Petra Laidlaw (Chancellor of the Duchy of Lancaster's Office) and Richard Prescott (Paymaster General's Office).

L. P. LANKESTER

Peter Stredder, Esq.,
Department of Industry

Handwritten initials



A M Lewis

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PS/ Secretary of State for Industry

23 June 1980

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

From the letter

The letter attached does not include the thought that the BSC Board and top management will have to be restructured. Sir Keith decided it would be pointless including it in a letter to Villiers. Are you content, and also with the timing

Dear Tim,

BSC FINANCES

... I attach a copy of the letter my Secretary of State proposes to send to Sir Charles Villiers tomorrow. The letter is signed and will be taken to Grosvenor Place by hand during the course of tomorrow morning.

Statement

We have considered carefully the timing of a possible statement and believe that there is considerable merit in making it on Thursday of this week. This would enable us to avoid an uncontrolled leak which might arise after BSC's Finance Committee meets on Thursday morning, but would at the same time give my Secretary of State the chance to see the officers of the Industry Committee on Wednesday night. We shall be circulating a draft statement during the course of tomorrow but it can be expected to be based on the letter to Sir Charles.

i.e. Thursday?

*R.
27/6*

I am copying this letter to John Wiggins, Richard Dykes, Petra Laidlaw and Richard Prescott.

*Yours ever,
Pete*

PETER STREDDER
Private Secretary

Yes

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Secretary of State for Industry

June 1980

Sir Charles Villiers MC
Chairman
British Steel Corporation
33 Grosvenor Place
London
SW1X 7JG

Sir Charles.

My colleagues and I have now given careful consideration to your letter of 6 June describing the serious state of BSC's finances, the measures that your Board propose for bridging the cash gap and the Board's statement that, if the assurances you request are not given, the Board could not carry on trading and would have to recommend the liquidation of the business. I have also considered your further letter of 10 June providing more details about disposals and stocks.

At our meeting on 9 June, I told you that I would need to consult my colleagues before I could give a considered reply to the Board's proposals. I added that, in the meantime, under the terms of Sir Peter Carey's letter to you of 27 February, BSC were entitled to continue with negotiations for local productivity agreements due to be completed by 2 July and with your plans for negotiating the closure of Consett due to be announced on 12 June. Secondly, I said that you were entitled, for the time being, to continue with the commitments already undertaken within the Board's reduced capital programme for 1980/81, but should make no new starts.

I am writing now to give the Government's considered reply to your letter of 6 June. This is as follows:

- a) we have noted with serious disappointment the conclusion reached by the BSC Board that, after allowing for the measures to save cash on which you are proceeding, your cash requirements for 1980/81 remain around £400 million in excess of the external financing limit. We understand that the first informed assessment of the financing and trading outlook for 1980/81 following the strike will be completed by the end of this month; this may

/indicate ...

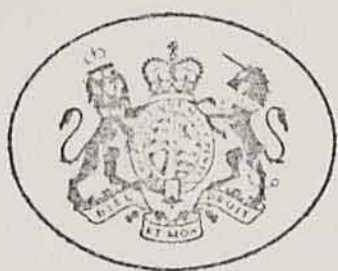
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indicate a still worse position;

- b) the Government recognise that the strike and the continuing decline in demand for steel have contributed to this deterioration. However, it is clear that even before the strike, other factors within the Corporation's control also played a substantial part, and we are not satisfied that the Corporation took or are taking with sufficient speed and determination all the action open to them to reduce their cash requirement in 1980/81. The Government take a grave view of this;
- c) because of this dissatisfaction, the need to consider the informed assessment noted above and our wish that the Corporation give further consideration to appropriate measures to remedy the position, we are not prepared to reconsider at this stage the level of the external financing limit although it now seems clear that a revised cash provision for 1980/81 will be needed. Our assessment of this will require consultation with the new Chairman after he has had time to take stock. We are not prepared to allow money raised from factoring of debts or sale and leaseback to be outside the EFL. The Board have been aware that both these means of raising funds are chargeable against the external finance limit. I am advised that the bankers of a private sector company, in BSC's financial and trading position, would not normally agree to such expedients.
- d) since your own term of office is expiring very shortly, I propose to discuss with Mr MacGregor how long it will take him to produce new proposals for corrective action on the cash position. I shall also consider with him whether it would be appropriate to restructure the Board so as to help put the Corporation on a sound financial and commercial basis.
- e) the Government acknowledge the concern of the Board, given your present forecasts and the expected cash availability, about the Corporation's taking on fresh financial commitments as an on-going concern. After considering the information you have given me, I can confirm that the position remains as set out in Sir Peter Carey's letter of 27 February, in particular "that the Corporation is continuing to trade with the

/acquiescence ...



acquiescence of HMG" who would "in the last resort have to ensure that creditors of the Corporation had their claims fully met". BSC should therefore continue to trade normally until the Government advise you differently; the Iron and Steel Act 1975 does not contemplate the Corporation ceasing to trade or being wound up;

- f) I expect management meanwhile to press on vigorously with the measures to save cash outlined in your letter of 6 June and any other appropriate measures that would help to reduce the cash gap.

In view of the serious nature of the position, I shall report it to Parliament as soon as practical after you have brought my letter to the attention of your Finance Committee, which I understand is due to meet on the morning of 26 June. I shall let you know of the proposed date of my announcement; until it is made, I should be grateful if you would arrange for the contents of this letter to be treated as confidential to you and your Board.

Emerson

Kear



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PA
YS

PS / *Secretary of State for Industry*

Nick Sanders Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

19 June 1980

Dear Nick,

... I attach a copy of the latest draft of my Secretary of State's statement this afternoon on remedial measures for areas affected by the steel rundown. This incorporates the comments of other Departments but it is possible that my Secretary of State may make minor textual amendments before delivery.

I am copying this letter to the private secretaries to other members of the Cabinet and the Minister of Transport.

*Yours ever,
Pete*

PETER STREDDER
Private Secretary



DRAFT STATEMENT ON REMEDIAL MEASURES FOR AREAS AFFECTED BY
THE STEEL RUNDOWN

On 11 December 1979 and 17 January of this year, the BSC announced proposals for a large reduction in manned capacity, at Llanwern, Port Talbot, Consett and Scunthorpe.

2 The Government has made it clear that it would act to alleviate the economic and social consequences of the substantial and concentrated job losses involved. Now that the prospects have been discussed with the unions more details of the prospective job losses are available and the Government has taken the following decisions:-

a Subject to the necessary approval of the European Commission, we propose to make the Port Talbot Travel to Work Area (TTWA) a Special Development Area (SDA), and the Scunthorpe TTWA and the whole of the Newport TTWA and the Cwmbran Employment Office Area (EOA) Development Areas. Firms in these areas will then be eligible for the full range of regional incentives including Regional Development Grants and Regional Selective Assistance under Section 7 of the Industry Act 1972. Consett is, of course, already an SDA and the reductions in the coverage of the Assisted Areas which I announced last July should increase the relative attractiveness of Derwentside. The necessary Orders will be laid following receipt of the EEC Commission's approval. I am mindful of the need to complete this process before 1 August. The Government is aware of possible further

/redundancies ...



redundancies in these and neighbouring areas - particularly Swansea - consequent upon the rundown at these steelworks or through related closures and will continue to keep a careful watch on the situation relative to the rest of the UK.

The Government will make available any additional resources which may be needed for increased entitlement to regional development grants. The Government also plan the following expenditure measures which will be found from within the programme allocations for which my Right Hon Friends and I are responsible:

b Factory Building and Site Development

The Secretary of State for Wales has already announced a two year programme of land acquisition, derelict land clearance, site development and factory building in those areas in South Wales affected by the rundown. For Consett and Scunthorpe, the Government will provide £19m at 1980 PES prices to enable the English Industrial Estates Corporation to increase building over the next 5 years - about two thirds to Consett and one third to Scunthorpe.

c Derelict Land Clearance

Derelict Land Clearance grants of up to £10m will be available in the 3 - 4 years beginning in 1981-82 for approved reclamation schemes at Consett and, to the limited extent there relevant, Scunthorpe, within the framework of the new system of local authority capital expenditure controls that will operate from April 1981.



d Manpower Measures

The Government recently announced a new scheme to provide assistance towards the cost of in-plant training and this scheme will be of particular value to these areas suffering from steel redundancies.

The Manpower Services Commission in addition to its normal placing and training services will be introducing certain new measures for steel rundown areas:

- (i) Work assessment/re-orientation courses. Courses on job finding and retraining possibilities will be expanded.
- (ii) Small business training. Courses on how to start businesses will be expanded.
- (iii) Apprentices. Assistance will be provided through Industrial Training Boards to help firms who take on first or second year craft apprentices made redundant by the steel industry.
- (iv) Youth Opportunities Programme. Special attention will be given to the needs of these areas.
- (v) The Government is also considering the scope for extra assistance for unemployed people in these areas who move home to take up a job in another area.



Wat Ind.
2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/14873/80

Your ref:

19 June 1980

De Keith *RWB*

STEEL RUNDOWN AREAS: STATEMENT

Thank you for sending me a copy of your letter of 17 June to Nick Edwards. I am content with the statement you propose on remedial measures for areas affected by the steel rundown, and your office has been advised by telephone.

In my letter of 3 April I said that my officials were still looking into the possibility of helping Scunthorpe with a programme of prepared industrial sites.

I came to the conclusion that we should not promise any positive help except for a small share in the £10m of Derelict Land Clearance Grant I undertook to make available, since it is now thought that Scunthorpe will have a small amount of derelict land clearance to do. Scunthorpe and Glanford District Councils' need to develop industrial sites will have to be met from their allocations for "All Other Services" (Block 5) under the new system for controlling local authority capital expenditure to be introduced next year, and I shall have no direct control over their allocations. The Local Government Planning and Land (No 2) Bill makes provision for supplementary allocations by the appropriate Minister (in addition to allocations for projects of regional or national importance) but I have decided on a policy of non-intervention in Block 5 allocations. This does not necessarily mean that the Councils will not be able to develop sites according to their needs but they will have to argue their case for adequately large Block 5 allocations in the local authority forum, and will, of course, be free to transfer expenditure between blocks.

I am sending copies of this letter to members of the Cabinet, of E Committee and to Sir Robert Armstrong.

Yours ever
MHE

MICHAEL HESELTINE

The Rt Hon Sir Keith Joseph MP

R E S T R I C T E D

20 JUN 1980

11 12 1 2 3 4
0 9 8 7 6 5



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10 DOWNING STREET

File 'Nat Ind.' 82

cc: Mr. Hoskyns
Mr. Wolfson

cc Maiter

From the Private Secretary

19 June 1980

As you know, the Prime Minister held a meeting this morning with your Secretary of State and the Chancellor of the Exchequer to discuss Sir Keith's minute of 13 June on BSC finances. Mr. David Wolfson was also present.

The Prime Minister said that the financial situation of BSC as revealed by the minute was very serious indeed, and the Corporation would have to do everything possible to reduce the projected excess cash requirement of £400 million. This would need to include the selling off of assets wherever possible. She agreed that the sale and lease-back of assets was not acceptable. Even if the excess cash requirement could be reduced somewhat, it would still involve great difficulties for the Government - both in financial terms and from a political standpoint. In announcing that their financial situation had deteriorated and that further job losses were likely, it was essential that the Government should get over the fact that much of this was due to the strike. Sir Keith would also have to make clear that the Government were looking to Mr. MacGregor to restructure the Board and top management of BSC; but she doubted whether it would be wise to call for the resignation of the Board. To do this now would look odd when the Government had stood behind the Board during the strike and when - as might well come out - the Government had been informed as long ago as last January that a substantial overspend was likely. Moreover, there were several Board members whom the Government would want to retain; and the full Board could not be asked to resign without this appearing as a total condemnation of Sir Charles Villiers's chairmanship. (On the question of the restructuring of BSC's Board and top management, the Prime Minister suggested that Sir Keith should consult Mr. Ibbs).

Sir Keith Joseph said that the Government would have to await Mr. MacGregor's assessment before reaching a firm view on the likely overspend in 1980/81. The figure of £400 million was largely based on forecasts prepared last January. It was possible that the additional requirement could be reduced somewhat, but there was no prospect whatever of eliminating it entirely. Mr. MacGregor would be looking at all the options, and he might well need to cut back capacity below 15 million tons.

/ This might

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- 2 -

This might involve mothballing a major steel works. He would of course be doing everything possible to improve BSC's market share, but the Corporation was still likely to be burdened with excess capacity until further action were taken. On the other hand, further closures would involve heavy expenditure on redundancy payments; and it might be necessary to consider reducing the level of such payments. Another possibility Mr. McGregor would probably be looking at was the temporary laying-off of employees. The Prime Minister commented that further closures or lay-offs would add to unemployment in areas where this was already high.

Turning to the immediate action proposed, the Prime Minister agreed that Sir Keith should write to Sir Charles Villiers in the next few days on the lines set out on pages 7 and 8 of the minute. This would be without the "possible addition" to the effect that the Board should resign. Under (d), the letter should make clear that Sir Keith expects Mr. MacGregor to restructure the Board and top management. In addition, the letter should make quite clear that the Government regard the present situation as extremely grave. As regards informing Parliament, the Prime Minister agreed that Sir Keith should make a statement on 30 June or 1 July: he should circulate a draft to colleagues.

I am sending copies of this letter to John Wiggins (HM Treasury), Richard Dykes (Department of Employment), Bill Beckett (Law Officers' Department), David Wright (Cabinet Office) and Robin Ibbs.

T. P. LANKESTER

Ian Ellison, Esq.,
Department of Industry

CONFIDENTIAL



Mr. Hoshimura
Mr. Wolff

PRIME MINISTER

BSC FINANCES

Yes please
no

Primitivist *Not Hal*
BSC's assessment of their cash requirement for 1980/81 is £950 million - at least as bad as we had feared. Sir Keith is not asking for a decision on this now. But he does have to write to Sir Charles Villiers (see page 7) and I think you will want to discuss with Sir Keith another Chancellor. Shall I set up a meeting? If so, shall we include Mr. Prier and/or General?

My Private Secretary wrote to yours on 25 January saying that a critical situation was looming in connection with BSC finances in 1979/80 and 1980/81. BSC's revised estimates forecast a loss of £427 million in 1979/80, with a cash requirement of £888 million (£188 million over the EFL of £700 million), if the steel strike lasted 8 weeks, and a loss of £285 million in 1980/81 with a cash requirement of £715 million (£265 million over the EFL of £450 million) plus any spillover from 1979/80.

After discussing this on 28 January, you set up a group of Ministers and officials under my Chairmanship to consider the options open to us. The report of this group, MISC 34(80)1, was then considered by a group under your Chairmanship on 30 January. We agreed to concentrate on the search for a new Chairman to succeed Sir Charles Villiers. We had no grounds on which seriously to doubt the validity of the estimates presented, which involved £300-500 million of cash requirements over the EFL, but considered that the settlement of the strike must take precedence; meanwhile, "every effort should be made to prevent the information about the financial position of BSC becoming known before a settlement had been reached in the pay dispute".

In the event, the strike lasted 13 weeks. As a result, the EFL for 1979/80 was underspent and not overspent. The settlement of many



1979/80 obligations was delayed by the strike and we allowed the unused £130 million of the 1979/80 EFL to be carried over into 1980/81 to cover this. Also, BSC have to cover, in 1980/81, the underlying overspend in 1979/80 attributable to the direct and indirect losses resulting from the strike. The provisional estimate of these losses is £150 million, which is a call on the 1980/81 EFL. So the latter has looked increasingly vulnerable. However, I have continued to press BSC to consider options which would enable them to stay within or close to the EFL and this pressure has been supported on the Board by the two Government directors.

PRESENT POSITION

Sir Charles Villiers has now, on behalf of the Board, formally notified me that all the efforts BSC have made on such matters as disposals, savings in stocks etc have only served to offset the further adverse movement in the market since the beginning of the year (with costs continuing to rise but prices remaining stagnant). The loss in 1979/80 is now estimated at £450 million from ordinary activities. The Accounts will show a further loss of £1,169 million from extraordinary items, including cash expenditure on redundancies and other closure costs of £330 million, and a large write-off of fixed assets; this does not involve cash expenditure but acknowledges that the book value of BSC's assets is overstated in the Accounts, in that they are not expected to be wholly recoverable out of future earnings (the write-off amounts in total to £1,058 million against which will be offset £300 million now in the reserves).

For 1980/81, BSC at present estimate a trading loss (after



depreciation and interest but before the contingency item of £100 million for major disputes etc) of £350-375 million - some part-time Board Members consider it will be substantially worse than this - and a cash requirement on top of the EFL of over £400 million. The Corporation seek our consent to their covering this gap by the factoring of home debts (to yield about £200 million) and the sale and leaseback of major assets (to yield a further £200 million). Sir Charles Villiers claims that these expedients would enable him to stay within the EFL (though he knows the Government is opposed to them). Without this consent, the Board could not carry on trading and would recommend the liquidation of the business. They fear that they will be running out of cash by September though our guess is that they could last at least a month longer, possibly more.

CONSIDERATION

BSC have therefore concluded that they cannot manage without another £400 million in cash this year over and above the EFL. The fact that they are prepared to raise this cash outside Government sources - though by expedients they have been told are chargeable against the EFL under the rules - does not, in my view, excuse their failure to plan and propose options, for which I have repeatedly asked, which would have enabled them to stay close to the EFL. I acknowledge that external events have moved against them - the continued deterioration in the level of demand and the adverse effect on BSC's competitiveness of the high rate of sterling. However, despite Sir Charles' protestations, I am not satisfied that BSC have taken sufficient and energetic corrective action in areas that



are within their control.

I am therefore considering whether we ought to signal our concern at this failure by seeking the resignation of the whole of the Board. There is much to be said for this if the credibility of the EFL system is to be sustained. It is what shareholders in the private sector would do, leaving the new Chairman to reappoint those whom he considered could help him put matters right. On the other hand, we rejected this course in January because of the adverse impact it would have had on the strike and there are arguments against doing so now. Sir Charles is anyhow leaving at the end of this month and the wholesale "resignation" of the Board on the very eve of Mr MacGregor taking up office, could create the wrong climate for him publicly and within the Corporation - even if some of the part-time Members are then reappointed. I intend to discuss the issue with Mr MacGregor early next week, to see what he thinks would help him most; until then, I should prefer to leave my position on this open.

Meanwhile, our acceptance now of BSC's assessment and our agreement to their additional cash requirement would have a most harmful effect on our efforts to contain public expenditure and on our policy relating to EFLs. The Opposition would no doubt revert to attacking our stance on the strike and claim that our intervention then would have had a much less costly outcome. There are other reasons why I remain reluctant to accept at this stage that the EFL is as totally inadequate as BSC say. Their present estimates are still largely based on the forecasts made in January. Because of the



disruption caused by the strike, the first informed assessment of the trading and financial prospects for 1980/81 will not be available until the end of this month; it may well be worse (as some part-time Board Members fear) or it may be better. So it is premature to fix a new financing limit or to agree to financial expedients as proposed by Sir Charles, to which I know Treasury Ministers remain opposed. Also, agreement to BSC's request would relax the pressure on management to try and bridge the gap from within their own resources; I still believe that more can be done here. Therefore, I would prefer Mr MacGregor, after taking up office, to examine the possibilities closely and report before we come to a considered view on BSC's cash needs.

I know that Mr MacGregor already shares some of my misgivings. He told me on 14 May that investments which did not represent an outlet for BSC's steel, for example the South African engineering assets, "should be lopped off as soon as possible" - BSC management have been dragging their feet on this disposal. And he proposes to set up a small group to pursue more actively all that can be sold off in practice. On the other hand, he was attracted by the possibility of sale and leaseback of some assets to alleviate BSC's cash problems although he knows that the Chancellor said last year that sale and leaseback by the Post Office outside the EFL should not be repeated. He is extremely concerned by the lack of financial control and the poor financial reporting system within BSC and has already asked outside consultants to carry out urgent enquiries

/into ...



into BSC's organisation, into market prospects and into BSC's system of financial reporting. He is, of course, still only part-time and is in an awkward position vis-vis Sir Charles until he takes over on 1 July. He has told us privately that he will make every effort to give us his own assessment of the financial and trading prospects for 1980/81 by the end of July at the latest. He clearly feels that there is no hope of BSC becoming a viable operation unless capacity is further reduced below the present 15 million tonne target, so that manned operating capacity is brought more into line with demand; this may mean more plant closures (and also more redundancy payments). Otherwise, managers and workforce will continue to struggle unsuccessfully with plants that cannot be properly loaded and efficiently operated.

Sir Charles Villiers told me on 9 June that, in the light of their present financial forecasts, the BSC Board were reluctant to make any additional financial commitments. I told him that I would need to consult my colleagues before I could give a considered reply to his proposals. I added that, under the terms of Sir Peter Carey's letter to him of 27 February (on which both you and the Chancellor were consulted), BSC should meanwhile continue to negotiate local productivity agreements due to be completed by 2 July and to negotiate for the closure of Consett, due to be announced on 12 June, although they should make every effort to keep redundancy payments down to a minimum and if possible phase payments over more than 1 year. Secondly, they should for the time being continue with commitments already undertaken within the heavily reduced £178 million capital programme for 1980/81 (against the £435 million estimate



when the EFL was first fixed in June 1979) but should make no new starts.

ACTION PROPOSED

I need to give Sir Charles our considered response in good time before the next meeting of the BSC Finance Committee on 26 June (his last meeting as Chairman). For the reasons set out above, I propose, subject to your views and those of other recipients -- and to my discussion with Mr MacGregor about the future of the Board -- to reply on the following lines:

a the Government have received and considered the conclusion reached by the BSC Board that their cash requirements for 1980/81 are some £400 million in excess of the EFL;

b the Government are not satisfied that the Board have taken or adequately explored all the corrective action open to them to help reduce their cash requirement in 1980/81; possible addition: their failure to do so and to prepare options, however unpalatable, which would have enabled BSC to keep close to the EFL, has lost them my confidence and I should therefore be grateful if they would agree collectively to resign;

c because of this dissatisfaction, we cannot agree now either to reconsider the level of the EFL or to consider whether money raised from factoring of debts or sale and leaseback could be outside the EFL;



d we recognise there is now very little time before Sir Charles Villiers' term of office expires. Accordingly, I propose to discuss with Mr MacGregor how long it will take him to produce new proposals for corrective action;

e meanwhile, the Government acknowledge the concern of Board Members about the Corporation taking on fresh financial commitments as an on-going concern, given their present forecasts and the expected cash availability. After considering the information Sir Charles has given me, I confirm that the position remains as set out in Sir Peter Carey's letter of 27 February, in particular, "that the Corporation is continuing to trade with the acquiescence of HMG" ... who would "in the last resort have to ensure that creditors of the Corporation had their claims fully met". BSC should continue to trade until the Government comes to a different view;

f however, I expect management to press on vigorously with the measures to save cash outlined by Sir Charles, particularly stock reductions and the disposal of assets, but also more effort to limit redundancy payments and to phase them over a period.

If you and the Chancellor agree to the above, we shall need to consider what should be said to Parliament. It is very important, in my view, that the position should be made public in a way that puts the blame fairly and squarely on the present management and the strike. My intention would be to inform Parliament, when Mr MacGregor takes over, ie on 30 June or 1 July, of Sir Charles' intimation to



me of BSC's estimated loss in 1980/81 and greatly increased cash requirements. I would go on to say that the Government were not satisfied that everything had been done to keep the cash requirement much closer to the EFL. We could not therefore agree to the financial expedients proposed by the Board to cover their cash deficiency [possible addition: Our resulting loss of confidence in the Board has led them to offer their collective resignation.] Any revised cash provision (which would require a winter supplementary vote) would have to await consultation with the new Chairman after he had had time to take stock. Meanwhile, we had authorised the BSC management to continue trading as an on-going concern subject to the measures at (f) above.

We shall then, in August or early September, need to consider the proposals that will be made by Mr MacGregor following his own review, in particular the need for an additional cash provision in 1980/81 (with a possible reversion to expedients such as sale and leaseback provided we are satisfied on other counts) and measures to bring capacity more into line with demand. This consideration could then serve as basis for legislation early in 1981 on the financial reconstruction of the Corporation, when their present borrowing power will run out and new legislation will anyhow be required.

KJ

I am copying this to the Chancellor, the Secretary of State for Employment, the Attorney General and Sir Robert Armstrong.

13 JUN 1960





Nat Inds

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LONDON SW1E 6RB

PA
(CF file)

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

PS / *Secretary of State for Industry*

ms

15 May 1980

Nick Sanders Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1

Dear Nick,

As I told you on the telephone, Mr MacGregor has told my Secretary of State that he is not yet in a position to accept or reject the Corporation's cash limit of £450 million for 1980/81. I
... attach a copy of a letter which my Secretary of State sent the the Chancellor yesterday which sets out the background more fully.

... I also attach a Supplementary Question and Answer brief for the Prime Minister.

*Yours ever,
Pete*

PETER STREDDER
Private Secretary



CONFIDENTIAL

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Secretary of State for Industry

14 May 1980

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Dear Geoff,

Ian MacGregor saw the officers of the Industry Committee today and told them that he could not say as yet whether he would be able to accept BSC's cash limit of £450 million. He subsequently told me the same thing but agreed that he understood the importance to the Government of the cash limit and that he would do everything possible to live within it. He went on to say that if pressed I could say that I had instructed him that the cash limit was of prime importance to the Government.

I am passing on this information to you because I may come under pressure in the Steel Debate tomorrow to state Mr MacGregor's attitude to the cash limit. If pressed, I may have to reveal that Mr MacGregor has as yet not accepted the cash limit, particularly since I told Jock Bruce-Gardyne at the meeting of the Industry Committee that Mr MacGregor had accepted the cash limit.

*Yours
Laird*

Copies to
Muns
Secretary
Mr Ridley
Mr Gross
Mrs Cohen
Mr Woodrow
Mr Murray

CONFIDENTIAL



- Q. Has Mr MacGregor accepted the cash limit of £450m?
- A. The Secretary of State for Industry told Mr MacGregor that the Government attaches prime importance to the maintenance of the £450m cash limit. Mr MacGregor has clearly not yet had time to assess the financial position himself.
- Q. What will the Government do if Mr MacGregor says he cannot manage within the cash limit?
- A. The question is hypothetical but the Secretary of State would want to discuss with Mr MacGregor the options, however unpalatable, by which BSC might stay within the cash limit eg. the disposal of assets, reduction in working capital and so on [^{the Government} And ~~he~~ would then need to take a view on these options.]

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Secretary of State for Industry

9 May 1980

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales
Welsh Office
Gwydyr House
Whitehall
LONDON
SW1A 2ER

R
M/S

Iron Mick.

Thank you for your letter of 28 April about Assisted Areas (AA) gradings in South Wales suggesting that, in view of the delay in the implementation of BSC's closure proposals and the approach of 1 August 1980, when down-gradings take effect, we should take a decision about changes in gradings on the basis of BSC's proposals.

I recognise that the delay in BSC's determination of the details of the run-down in employment adds a new difficulty, particularly as regards places which are to be down-graded on 1 August following last July's decisions. I also appreciate that there are grounds for arguing that a decision on AA gradings might be interpreted helpfully as conciliatory gesture by the trades unions. There are also disadvantages in downgrading areas if soon afterwards they were to be upgraded. On the other hand, there are powerful arguments in the other direction:

- (a) there is considerable opposition to next August's downgradings elsewhere than in South Wales - in Durham, West Cumbria, the Scottish Borders, Gwynedd, and Whitby to name a few examples - and while I accept in principle the probable need for a few modifications in South Wales, we must work on a basis which we can defend in relation to claims from other parts of the country;
- (b) any upgradings involve additional expenditure which we may find difficulty in providing;
- (c) a decision to act on the basis of BSC's proposals will expose us to pressure to act similarly in future when there may be considerable advantages, including advantages for South Wales, in a more measured approach, eg if a number of BL's plants in the West Midlands were to close;
- (d) the strike will delay for some time the advent of increased unemployment either in the steelworks or elsewhere;



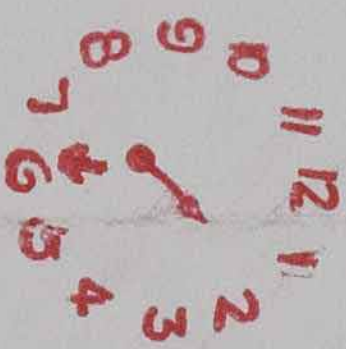
(e) I am not convinced that we should extend our consideration of revised gradings beyond Port Talbot, Newport, and, within the Pontypool 'Travel-to-Work' (TTWA) Area of Cwmbran. Cwmbran was unaffected by last July's decisions, as was the bulk of the Newport TTWA, including Llanwern; the difficulties resulting from a combination of the delay in determining the exact location etc of redundancies and the advent of the first round of downgradings on 1 August are largely confined to the Port Talbot TTWA.

We are nevertheless considering here the impact of BSC's delays on the case for upgrading part of South Wales, and I will write to you again as soon as I can.

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

E. Carr

Kear



12 MAY 1980

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PRIME MINISTER

STEEL STRIKE - LESSONS LEARNED

R
... 12/81

You asked us to prepare a paper summarising the lessons learned from the steel strike, so that we can apply those lessons in handling other public sector and nationalised industry disputes.

The paper is in four sections:

- SECTION 1: THE SEQUENCE OF EVENTS
- SECTION 2: BEWARE OF DRAWING THE WRONG CONCLUSIONS
- SECTION 3: THE MAIN LESSONS
- SECTION 4: SUGGESTED ACTION

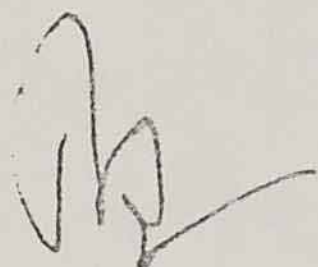
The lessons we have drawn from the strike may or may not be accepted by colleagues. What is certain, however, is that deliberate lesson-learning is essential.

We believe that the lessons learned point to the need for some fundamental rethinking on Government's posture and policy towards nationalised industries - and probably to public sector pay generally. Many colleagues and senior officials will have seen at first hand, during 1970-74, very similar problems with little evidence of learning from them or of developing a coherent and properly thought-out approach. It is worth reading chapters 7 and 8 of Douglas Hurd's book, "An End to Promises", (and there are probably other more comprehensive sources) which describes how nationalised industry and public sector pay began to dominate and eventually overwhelm Government policy, during those years.

Our general conclusions are that the strike was far from an unqualified "victory" for BSC or Government. This may seem disheartening after the determined and courageous stand which, by early January, Ministers had to take and were right to take. To have abandoned that stand could well have been disastrous. Intervention then would have taken us many steps back; but that is not the same as saying that refusal to intervene has, in the end, taken us many steps forward.

The aim of this note, therefore, is to provide an objective assessment and to remove any dangerous illusions. If it can do that, there is a better chance that we will get it right "next time", whenever that may be.

I am copying this minute, and the paper, to those directly concerned: that is, Geoffrey, Keith and Jim, and also to Robin Ibbs.



JOHN HOSKYNS

1. THE SEQUENCE OF EVENTS

1.1 It is important to distinguish between the two stages of the dispute - the first stage, before the strike; and the second stage, the strike itself. Each stage implied different objectives for the Government and provides different lessons.

1.2 The First Stage - Before the Strike

1.2.1 BSC's cash limit for 1980/81 was first set in June 1979. Since BSC were aiming for break-even by March 1980, the financial target for 1980/81 was: to operate at a profit, after providing for depreciation and interest charges. This target was announced in July 1979, and the Secretary of State for Industry announced at the same time that the Government would not fund operating losses, although the cash limit of £450m was not publicly announced. The cash limit was confirmed at Cabinet on 1 November, along with limits for many other nationalised industries.

1.2.2 Although there had been a sharp deterioration in BSC's market prospects since July, no change was made to the limit of £450m, nor to the requirement that Government funds should not be used to meet operating losses. An annex to the Cabinet Paper referred to an assumption of 5% pay award plus productivity, without discussing how this was to be achieved or whether it was realistic. Because the cash limit assumed that BSC would break even, it was not thought necessary to discuss the pay assumptions when the cash limit was first set. However, in confirming the NI cash limits, Cabinet did note the risk of strike action and subsequent breaches in some industries.

1.2.3 During the months preceding the pay offer, BSC had told the Department that all pay increases would need to be funded from productivity. The realism of this was not discussed collectively. The Secretary of State's minute to you (copied to E members) of 6 December, describing the 2% offer and the risk of strike action, was 3 days after the offer had been made, and one day before the ISTC reached their strike decision. At that stage,

(1. THE SEQUENCE OF EVENTS - contd.)

the Government's posture of non-intervention in nationalised industries made it seem natural that BSC management should be dealt with at arm's length and left to do whatever they thought fit.

1.2.4 As BSC's position deteriorated further, they prepared a package of larger closures and redundancies. BSC told the Secretary of State of their latest package on 28 November. Some BSC managers thought that this package, combined with a very tough line on pay, was unrealistic, but that Villiers was not prepared to admit that he could no longer live within the tough cash disciplines agreed before the latest deterioration.

1.2.5 BSC announced their large half-year losses and the abandonment of break-even by March 1980 on Thursday, 29 November. The next day, there were press reports that BSC saw need for 52,000 redundancies (ie 32,000 more than earlier announcements). Although the Secretary of State for Wales wanted the redundancies discussed collectively, this did not take place until 12 December - by which time BSC had announced (on 11 December) the location of the proposed 32,000 extra redundancies. It was agreed then that the Government should not intervene to slow down BSC's closure proposals or adjust its cash limit.

1.2.6 Between the pay offer of Monday, 3 December and the strike decision on Friday, the result of the NUM ballot was announced. Ministers welcomed the "moderation" shown by the miners in accepting 20% and rejecting their executive's call for a strike.

1.2.7 It is not surprising that the following events in quick succession seemed "too much" for a moderate ISTC leadership to accept:

- (a) Massive further redundancies, following much internal union debate about whether they could accept the shock of the Shotton and Corby closures, announced months earlier (the Labour Government had agreed the closure of Corby in February 1979).

(1. THE SEQUENCE OF EVENTS - contd.)

(b) 21½% for Ford workers; 20% for miners (viewed with general approval); inflation at 17½% and rising.

(c) 2% (consolidation) and local productivity deals only. The fact that these were to be negotiated locally is very significant. It meant that there was no role for the ISTC nationally and that there was no certainty about what could be obtained.

1.2.8 We understand that Len Murray had already concluded that the strike would either be lost or inflict great damage on other trade unionists; that he had no wish to see reminders of the previous winter in the media, especially while the Employment Bill was going through. He therefore made a determined effort to avoid the strike.

1.2.9 Sirs' statements during these events show that he felt his "manhood" and that of his union were being challenged by "insulting" treatment. It is worth having a look at some of his public statements (see Annex 2). These reveal his state of mind and also his complete inability - at least in public - to recognise that there was any connection between his members' wages and the economics of the steel industry in general and BSC in particular. It is also important to understand that this was a collision between perceived value systems (trade unions, fairness and justice, vs. Tory uncaring and economic) not simply a failure of understanding.

1.3 BSC and Government Objectives

1.3.1 BSC's objectives were very ambitious. It is in fact hard to believe that BSC management really thought that they would achieve a real cut in guaranteed pay together with agreement to the closure and redundancy programme. We suspected (our minute of 9 January) that they almost welcomed a strike since it would muddy the waters and obscure the fact that they had no hope of meeting their break-even target. Subsequent events suggest that there may have been something of this in their calculations. What is certain is that they very rapidly raised

their opening offer; and that the final settlement cost BSC more in losses and market share than a more generous offer followed by tough negotiation but no strike action would have done. It is a well-recognised fact that the opening positions, in most negotiations, are crucial in setting the pattern for what follows. Were they themselves initially determined to "win" a strike and thus weaken Sirs' leadership? This seems probable, since, despite Sirs' moderate position in general politics, he had been dragging his feet for many months on both closures and productivity in steel. BSC had the clear objective to force agreement on closures as well as on pay - even if this meant a lengthy strike. BSC management's objective was the acknowledgement of the need for change in pay and labour practices.

- 1.3.2 Government's objectives were not collectively discussed. This was not surprising because, at that stage, Government was treating the whole issue at arm's length. The Secretary of State's minute of 6 December implied objectives of demonstrating determination to curb inflation and public expenditure, and of making nationalised industries stand on their own feet. He stressed the importance of being willing to risk a strike and of winning public support if it came about. Either way, a tough line by BSC would encourage other employers. With hindsight - always easy - the Government may have been too ready to back BSC's judgment and its competence to handle the dispute properly. A different approach - that of influencing BSC's judgment about what was attainable first, and then backing it - was not discussed. If it had been, BSC would probably have demanded a price for modifying its stance - inter alia, an increase in the cash limit and the abandonment of the "no money for operating losses" policy. Once it had adopted a policy of non-intervention, the Government could have no objectives other than the hope that BSC would prove right in taking such a tough line. Government's own objectives emerged later (see 1.4.2 below).

(1. THE SEQUENCE OF EVENTS - contd.)

1.4 The Second Stage - the Strike Itself

1.4.1 Predictably, the mood changed rapidly, once the strike had started, with attitudes hardening, other unions climbing on board the bandwagon and undertones of a General Strike. Government quickly made its non-intervention position publicly explicit. By the end of the first week, it was quite clear that the Government had passed the point of no return and could not possibly intervene without suffering a very damaging loss of credibility.

1.4.2 From that point on, the Government's overriding objective was therefore to ensure - at almost any cost in the long term - that the strike eventually ended without the Government intervening with taxpayers' money. The Government was thus largely in the hands of British Steel management.

1.4.3 BSC soon reduced its own bargaining credibility by increasing its offer of "new money" well above its opening position, although this was done largely not to antagonise Mr Murray and the general unions, in the hope of thereby isolating Mr Sirs and pressurising him into agreement. BSC failed to ensure that Mr Murray "delivered the goods" - instead, he jacked them up, then lost control of Mr Sirs:

3 December	2% (consolidation)
21 December	5%
28 December	6%
7 January	8%
8 January	9%
10 January	10%

1.4.4 BSC formally proposed arbitration on 17 February. At that stage, they presumably reckoned that they could live with any additional award which arbitration might make. Unfortunately, this commitment was left on the table, even after the trade unions had rejected it. On the face of it, this appears an elementary error of giving something for nothing. It left the way open for the unions to suggest the Court of Enquiry in the end, knowing

(1. THE SEQUENCE OF EVENTS - contd.)

that it would be difficult for BSC to refuse. Although it would have been difficult to withdraw the arbitration offer once made (and repeated by both BSC and Government) it was an option which should have been considered. If their Procedure Agreements make this impossible, they should be revised.

- 1.4.5 After some early local publicity efforts, there was a long gap in which BSC did not put out further broadsheets or newspaper advertisements until the ninth week of the strike (contrast British Leyland's techniques). This was because they hoped the general unions could persuade ISTC and NUB to co-operate.
- 1.4.6 When BSC finally did the "ballot about a ballot", which seems to have been a well-judged idea, they took heavy risks, because it transpired that they had done no opinion research. The idea was based entirely on Scholey's mail bag (according to our sources in BSC) with the well-known dangers that a self-selecting sample of disgruntled strikers, who wanted to get back to work, might totally mislead management over its chances of winning that ballot.
- 1.4.7 In the end, with the strike clearly failing to cripple industry, and the strikers losing heart, the unions called for a Court of Enquiry as the face-saving way out. This ending - fraught with risk to BSC and thus Government - seemed not to have been anticipated by BSC. But BSC could not refuse such an Enquiry and probably could not even refuse to be bound by it, since they had not withdrawn their original offer of arbitration (referred to in 1.4.4 above) when the trade unions did not take it up. We do not know what BSC - or the Government - would have done if the Lever Enquiry had proposed, say, 21%.
- 1.4.8 Fortunately, the media interpreted the Court of Enquiry result as a defeat for the unions, so the Government's position was vindicated, as far as public opinion was concerned.
- 1.4.9 Annex 1 sets out the day-by-day events in date sequence.

2. BEWARE OF DRAWING THE WRONG CONCLUSIONS

2.1 It was not an Unqualified Victory for Government

2.1.1 There is no doubt that the end of the dispute was a "victory for Government" in the sense that the serious consequences of Government being forced to intervene, after all its protestations, were avoided. The Secretary of State's insistence, week after week, that there would be no more taxpayers' money must have had a considerable effect on public opinion and Government credibility.

2.1.2 It is also probable that the public came to understand some of the underlying realities - that BSC lost huge sums of money, with well-paid workers largely subsidised by other taxpayers, and that there was a thriving, growing, profitable, unsubsidised private steel sector - and that this would never have happened if the strike had not taken place or had been settled very quickly. It also highlighted the need for further reforms, through the Employment Bill, on secondary action.

2.1.3 } However, it is wrong to assume that we have necessarily done better by having the strike than by avoiding it. Tough diplomacy can be as effective as war, though it still requires nerve and skill. A modest settlement (though well above 2%) with BSC management and trade unions in agreement, might have been a better outcome, with as much educational effect and less economic damage. We only have to look at British Leyland to see what can be done. }

2.1.4 The real test is whether the result of the steel strike has had beneficial effects elsewhere. Government capitulation and intervention would certainly have "opened the floodgates" and that is why, once launched on the strike, it was imperative that the Government should keep its nerve. But we are not simply comparing capitulation with "toughing it out". We are comparing three different outcomes, not two:

- (i) Skilled negotiation at the early stages leading to a modest settlement without a strike and all the consequent damage to all the parties.

(2. BEWARE OF DRAWING THE WRONG CONCLUSIONS - contd.)

- (2.1.4 (ii) Letting the strike happen and the Government then losing
contd.) its nerve, which could have been disastrous.
- (iii) Letting the strike happen and Government standing firm, enormously preferable to (ii), but not necessarily to (i).

The test is the effect of outcome (iii) on union and management attitudes, especially in the private sector, as compared with (i). The truth of the matter is that the floodgates were partly open before the strike started, with the miners' 20%. Since then, we have Clegg on the teachers (admittedly outside our control) and British Rail's effective 20%, with more to come. In summary, therefore, we gained little, probably lost a good deal; but avoided losing everything.

2.2 Strong Nerves are not enough

2.2.1 We should be under no illusions about how badly the strike might have gone, from the Government's and the private sector's point of view:

- (1) If there had been greater union solidarity, especially among lorry drivers and dockers, we could have come under great pressure from the private sector to intervene.
- (2) No account seems to have been taken of the possible costs of lay-offs under the National Engineering Agreement and costs of redundancy pay among steel-users. It seems likely that this would have posed big problems if the steel unions had been really supported, especially by transport worker.
- (3) Sirs gave the country three weeks' notice of the strike, by predicting it on 3 December. This gave plenty of time for steel-users and stockholders to stockpile.

(2. BEWARE OF DRAWING THE WRONG CONCLUSIONS - contd.)

(2.2.1
contd.)

According to Taylor (Business Observer, 6 April) the steel workers had been working overtime, predictably, in the run-up to Christmas.

- (4) Most steel-using companies were already operating well below capacity and therefore carrying fairly high stocks when the dispute started.
- (5) BSC's own endurance might have given way first - eg if serious physical damage threatened their major plants because of the shut-down - probably in mid/late April.

3. THE MAIN LESSONS

3.1 The Government cannot totally disengage

3.1.1 There are many reasons why Government cannot maintain a completely non-interventionalist posture as regards nationalised industries, and why whatever form its intervention does take must follow from a properly thought-through posture which will vary from industry to industry. This is not to argue for a return to day-to-day interference in what must be matters for management. There is a difference between that, which is wholly undesirable, and the discussion of performance targets and involvement in strategic decisions by which they are achieved. Nor are we suggesting that the Government should appear to intervene once a strike begins. The handling of each industry will need to reflect its circumstances. Government involvement in the heavy loss-makers and the monopolies is likely to be greater than the others. Some of the reasons for involvement are:

- Government is in the end standing behind whatever losses and cash limit overruns may occur. This means that, however hard one tries, the relationship can never be the same as that between Government and a private sector company which it does not own.
- Where a nationalised industry would be bankrupt without this Government backing, it - not the management or the customer - is seen as the source of pay and pay increases.

(3. THE MAIN LESSONS - contd.)

(3.1 -
contd.)

It follows that unions in such nationalised industries will look at (Government's) pay awards in other nationalised industries as "comparators"; and their own settlement will become a comparator in turn for other nationalised industries.

- Where the industry is exposed to real competition, the Government has to be clear whether it will let that industry succumb to such competition and if necessary go out of business altogether or not. In BSC's case, the Government could not technically make BSC bankrupt and had de facto decided that it would not do so (otherwise it would already have been closed down).

- The whole bargaining process in such an industry is therefore carried out within an environment of economic unreality. Where, unlike BSC, such an industry has a monopoly or partial monopoly position, the Government cannot stand back and let management increase prices as the way out of every pay bargaining (or other) problem.

- If such an industry is in a position to halt or disrupt the economy as a whole (either on its own or given sufficient sympathetic action) then the Government may, in the end, be involved, whether it likes it or not. It is therefore involved from the beginning, whether it likes it or not.

- If Government wants such an industry to act uncommercially for political or pay restraint reasons, then it must be clear as to who foots the bill. In part at least, BSC was acting effectively as an agent of Government (even though unwittingly in this case) under the pressure of "no more money from the taxpayer", knowing that whatever damage it suffered would in the end have to be made up by the taxpayer, despite the Government's determination not to increase funds for BSC.

(3. THE MAIN LESSONS - contd.)

(3.1.1 - Nationalised industry management are in the same position
cc d.) as individual trade union leaders. They cannot take unilateral action to break the inflationary spiral. They have no option but to accommodate to the pressures of the system as a whole. If the system as a whole is approximately indexing pay and indexing prices, that is what they will have to do. If the exchange rate doesn't take the strain and so imports and exports are affected, that is too bad. They simply have to face that problem later. This is explicitly the case, where they have been told to act at arm's length because they are not the Government's agents. We cannot then expect them to behave as if they are. In BSC's case (for special reasons, suggested in 1.3.1 above) they did appear to act as Government's agents, but ended up much higher than their original offer and a great deal worse off.

3.1.2 Nationalised industries differ in many ways and different approaches must be developed for handling them. But taken as a whole, they have some distinct characteristics. In total they account for 7% of the country's work force and 10% of net output; they tend towards monopoly positions (though not BSC) and are in turn themselves to a large extent "owned" by their resident labour monopolies - the trade unions involved; there are few real sanctions against poor performance so their performance tends to be poor; this leads to operating losses which have to be made good; and investment programmes which therefore often have to be delayed with further adverse consequences.

3.2 Unions do not always co-operate with each other

In BSC's case, the attitude of the ISTC and the NUB was very different from that of the general unions (T&GW, GMU, NCCC) because of their other grievances, so TGWU support was not whole-hearted. The Government successfully avoided aggravating any sense of grievance among steel workers and their allies which could have led to more effective secondary action.

3. THE MAIN LESSONS - contd.)

Negotiating is a Skilled Business

Negotiating requires formal training, clear-thinking and considerable preparatory effort. Management and Government have less time to think about negotiating than unions, for whose leaders and officials it is a major part of their job. It is no good thinking that management (or Government) can "make it up as they go along". If they drift into major strikes with neither objectives nor strategy, they will need to be very lucky to come out of them in one piece.

Communications are Important

Trade unions tend to monopolise the media channels during major strikes. Management (private and public sector) are often reluctant to appear on television and state their case - or at least until it is often too late to sway public opinion. In BSC's case, they were not so much reluctant as ineffective, at first. But it is not possible to communicate effectively except as part of a properly thought-out negotiating strategy.

Major strikes provide valuable opportunities for Government to communicate and to educate the public about economic realities, but this again requires absolute clarity about the Government's position and knowledge of management's negotiating plans.

We believe that a Ministerial broadcast could have been made early on in the steel strike in order to establish the criteria by which the public judged the actions of management and unions, and the inaction of Government. Ensuring that such a broadcast is not seen as intervention in the dispute is very simple; the explicit subject of the broadcast would be "why we are not intervening in this dispute" and its tone and content would be factual, above the battle, clarifying the real issues involved. But where a real battle for public understanding has to be won, it will be necessary to set up a full-time team for that task. The necessary work will never be done by people who have other and more pressing responsibilities.

- 3.4 We have asked CRD to check, in their opinion research, whether the public learnt anything useful about BSC, nationalised industries and the private sector steel companies during the strike.

3.5 Redundancy Payments should be kept outside the Cash Limits

If redundancy payments must themselves be made within cash limits, a Catch-22 situation exists where those limits prevent management from responding to excessive demands by requiring greater redundancies. This happened with the NCB-NUM negotiations last autumn. The Nationalised Industries Chairmen have cited this danger in their argument for a more flexible approach to annual cash limits.

4. SUGGESTED ACTION

4.1 A Coherent Government Posture must be worked out

4.1.1 This is a big job. NIP reports to E(NF) next week on the system of financial control for the nationalised industries. Further work needs to be done to establish a clear Government position on pricing, where market monopoly power exists; privatisation and the breaking of monopoly power; political and physical contingency planning for major strikes; management/Government negotiating partnerships, perhaps even a negotiating "handbook"; sustained public communications on the reality of nationalised industry economic performance and its burden on the taxpayer, in order to set the mood of public opinion for the next pay round; the scope for no-strike agreements in certain industries.

4.1.2 We suggest that a further inter-departmental study - possibly led by CPRS - of this whole area and its implications for the Government's political philosophy and economic strategy is needed. Above all, we must recognise the variety among nationalised industries. What is right for one will not be right for another.

Ministers are due to consider their approach to public sector pay on 19 May. Nationalised industry performance and public sector pay seem to us to be central to the Government's strategy. At the moment, the Government's thinking on all these things is far from clear.

4.2 We have to Choose between Proper Procedures or more Nasty Surprises

4.2.1 Once this study is complete, there will be a need for clear Cabinet and Committee procedures. For example, E Committee in September decided that sponsoring Ministers should be consulted before major pay offers were made by their nationalised industries. But there is no requirement that sponsoring Ministers should also consult their colleagues - a serious gap in the present arrangements.

4.2.2 One result of the work in hand and further studies may well be a more consistent and systematic approach to the setting of financial targets and cash limits, recognising the different circumstances of each industry. This has its parallel in the setting of budgets and targets, even in independent companies exposed to the full disciplines of the market. There is always some element of game-playing involved, in which managers negotiate for targets which they know they can easily beat, and the managing director learns gradually to calibrate and judge the degree of caution or recklessness, optimism or pessimism in each of the profit centre or functional managers who report to him.

4.2.3 A fuller discussion on the cash limits set for each industry than was possible at Cabinet on 1 November seems essential. How many colleagues realised that the BSC cash limit had been first determined in June and that there had been a sharp deterioration since - but without any revision to the limit? It is also doubtful whether colleagues had much idea of the size of the BSC redundancy package then looming.

(4. SUGGESTED ACTION - contd.)

4.2 Nationalised Industry Management must learn how to get it right

4.3.1 It may be worth considering some kind of "teach-in" for the management of major nationalised industries to get together to ensure that future pay negotiations are designed to achieve the right objectives; and that those negotiations are then conducted with professional competence. A comparison of experience in these negotiations in the different nationalised industries could throw up valuable lessons for improving performance.

4.3.2 Nationalised industries should also be continuously monitoring (at least every six months, and weekly or fortnightly during a major strike) the opinions of their work force. They should be at least as well-informed - not difficult, to judge by experience - as union negotiators about the mood of the men at the times when it matters. We have the impression, though we may be wrong, that this simple precaution has never been taken.

4.3.3 There will be many other tasks, but we won't know what they are until the Government is absolutely clear about its relationship with, and policies for, the different nationalised industries (as sketched out in 3.1.1 above).

Monday, 19/11 ISTC Shotton members accept closure.

Thursday, 22/11 BSC announces further 2,300 redundancies at Port Talbot. Sirs reaffirms opposition to Corby closure.

Wednesday, 28/11 Ford workers vote to accept 21½%.

Thursday, 29/11 BSC announces £146m half-year loss; abandons break-even target for March 1980; predicts need for more job cuts.

Friday, 30/11 Scholey presents options to ISTC for redundancies of 52,000 (ie 32,000 more than earlier announcements).

Monday, 3/12 BSC tells ISTC it is bust, offers 2% consolidation and local self-financial productivity deals. Sirs predicts strike.

Wednesday, 5/12 NUB rejects call for strike over Corby closure.

Wednesday, 5/12 Miners ballot accepts 20% offer. Ministers and press welcome "moderation".

Friday, 7/12 ISTC calls national strike over pay. Sirs says members not prepared to accept less than miners.

Monday, 10/12 Corby steel workers accept closure.

Tuesday, 11/12 BSC announces location of 52,000 redundancies.

Saturday, 15/12 KJ meets TUC and rejects changes in redundancy plans or financial discipline. Strike not discussed.

Friday, 21/12 BSC increase offer to 5% in return for suspending guaranteed work system. Rejected by unions. NUB give notice to strike.

Friday, 28/12

BSC adds another 1% notionally.

Wednesday, 2/1

Strike begins.

Friday, 4/1

T&GWU join strike.

Monday, 7/1

Len Murray and Sirs ask for 8% plus 5% "on account" for local productivity. BSC offers 8% plus 4% in advance for one quarter.

Tuesday, 8/1

Negotiations collapse on 9% plus 4%. GMWU join strike.

Wednesday, 9/1

NCCC join strike.

Sunday, 10/2

Craft union leaders accept outline 10% plus 4%.

Thursday, 14/2

Craft and general union rank and file reject 10% plus 4%.

Sunday, 17/2

BSC formally proposes arbitration; ISTC and NUB reject it.

Friday, 22/2

ISTC and NUB ask for 15% plus guaranteed 5%.

Wednesday, 5/3

Joint union claim drawn up for 14% plus 5%.

Wednesday, 12/3

Talks collapse after 3 days. BSC repeats 10% plus 4% final offer.

Monday, 31/3

Committee of Enquiry recommends 11% plus 4.5% (equals 16% compound).

Source: Press Cuttings

QUOTES FROM BILL SIRS

1. 22 November on extra 2,300 redundancies at Port Talbot:

"I am absolutely confounded".

2. 30 November on announcement of 52,000 redundancies:

"They are trying to trample our people into the dust. This all stems from Keith Joseph's dictum that he will not fund revenue losses. I said I would not be going to him so that he can make a monkey out of us. Where I come from they hang them."

"Perhaps they will believe me now. With a united framework among the unions, we can stop Sir Keith Joseph and the Steel Board in their tracks."

3. 3 December after the 2% offer:

"Our members are livid, and they are not prepared to accept. They have reached the stage now where - regardless of what happens to the industry - they are not going to accept this sort of offer which they regard as highly insulting."

"It is a miserable, ridiculous offer. They are making us an offer which is trying to make us look small."

4. Hector Smith on 4 December:

"They have offered the miners 20% and us 2% just because they say that they can increase the price of coal and can't increase the price of steel. The people of Britain have to realise that iron and steel is a basic industry just like coal and vitally important to the nation."

5. 7 December:

"Steel workers operate in difficult and dangerous conditions, and are not prepared to accept a lower level of settlement than miners."

6. 9 December:

"Our members say we must take a last stand on this and show our manhood. Villiers is trying to frighten them, but he won't frighten them any longer."



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Adam Butler MP
Minister of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1

6 May 1980

R
4/5

Dear Adam,

INCREASE IN THE BRITISH STEEL CORPORATION'S STATUTORY BORROWING LIMIT

Thank you for your letter of 29 April. We have since been in touch on the telephone about the situation created by Parliamentary developments over the new Chairman's salary.

I agree that an Order increasing the borrowing Limit by the full permitted amount should be laid as you propose, with whatever acceleration in the time-table you think necessary in view of the latest Parliamentary developments. Frankly I believe it will be very difficult to put the Government's case convincingly, especially in the light of what we now know about the seriousness of BSC's current financial position. But I agree that we must try to steer discussion away, as far as possible, from the £450 million EFL, and that insofar as you are pressed on that, you must hold the line you propose.

I agree that a financial reconstruction of BSC will be needed at some stage. But I think that we should avoid committing ourselves on the likely size and timing of the capital write-off that will be involved, until we have considered properly justified proposals. After all, some unprecedentedly large sums are likely to be involved.

Finally, I agree with you (your private secretary's letter of 1 May) that, in the interest of propriety, Keith Joseph will need to inform Parliament in the borrowing powers Debate that BSC will not be able to fulfil the assurance (which we inherited from our predecessors) that all new capital subscribed from 1st April 1978 would be properly remunerated by dividends after a capital reconstruction. This will amount to saying that at least some of the future Section 18 advances will be written off. My agreement in para 2 above to your laying the Order is of course based on the assumption that the revocation of this assurance does not create any legal problems about using the Section 18 powers.

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

John Biffen
JOHN BIFFEN



6 MAY 1960
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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Nicholas Edwards TD MP
 Secretary of State
 Welsh Office
 Gwydyr House
 Whitehall
 London SW1A 2ER

6 May 1980

Dear Nick,

RJ/S

ASSISTED AREA GRADINGS IN SOUTH WALES

Geoffrey Howe has asked me to reply to your letter of 28 April to Keith Joseph about changes in gradings in South Wales resulting from steel rundowns.

I recognise your point about uncertainty. But it seems to me that this is an inevitable consequence of the delay caused by the steel strike. I would see the strongest objection to making changes in Assisted Area status based on BSC proposals. I think that this would set a damaging precedent, which we were careful to avoid both with Shotton and with Corby. In my view we must continue to concentrate regional assistance on the areas with the greatest need for new jobs, and confine changes in the boundaries announced last July by Keith Joseph to firm decisions which will have a major effect on the level of unemployment. Incidentally this must raise a major query about your reference to Swansea. If we are to justify any changes in South Wales as a result of steel rundowns the case must be so strong that it will not create repercussive pressures elsewhere.

The BSC timetable suggests to me that it may be several months before we can take firm decisions on gradings at Port Talbot and Newport. Meanwhile I am content that your officials should handle cases in this transitional period on the basis of a recent case at Bridgend, whose future grading is at present uncertain. The solution was to settle a maximum figure for the offer (to Sony Trinitron) which would consist entirely of selective assistance if Bridgend is downgraded but would contain an element of regional development grant if the downgrading is reversed. Either way Sony can be assured of an incentive of £1.2 million, and your officials assured mine that there was no public expenditure problem because the Welsh Office could find the whole £1.2 million if it all fell on your Votes. I would be content that officials should operate the new selective guidelines flexibly in these difficult transitional cases.

CONFIDENTIAL

Meanwhile we must remain acutely aware of the public expenditure aspects of upgradings. You will remember from my letter of 7 March to Keith Joseph that I shall expect the Department of Industry and the Welsh Office to accommodate the costs of any upgradings which may be agreed for parts of South Wales (and Scunthorpe) within your Cmnd 7841 allocations.

I am sending copies of this letter to members of Cabinet and E Committee, and also to Sir Robert Armstrong.

Yours
John Biffen

JOHN BIFFEN

1981 MAY 19 11 21 AM
FBI - NEW YORK



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PS/ Secretary of State for Industry

1 May 1980

Nick Sanders Esq
 Private Secretary to the
 Prime Minister
 10 Downing Street
 London SW1

FOR HOW LONG DOES
 THIS APPOINTMENT
 LAST?

Dear Nick,

... I attach a copy of a draft of the statement which my Secretary of State intends to make this afternoon about the BSC chairman.

I am copying this letter to the private secretaries to the Chancellor, the Secretaries of State for Employment, Scotland and Wales, the Chancellor of the Duchy, the Paymaster General, the Chief Whip and the Minister of State, Civil Service Department.

Yours ever,
 Pete

PETER STREDDER
 Private Secretary



DRAFT PARLIAMENTARY STATEMENT:
CHAIRMAN OF BRITISH STEEL CORPORATION

Sir Charles Villiers, whose term of office ends in September, has tackled the difficult task of adapting BSC to changing market conditions with energy and dedication. I am glad to pay tribute to his work and to express our appreciation of it. As his successor I have appointed Mr Ian MacGregor. He will tomorrow join the BSC Board as a part-time Deputy Chairman. Sir Charles Villiers and I are agreed that, now that a successor has been appointed, it would be best if he were to take on the job as Chairman with the minimum of delay. Mr MacGregor will therefore become Chairman on a full-time basis on 1 July.

Mr MacGregor was born in Scotland but has spent most of his working life in America where he has had an outstandingly successful business career. He was Chief Executive of AMAX, the metals and natural resources company, from 1966 to 1977 and remains on that Board. He has many other appointments, including Deputy Chairman of BL, Director of the LTV Corporation, a large steel producer, and a partnership in Lazard Freres and Company, a New York based investment bank.

In Mr MacGregor I believe that we have found a man with the qualities needed to lead BSC out of its present difficulties. Mr MacGregor's personal salary will be paid by BSC at the appropriate rate based on the recommendations of the Review Body on Top Salaries - currently £48,500 a year.

/Mr ...



Mr MacGregor has commitments as a senior partner to Lazard Freres, but they have agreed to release him in return for certain financial conditions. These conditions comprise two elements: the first is a payment to Lazard Freres of £675,000 for the three years of the appointment, two thirds of which will be returnable pro rata if he completes less than three years; the second involves payments, again to Lazard Freres, in the range of nil to £1,150,000, linked to the performance of BSC under Mr MacGregor's Chairmanship. These performance payments would be made in 1984 and 1985 and would be related to certain performance criteria to be agreed between the Department of Industry and Lazards. The level of the performance payments will be assessed by a performance review committee, comprising 2 persons nominated by me, 2 persons by Lazards, with an independent chairman acceptable to both.

During the period of his appointment, Mr MacGregor will cease to be an active partner in Lazard Freres but will become a limited partner with a reduced interest in the firm. On taking the post of Chairman of BSC he will relinquish most of his current directorships, including that of BL, but I have agreed that he should continue his long standing links with AMAX.

I should make it clear that the payments to Lazard Freres which I have described are not for payment, in whole or in part, to Mr MacGregor except insofar as they contribute to Lazard Freres' profits, in which he retains a small share. Their purpose is to compensate Lazard Freres for losing the business services of Mr MacGregor. I should also emphasise that they are substantially conditional on his serving for the full three years and achieving results.

/We ...



We have been prepared to secure the release of Mr MacGregor because the willingness of a man of his calibre to be Chairman of BSC reflects our belief that the current problems can be solved, the Corporation restored to profitability as an efficient producer of steel and become a secure employer. For the Government to set financial targets is not enough: We must also seek to appoint people capable of achieving those targets. In appointing Mr MacGregor, that is what I believe that I have done and I am sure that the whole House will wish him success in his difficult task at BSC.



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From the
Minister of State's office

Alastair Pirie Esq
Private Secretary to
The Chief Secretary
HM Treasury
Parliament Street
SW1

12

1/5

1 May 1980

Dear Alastair,

INCREASE IN THE BRITISH STEEL CORPORATION'S STATUTORY BORROWING
LIMIT

TPM

Mr Butler's letter of 29 April to the Chief Secretary should have included before the penultimate paragraph the following additional paragraph:

"The White Paper also said that as from 1 April 1978 BSC would be financed by subscription of capital under section 18(1) of the Act, on which dividends would be required after a capital reconstruction. The further deterioration in BSC's trading (exacerbated by the strike) makes it inconceivable that all of the £1,835m so far provided could be adequately remunerated after a reconstruction so some of it will have to be written off too. In the interests of propriety, Keith Joseph will need to inform Parliament of this and it would be appropriate to do so when introducing this financial Order. It will, of course, add to our difficulties in getting this through but there is no real alternative."

I understand that your officials are already aware of the content of this paragraph and I apologise for its omission.

I am copying this letter to the Private Secretaries to the recipients of the earlier letter.

Yours sincerely,

Jonathan Hudson

JONATHAN HUDSON
PRIVATE SECRETARY

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- 1 MAY 1980

Nat Inds

2/2/80



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01-233 6106 (Llinell Union)

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
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01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

30 April 1980

De Keir

R 3/4

BSC

Thank you for your letter of 22 April. I have no objection to your showing my paper to the new chairman when he is appointed. My main concern is that early consideration should be given, whether it is by colleagues or the new chairman, to BSC's future organisation and management systems. Without changes, I am convinced that poor performances, low morale and mounting losses will continue to be the order of the day; and I for one shall be very disappointed indeed - as my paper makes clear - if the new chairman, whoever he may be, is content to continue with the present set-up.

/ I am sending a copy of this letter to the Prime Minister.

James Jones

Nick

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
London SW1



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30 APR 1980

CONFIDENTIAL

PS/PM

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From the
Minister of State

The Hon Adam Butler MP

The Rt Hon John Biffen MP
Chief Secretary
H M Treasury
Parliament Street
London SW1

29 April 1980

Prime Minister

*MBM - Mr already aware of
this is given
turn
R 6/5*

Dear John.

INCREASE IN THE BRITISH STEEL CORPORATION'S STATUTORY BORROWING LIMIT

We need to seek Parliamentary approval for an increase in BSC's borrowing limit very soon, and I am writing to ask your agreement to this. Under the Iron and Steel (Amendment) Act 1978, the Corporation's borrowing limit currently stands at £4,750m and this can be increased to £5,500m by Order subject to affirmative resolution. Borrowing against the limit currently stands at about £4,450m and BSC have asked for another £100m over the next 2 weeks. They will therefore be uncomfortably close to the limit by the end of May. I would propose to seek the full permitted increase of £750m since we need to have a margin available before a Bill to carry out a financial reconstruction, which we propose for the 1980/81 Session, could become law (see below). An increase limited only to the amount necessary to give effect to the £450m cash limit (say £250m) could leave us in the embarrassing position of having to seek another order well before we were able to present a Bill. An increase of more than this but less than the full £750m might be taken as an indication of some changed EFL figure.

I have delayed this letter in the hope that I would be able to give you a clearer idea of what is happening at the Corporation, and of the line that we intend to take in the debate. In normal circumstances, we would not have allowed the Corporation to run so close to the current limit before taking action, but we were particularly anxious not to bring the Order forward while the strike was on. It would be best to debate the Order very shortly after the announcement of the appointment of a new Chairman; this should help presentationally. Depending on when the announcement can be made, we would hope to introduce the Order in the week of 12 May, or if necessary the 19th.

/ ... We also have



We also have problems over what can be said about the Corporation's finances. When the 1978 Bill to increase BSC's borrowing limit was debated, we (then in Opposition) strongly urged the Corporation to produce a full prospectus before any further increase was sought and they undertook to do so. However, because of the strike, BSC will not even be able to produce an Annual Operating Plan for 1980/81 until the end of June, and any document would be very thin without these figures. The Corporation did in fact produce a draft for us, which was withdrawn after consideration by the full Board, because there was so little definite that could be said without figures.

We therefore plan to tell Parliament that a meaningful Prospectus is simply not practical now but that the new Chairman has been asked to carry out a review of BSC's financial and commercial prospects, and to promise at least an interim statement by Keith Joseph. In principle, it would be better to make a statement before the summer recess. In practice the Report and Accounts for 1979/80 will not be published until 8 September, because of the dislocation caused by the strike to BSC's financial reporting systems. In view of this it would be best to wait until October to make a statement. But there may be great Parliamentary pressure for a statement before the end of the summer session. We may have to offer a holding statement at the end of July, recognising that this gives the new Chairman (who only takes over on 1 July) very little time.

BSC now estimate that the loss for 1979/80 will be about £450m, £125m worse than the last estimate before the strike. They only expect to have an informed view of the effect of the strike on their markets and on their ability to carry through the retrenchment plans when they complete the Annual Operating Plan at about the end of June. They have made some provisional financial assessments for 1980/81 based on best, worse and middle case. Even the best case forecasts a large loss, with the EFL being exceeded by a substantial margin; the worst case points to a quite horrific excess.

We have made it clear to the Corporation that working to a predicted excess over the EFL is simply not acceptable at this stage. It is now pretty clear that BSC will make a substantial loss in 1980/81, but we have reiterated to Sir Charles that BSC must find a way of financing such a loss, and their cash needs in excess of the £450m, from within their own resources. Some Board Members have themselves asked for a paper setting out options that would enable BSC to stay within their £450m EFL, however unacceptable such options might then be either to the Board or to Government. I do not yet know whether a paper on these lines will be produced but the Board may nevertheless decide at their meeting on 1 May formally to notify Keith Joseph that the Corporation will not be able to operate within its £450m cash limit. If this happens, we shall not accept such a submission and tell the Corporation it must submit a plan which allows them to keep within the cash limit. In the Debate, we would acknowledge that we had received this report from BSC, that it was unacceptable, and that we would await the outcome of the review by the new Chairman.

/ ... The increas



The increase in the borrowing power is necessary at this time because we have not been able to carry out a reconstruction of BSC's capital. The White Paper of March 1978 "BSC: the road to viability" (Cmnd 7149) said that a reconstruction of BSC's capital would be necessary in the future. My officials have agreed with yours that a reconstruction ought to be postponed until there is some clear prospect of BSC returning to profit (so as to avoid the need for another reconstruction later on) and the present management have so far been reconciled to this though they have proposed to write down the physical assets of the Corporation by roughly £1 billion in the forthcoming Accounts for 1979/80. We are still awaiting their detailed justification for this proposal. However, we may well have to do a financial reconstruction for the new Chairman, and we have reserved Parliamentary time for a Bill in the 1980/81 session.

If you can agree, I would like to apply to Parliament in mid-May for an Order under the Iron and Steel (Amendment) Act 1978 to increase the British Steel Corporation's borrowing limit to £5,500m. We have provisionally reserved Parliamentary time to debate such an Order in the week of 12 May and in the week of 19 May.

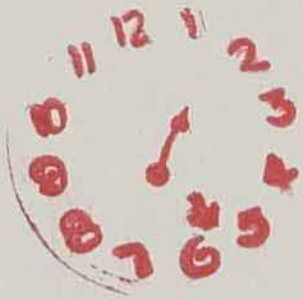
I am copying this to the Prime Minister, Norman St John Stevas, George Younger, Nicholas Edwards and Sir Robert Armstrong.

Yours as

Adam.

ADAM BUTLER

30 APR 1980



Nat Ind.

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01-233 6106 (Llinell Union)



WELSH OFFICE
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Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

CONFIDENTIAL

28 April 1980

De Keite

R. 28/4

You wrote to me on 14 April about the changes required in the Assisted Area (AA) gradings in South Wales.

BSC have now announced that following the settlement of the strike they have revised the timetable for reaching agreement with the Unions on the question of the rundown in employment. They are now aiming for agreement by the end of June, with the rundown occurring in the second half of the year. They may not get within the revised time scale. If the BSC are to contain their losses they may be forced to impose a decision. Clearly that could not happen before July. If our own decisions on AA gradings are not to be taken until after that it means that uncertainty about the status of the affected areas will continue until late summer/early autumn.

This uncertainty is having a serious effect on the work of my Industry Department in seeking to attract alternative jobs to the areas concerned - especially the Port Talbot and Swansea TTWAs. At present, at least half a dozen important projects are in the pipeline. In all, they promise over 2,500 jobs, mainly for Port Talbot. They could not be secured on the basis of the 1979 decision to downgrade both areas to Intermediate Area. But my officials are confident that they can be secured - and secured quickly - given SDA status for Port Talbot and continued DA status for Swansea. I need hardly tell you of the major boost there would be to morale in these areas if these projects could be clinched and announced: and of the severe criticism that would arise if they were lost because we had not announced any decisions.

/I should like

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
London SW1



I should like to press, therefore, for decisions on gradings to be taken without delay on the basis of the BSC proposals. As a safeguard, however, we should make it plain that the decisions would be conditional upon the proposals being agreed - indeed, would not take effect until there was agreement. I believe that such a course of action would, in fact, help towards an agreement. This would certainly help us to secure the projects I have mentioned and others that may come along. It would also show the local authorities and trades union leaders that the Government will act to help the closure areas through regional policy as well as the remedial measures I have announced, and that any failure to meet the BSC's timetable will merely serve to delay the arrival of alternative employment.

I hope you will agree with me, therefore, that early action should now be taken to conclude our consideration of this matter.

I am copying this letter to members of the Cabinet and of E Committee, and also to Sir Robert Armstrong.

We really do have a class of un-
less projects if we act - it would be
a fearful blunder if we missed the

James

Neil

28 APR 1980



DEPARTMENT OF INDUSTRY
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Secretary of State for Industry

22 April 1980

Rt Hon Nicholas Edwards MP
 Secretary of State for Wales
 Welsh Office
 Gwydyr House
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 London SW1A 2ER

MBM
 R
 25/4

Gen Mill.

Thank you for your letter of 14 April enclosing a paper about the future organisation and structure of the BSC, which I have read with great interest. The present arrangements are patently less than ideal, and some changes will probably be necessary. But this is one of the many issues which a new Chairman of the BSC will want to consider. So, if you agree, I should like to let a new Chairman have a copy of your paper when we have been able to appoint him, rather than begin a debate with colleagues at this stage.

I am sending a copy of this letter to the Prime Minister.

Kevin
Keir

Nat Inds

The British National Oil Corporation

Stornoway House Cleveland Row St James's London SW1A 1DH 01-839 7080 Telex: 919474

PERSONAL & CONFIDENTIAL

15th April, 1980.

Sir Peter Carey, KCB
Permanent Secretary,
Department of Industry,
Ashdown House,
123 Victoria Street,
London. SW1.

*cc Mr Walker
Mr Hodgson*

Dear Sir Peter,

I can well believe you have received more ideas about the future of the BSC than you care to file. I have now been on that Board for a year and for five months have been agitating for restructuring. The attached memo summarises and brings up-to-date what I have been saying and, I suppose, might be said to be for the record. I have said all this to Charles Villiers and I am copying this paper to my Board colleagues Solly Gross and Nick Monck.

Yours sincerely,

Alastair Morton

*AM
24/4*

b.c: N. Monck, H.M. Treasury
S. Gross, Dept. of Industry
T. Lankester, 10 Downing St. SW1.

THE BRITISH STEEL CORPORATION

A Case for Restructuring Now

1. BACKGROUND

- 1.1 The evolution of the strike has reinforced, if anything, the position late in 1979 taken by certain outside non-executive Members of the BSC Board. We never denied the need for a minimal wage settlement, with maximum provision for productivity, nor the need for slimming down by at least 40,000 workers (post Corby and Shotton) to an economically manned 15m t.p.a. capacity. We insisted, however, that the fundamental and urgent strategic need was to recognise the financial unviability of the BSC, and to restructure accordingly.
- 1.2 Since the strike began, we have kept pressure on the executive management - a Finance Committee has been formed (but is barely operational), plans for restructuring have been studied by management and, small victory, the Board Minutes now record our certainty that it is not possible to preserve a viable BSC if enough current and fixed assets are sold off (i.e. £½ billion) to keep within a 1980/81 cash limit of £450 million.
- 1.3 When the Secretary of State for Industry lunched at the BSC in late summer 1979 he was asked if he required the BSC to break even at the bottom of the imminent recession or part way up the subsequent recovery. He may or may not have agreed there was an imminent recession (for UK steel it began in September 1979) but he ducked the question. The question is twice as significant now that Britain is in recession, the pound is still strong and the strike has established communication between foreign sources and many UK users.

2. PROPOSITIONS

- 2.1 The present BSC will need something like £1 billion cash infusion in 1980/81 even if the slimming-down is achieved in the second half. Asset sales and reductions in capital expenditure and in working capital can reduce that by £200 million without factoring debtors, double that with non-recourse factoring (which probably qualifies to reduce PSBR, but that is just another comment on PSBR definitions).

- 2.11 The sale of saleable assets must be questioned if we wish to make steel in future in Britain - viability lies towards the UK users, not away from them behind a cordon of independent or foreign-owned processors (e.g. coating of strip), free to use foreign steel.
- 2.12 Similarly the further reduction of key capital expenditure must be questioned if steel is to be made in Britain after 1982.
- 2.13 The achievement of BSC's 15m t.p.a. programme in 1980/81 has been put further in doubt by the strike. Among other effects, industry-wide and national negotiations between all unions and central management will now be very difficult and possibly ineffective.
- 2.14 Over £400 million of the £1 billion will be redundancy pay. The merit of castrating a business to pay off its surplus workforce is not apparent to many.
- 2.2 Starting from a hopelessly wrong industry forecast of steel demand (34m tons!), we have arrived by way of an indefensible "Beswick" programme, clumsy centralised management, low productivity, high energy costs, a high pound and general Anglo/European recession at Point Non Plus. The BSC cannot and should not continue in its present form.
- 2.3 This summer HMG must introduce a new Chairman. His remit should be to reshape the state sector of the steel industry, plus GKN's steel group, into two, three or four on-going entities - some or all capable of private sector investment - and to close down or sell off the rest.
- 2.3.1 GKN's steel business must be included because it is obvious that Consett, Scunthorpe, Rotherham and GKN overlap heavily and represent far more capacity than there will be demand. It ought to be possible to keep GKN involved post-rationalisation.
- 2.3.2 The closure of steelmaking etc. at Corby and Shotton, the slimdown of South Wales and the rationalisation, with closures, in 2.3.1 will be a heavy charge on public funds, aggravated by historic interest charges, and should not be shouldered by the ongoing entities.
-

- 2.3.3 Accounting changes discussed recently (notably reduced depreciation charges) should be settled at the same time. If viable, the new entities need larger depreciation charges in view of technological change.
- 2.4 A "British Steel Holdings and Realisations Company Limited", say "B-SHARC", will be a lossmaker (see 2.3.2. above) but should have a limited life (to 31.3.82). It probably would have one subsidiary for definite sales (BSC Chemicals and BSC International), another for rationalisation cases (South Wales, the billet/bar/rod complex) hoping to graduate to on-going entities and two to four on-going companies with management, capital structure, tied supplies and businesses defined as early as possible. B-SHARC would not manage operations - each entity would have a Chief Operating Officer. Finally B-SHARC will segregate redundancy and closure costs from operating losses, and pass the former direct to Government.
- 2.5 With or without legislation, perhaps after a single conference with the unions, B-SHARC should come into being under a new Chairman on 1.7.80. Its staff of under 50 should be concerned only with developing information for and negotiation of the break-up. Financial, legal and negotiating skills should predominate. Entry of private investors, perhaps as a majority, into the on-going entities should be planned to take place from spring 1981. The 1980/81 cash limit, excluding redundancies, closure costs and interest, might have to be £350 million.
- 2.6 The remit of the present Chairman expires 10.9.80. It might be possible for the present central corporate management to be dissolved then, either retiring or accepting posts in B-SHARC subsidiaries defined by that date.

3. COMMENT

- 3.1 While I have views on the placing of current BSC activities between two or more on-going entities, and the arrangements for South Wales etc. to graduate into one or other of them, the selection is not material to the scheme. The new chairman should decide.
- 3.2 There can be no assurance that Britain will make over 12 million tons of liquid steel in 1982 if these recommendations are followed. One can be sure only that the destruction of British steelmaking by the present combination of Government, centralised management, recalcitrant labour and foreign competition will be concentrated on much less of the industry.

R. A. MORTON
14.4.80.

cc Mr Duguid
✓ D Wright

PRIME MINISTER ²
Not Ind.

To see. We await Sir
Keith Joseph's comments
WELSH OFFICE MS



Thanks
pub

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Oddi wrth Ysgrifennydd Gwladol Cymru

From The Secretary of State for Wales

The Rt. Hon. Nicholas Edwards, MP.

14 April, 1980.

CONFIDENTIAL

Den Prime Minister

I am very much aware that, as a Minister with no responsibility for BSC, it may be presumptuous or out of order for me to express a view about the future of the steel industry. However, I - more than most - have to live with the consequences of BSC's decisions and I have had the opportunity for wide ranging discussions with many people in the industry about its future. I hope therefore that you and Keith will not object to my letting you have my views, which I have set out in the enclosed paper. I have sent a copy to Keith but have not otherwise copied it to colleagues. It may be that the issues I raise are already being considered and that they will in due course be discussed collectively; but if not, you may wish to consider whether some discussion about the points I make would be worthwhile.

I have some reason to think that quite a lot of people in the industry are hoping that we may move along the lines I suggest, and certainly they believe that we cannot go on with the arrangements for the industry unchanged. I hope at least that some of my ideas may be helpful.

hA all will be agreed for at least long time
provide useful debate.

John Evans

Nice

The Prime Minister,
10 Downing Street.

CONFIDENTIAL



THE FUTURE OF THE BRITISH STEEL CORPORATION

The ending of the strike at BSC should be the moment for a fundamental reappraisal of the future of the industry and for a fresh start. The financial state of the industry, the condition of its market, the attitude of those who work in it, and political necessity all dictate that. It may be argued that the future of the industry is for management and that the Government should stand aside and let the Corporation sort out its own problems. There are many reasons why this would be an unacceptable line.

The condition of the Corporation's finances will, in any case, involve the Government inevitably in a capital reconstruction of a concern which, without the financial guarantees provided by Government, would now be bankrupt. Were it a private company it would by now be in the hands of the Receiver, and I understand that the cash deficit next year could amount to between £500m and £1,000m. The break even target is surely now not attainable, and even if the Corporation seeks to achieve it and to fund its cash deficit by the sale of assets there must be doubt whether that could be done in the necessary timescale.

At the same time the Government is confronted with the urgent necessity of appointing a new Chairman and Board with the authority to re-establish financial control and to restore the confidence of the workforce which has been seriously damaged.



There may be a temptation to think that a capital reconstruction and the appointment of a fresh Board is all that is required of Government which should then be content to leave it to the new managers to carry out any reorganisation that may be required. I find it hard to believe that new management of sufficient ability would be prepared to undertake the task without assurances about future changes in structure. There is a need to establish terms of reference for the new Board, and to consider the need for legislative changes. Collective agreement by Ministers on these issues is, therefore, a desirable starting point, even if implementation and detail is left to management. In any case there are other reasons for my belief that the Government itself must initiate the fundamental changes that are needed.

The first is both philosophical and practical: it arises from our belief in competition and in the value of small units, both from the point of view of easier management and as a means to more effective financial control. We cannot expect a massive, centrally organised, excessively bureaucratic monopoly, even under new management, to dissolve itself into entrepreneurial, locally managed units involved in genuine competition. Government has created this Frankenstein monster and allowed it to grow: only Government can destroy it.

The second reason arises from the need to regain the confidence of customers and recapture markets. Customer confidence will have been



gravely damaged by the strike; and, if we are to avoid a huge increase in second sourcing and a massive increase in the import bill, it will be necessary to establish quickly and unmistakably that we are creating an industry in which there is genuine competition and alternative sources of supply.

My third reason in the long run may be the most important of all. It is psychological and political. It is the need to give those who work in the industry hope. It would be hard to overstate the sense of desolation and despondency that is present at all levels within the industry at present. As one of the BSC's best managers put it to me: "It would be a tragedy if what has happened was all for nothing. We cannot go back to the same structure, to the same old BSC. We have to take this opportunity to put things right. Let us get the spirit back."

It is not only important for the future of the steel industry itself, but immensely important for our industrial recovery and for our political future to get the spirit back, to restore hope where hopelessness exists, and to emerge from a damaging industrial dispute with a new sense of direction and purpose.

The best companies in the private sector, Sheerness in Kent and Alpha Steel in South Wales, as well as the best parts of BSC - Velindre in the Tinsplate Division, the finishing end at Shotton, some

CONFIDENTIAL



sections in Sheffield and perhaps even the heavy end at Scunthorpe, have shown themselves to be first class and able to compete against the best in the world. It is the sense of achievement and purpose found in those places that must be created elsewhere, rather than the bitterness and fear to be found at present in places like South Wales.

The key to recovery is to restore the link between the manufacturing units and marketing, and to reintroduce genuine competition between different parts of the state owned industry, as well as with the private sector. It is almost incredible that a Managing Director of a manufacturing division has no direct responsibility for sales at all. A workforce cannot be expected to co-operate if it can see no direct relationship between its own output, its quality and timing and the sale of its product. There is a growing conviction at every level in BSC that the future lies in the re-establishment of genuine, competing profit centres with control over their own selling and their own labour relations. Whatever the wage negotiating machinery, there needs to be some flexibility at the local level so that there can be a link between output and employees' income as at Sheerness.

There is an aspect of all this that goes well beyond the internal organisation of the BSC. At a time when parts of the United Kingdom, and Wales in particular, are having to face industrial change on a scale that has serious social implications; there is a compelling need to create hope; and I believe that the best way of doing that is to throw down a challenge and to offer the prospect of victory.

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The manner in which BSC came forward with their proposals for demanning, together with their scale and suddenness, and what has been seen as the indifference of Government has created a sense of crisis and a genuine fear of a return to the 30's. BSC's programme (and the NCB's which follows from it) will be resisted at every stage and will be hard to achieve. I believe we could create a wholly different atmosphere and a wholly different prospect if we were to break the BSC up into competing units, and were to create separate units or companies each reflecting a clear identity whether it is that of a region or of a closely associated group of products so that national or regional or professional pride (or all three) can be harnessed to industrial success.

My record in Devolution is sufficiently well known for my political commitment to the United Kingdom not to be called into question; but I believe that almost overnight we could transform the atmosphere and the prospects for the Welsh and for the United Kingdom economies by harnessing the sense of pride and purpose that exists there. That is the prospect we could open up to the employees of BSC as they return to work, and that is a prospect that only the Government could open up. It is a job we cannot leave to BSC; it is, I suggest, a chance we should not miss.



The present Chairman of BSC is moving towards the establishment of separate profit centres, and at the periphery at any rate the new structure is taking shape with the setting up of BSC Holdings, under which the tin-plate, stainless steel and rail making divisions have been grouped; and the possibility of securing private sector participation by way of partnership or other methods is being explored. It remains to be seen whether this represents the start of a genuine move to self standing units, or (as it appears to those employed in the tin plate division in Wales at present) no more than another form of centralisation. The fundamental problems of the steelmaking end, the ponderous central bureaucracy, the relationship between the marketing and manufacturing functions, the management structure and the Corporation's industrial relations have hardly begun to be tackled.

The ideal might be to divide the present corporation into a number of wholly separate state owned companies, each standing on its own feet and each capable of obtaining sooner or later an increasing amount of private sector participation. Certainly I believe we should regard increasing privatisation as a desirable objective in itself and seek to organise the industry in a way that makes that a practical possibility. We should, therefore, consider whether it would be feasible to sub-divide the existing organisation in this way, so that we can do without a central state enterprise altogether. We may conclude that that is not a practical possibility, at least until a later stage, because of the need to allocate capital resources from the taxpayer which Governments are perhaps not equipped to do. (We can hardly saddle such a mammoth task on the NEB as we now envisage it).

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If that were to be the conclusion, we would have to have a holding company; but it need not and indeed must not bear the slightest resemblance to the animal now occupying Grosvenor Place. It should be purely a financial holding company responsible for the capital allocation, budgetary control, financial discipline and appointments of the group. National Steel in the United States is, I believe, about three quarters the size of BSC. It has a holding company about sixty strong and controls five or six operating companies. That is the kind of structure I have in mind.

It might be appropriate that the only full time directors of this body should be the Chairman, Managing Director and Finance Director with the other Directors as part-timers; even a part-time Chairman might be possible with this structure. In this way it would probably be possible to attract people with a proven track record and still active in large industry with a real knowledge of what can and cannot be done in the modern industrial scene.

Whether there is a holding company or not, there is room for considerable variety in the make-up of the operating companies and I am not qualified to do more than suggest some tentative possibilities. Initially there might be six or seven such companies. They should have their own Chairmen and Boards with wide powers and full responsibility for their operations, and even under the holding company structure one would wish to see those Boards include outside Directors and to have extensive authority.



1. The Steel Company of Scotland

This would be based on Ravenscraig which is the best equipped major plant in the country. It has adequate coking capacity, three good blast furnaces of economic size giving it the best iron making installation. It has the best steel plant and casting machines to cover its product range. The Hunterston ore terminal gives it its necessary bulk ore cargoes. However all this plant represents a major financial burden and it remains to be seen whether even in a competitive situation and with control over its own marketing, Ravenscraig could use its equipment to anything approaching capacity and make a profit.

2. The Steel Company of Wales

The problems to be overcome here are considerable, but not insuperable. It is sometimes argued that Llanwern and Port Talbot would not be able to stand up to the competition from Ravenscraig in a market where capacity is likely to exceed demand but Ravenscraig has yet to prove itself and until it does we should not assume that its costs will necessarily be lower. Much of the plant is comparable and of similar age and the blast furnaces and converters are actually smaller than at the Welsh plant. Llanwern probably has the better strip mill and Port Talbot will soon have its concast plant (though if this is under-utilised interest charges and depreciation could add to costs rather than reducing them). There will come a time when the rolling mill at Port Talbot will have to be brought up to date and until the recent crisis BSC was planning to spend a great deal on coke oven replacement at Llanwern but the Port Talbot modernisation could well be put off until an increase in demand justifies it, and there are alternative sources of coking coal available for Llanwern.

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The combination of Port Talbot's steel making capacity and ore handling facilities and Llanwern's rolling mill is quite formidable and there is a good deal of industrial logic in the proposed "dogleg" solution based on this combination. However that has been abandoned in favour of a slimmed down workforce at both plants and, if that solution may be faulted on grounds of industrial logic, it could be worthwhile if it captures the co-operation of the workforce. There can be little doubt that far too little has been done in the past to tackle the problem of overmanning. The quality has generally deteriorated (particularly at Port Talbot) and delivery performance has been unreliable.

It is the faltering performance of the workforce under the present unsatisfactory management structure which is more serious than the problems related to plant and capital investment, yet even that compares well with anything that has been achieved at Ravesraig. Given new management with real responsibility at local level, and a genuinely competitive situation there is a very good chance that South Wales plants will improve performance and regain a substantial share of the market.

The tinsplate operation should be included in the Welsh Company. The Welsh industry was built up on tinsplate and there is a natural link with the Welsh steel making plants, indeed it was their main "raison d'etre". Until the South Wales plants can become competitive it is more sensible that tinsplate should stay in the Welsh Company and provide a steady load on the major plants coupled with more aggressive, locally based marketing to capture a greater share of the tinsplate market.

Shotton is referred to separately.



3. North East Steel Company

The present Teeside Division of BSC includes Lackenby and Redcar on South Teeside, Consett and Hartlepool. Technical doubts have been expressed about the Redcar project now dependent on one very large (14 metre) blast furnace and at present without the necessary cover for relining, a lengthy process with a furnace of this size, which would be provided by a second furnace. The additional cost of a second furnace would be prohibitive in the present state of the market. Under existing arrangements it is intended to close Consett creating major employment and social problems in this single industry town. It is just possible that if Consett is separated off as a separate company a private sector partner might be found, but this seems improbable in the present state of the market. Clearly there is the basis for a single operating company based on Lackenby/Redcar although it is likely to need financial support for some time.

4. Sheffield Steel Company

The wide range of plants at Sheffield making stainless, alloy and carbon steels, forging and engineering products could be operated as a single company or as a number of separate companies. There is wide scope for private participation here either by 'hiving off' or through 'BP' type solutions.

5. The Scunthorpe Group

The particular attractions of this part of BSC's activities for private sector participation are the rod making plant at Shelton which could provide the basis for a rationalisation deal with GKN and the ore



terminal at Immingham which (combined with North Sea Natural gas) might provide the foundations for a private sector direct reduction plant. Though at present a lossmaker, the Scunthorpe Division, producing plates, sections and coiled rod, has a good labour relations record and with satisfactory management and private sector participation offers the prospect of a transformation into a successful and profitable company.

6. The Tubes Company

Those with considerable experience of the industry can see no reason why the production of steel tubes at Corby should not be profitable; and see this as a reformed semi Stewarts and Lloyds, possibly including Stanton and Staveley and the Midland tube operations. Once again this is seen as a unit suitable for a 'BP' type solution.

7. Shotton

Shotton could be included in the Steel Company of Wales or perhaps as part of one of the other finishing end companies or the steel holding company referred to below. A much better solution might be as an independent company; probably wholly or partly financed from the private sector, operating initially as a re-rolling company, buying in slabs for the hot strip mill, some from the competing state companies and some from abroad. The Hadfield's overture may just possibly offer a way forward for Shotton, retaining steel making; but if that does not come to anything, the buildings,

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plant and financial structure might be organised in such a way that at some more favourable time in the steel trade cycle part of its requirement for slabs could be met from its own steel plant based on electric arc furnaces.

There is plenty of scope for other permutations and this is no more than a first draft of a possible division of the present BSC. One possibility would be to group all the state owned steel interests outside the three main steel making areas under a single Steel Holding Company, which could be used as a staging post to increasing private sector participation. The important thing is to create a steel industry in which local management is given its head, each division can compete in the marketing of its own products and in which those employed can recognise that they will be rewarded for their efforts. In the present climate the biggest reward we can offer may be the possibility of survival; but I am certain as well that we should offer the workforce some way of sharing in the financial success of their companies. Sheerness provides a clear lesson and inspiration for us.

One risk of adopting my solution would be that individual companies instead of prospering in this competitive environment may fail. There are those that believe that far from offering the workers of Wales and the other plants a way out, we would be leading them to their destruction, weighed down by the

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burden of their capital debt and their outdated plant. But the alternative is a central plan, which may be wrong, based on a market assessment that almost certainly will be wrong and imposed by a top heavy central machine that will duplicate all the errors that have led us to our present condition. There will have to be a capital reconstruction that gives each company the possibility of survival and success; but if the companies then fail the consequences can hardly be more horrendous than those we face at present. I am firmly of the view that we will do better by far if we offer those involved a genuine chance of saving themselves by their own exertions.

114 APR 1950





DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

T Lankester Esq
Private Secretary
10 Downing Street
London
SW1

Paul H. Smith

11 April 1980

T 4/4

mb

Dear Tim

The last report of the interdepartmental contingency committee on the steel strike refers to unrest in London docks over the issue of closures. Since that report was prepared, a mass meeting of dockers in London has voted overwhelmingly against continuance of blacking of vessels and cargoes over this matter. The port has now returned to full normal operations.

I am copying this letter to the Private Secretaries to all Members of E Committee, the Secretaries of State for Scotland and Wales, and Sir Robert Armstrong.

Yours sincerely

Barbara Riddell

MRS B E RIDDELL
Private Secretary

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8 9 0
11 12

11 APR 1980



DEPARTMENT OF INDUSTRY
 ASHDOWN HOUSE
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 LONDON SW1E 6RB

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

Secretary of State for Industry

9 April 1980

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

Dear Tim,

... I attach a copy of the Final Report of the Interdepartmental Contingency Group on the Steel Strike. Steel supplies seem to be returning to normal, so the Group has been wound up.

I am copying this to the Private Secretaries to members of E Committee, 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

THE PATENT OFFICE
25, ABINGDON ROAD
OXFORD OX4 1UE
ENGLAND



110411
1980



CONFIDENTIAL

STEEL STRIKE : FINAL REPORT OF THE INTERDEPARTMENTAL
CONTINGENCY GROUP

This report summarises the position on 9 April.

BSC

2 Employees of all the Corporation's plants are now back at work. Present indications are that throughout the Corporation good progress is being made in bringing plant back into production according to plan, and in some cases at a faster rate than anticipated. After some initial outbreaks of militancy, reported in the media, morale seems unexpectedly high. It will take some time for full production and deliveries to be achieved, but the majority of plants have already resumed deliveries of finished steel from material produced before the strike began.

3 The Corporation expects that most of its re-rolling mills and finishing plants will be up to good levels of production within the next 7 - 10 days, working from good stocks of semi-manufactured steel.

4 The recovery of steelmaking and the primary rolling operations to replenish working stocks for re-rolling and finishing plants will vary widely between the works. Where steel is made by the electric arc process plants are already making steel and should reach good production levels over the next 7 days. This will particularly assist supplies of steels for engineering, drop forgings (eg components) and semi-manufactured steel used by the private sector re-rolling plants.

5 The recovery period for the larger integrated works which have coke-making, blast furnaces for iron-making and oxygen steelmaking will be longer, needing at least 3 - 4 weeks to achieve a balance of production between different parts of the plant. Full production can only be expected from about 6 weeks after the start-up which is now in its early stages. The products most affected by this longer-time scale are sheet steel (eg automotive sector and tinsplate), and deliveries to users will depend heavily on present working stocks of material at various stages of the production process, and on finished steel available.

Ports

6 Following the settlement of the strike at the port of Liverpool the movement of steel from the ports is returning to normal. Unrest over closures still exists at the London docks, and if translated into industrial action this would affect steel movements. The freeing of stocks held in storage at the docks and elsewhere will be particularly helpful to users to whom the Corporation cannot immediately resume delivery.

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Steel Supplies and Transport

7 Inland transport of steel by rail and road is also for the most part returning to normal. In the case of road transport there are some reports of individual road hauliers having been blacklisted by steel union officials. The BSC is discussing these situations locally and avoiding confrontations, whilst ensuring deliveries of products by alternative transport. Departments of Employment and Transport will be keeping in touch with the situation and reporting as necessary.

Effects on Industry

8 The final survey of the Business Statistics Office, carried out just before the strike ended, estimated that in the last two weeks of the strike, overall manufacturing production remained at 95% of what it would have been in the absence of the dispute (just over 97% if BSC production loss is deducted). Home and export deliveries were again between 95 and 96% of what they would otherwise have been.

9 Full recovery of production will take a few weeks in the case of tinsplate can producers and some of the canned food producers. Supplies of tinsplate from the Corporation and rebuilding of working stocks at each stage of the production chain will depend heavily on two of the Corporation's integrated plants (see paragraph 5 above) ie Llanwern and Port Talbot. Metal Box, the major tinsplate can producer, is recalling many of its 7,000 workers laid off due to the strike and hope that the imports they have already arranged will make good any shortfall in BSC supplies.

10 In the automotive sector, British Leyland have estimated that commercial vehicle production will continue to be limited by shortages of components eg springs for up to **3 weeks**, depending upon the stock and supply position at the BSC plants concerned. At Vauxhall some workers on commercial vehicles assembly are expected to remain on a 3-day week until full resumption of steel and component supplies by the end of April.

Nat Ind

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Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

CONFIDENTIAL

2 April 1980

Da Keck

12/4

REMEDIAL MEASURES FOR AREAS AFFECTED BY STEEL RUNDOWNS

You wrote to Geoffrey Howe on 28 February and John Biffen replied on 7 March. I did not however receive a copy of your letter until 12 March.

My reaction is that the proposals in those letters need much further discussion. We are still some distance away from a broad enough measure of agreement, certainly on assisted area status for South Wales and the funding arrangements.

Let me, though, first identify the areas of agreement. I recognise the merits of your proposals for Consett and Scunthorpe, particularly where they emphasise the provision of advance factories and I would fully support the proposals in the report for action by the Manpower Services Commission and training arrangements under Section 7 of the Industry Act.

What concerns me however is the thinness and limited range of the assisted area proposals recommended, by the majority, in the report. I accept the advice in the report that Newport should not at this stage be graded higher than development area. But I have to press for:

- (a) special development area status for both the Port Talbot and the Neath/Resolven travel-to-work areas;
- (b) development area status for Cwmbran (or indeed if Jim Prior so advises, the whole of the Pontypool travel-to-work area);
- (c) retaining the Swansea TTWA as a DA; the area is running into serious difficulties.

/I believe

The Rt Hon Keith Joseph MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1



I believe these gradings to be fully justified on their merits and in comparison with other areas in England and Scotland. The figures used by the Working Party reflect very cautious estimating - in my view too cautious; a 70 per cent registration rate estimate may prove too low and the multiplier effects could well be more substantial and quicker to arise. And I would want to have some regard to job losses in coal. These are of course more difficult to estimate in terms both of size and timing, but that there will be some rundown in coal employment in the South Wales areas affected by the steel rundown in the next year or so is certain and we should be taking this into account in our calculations.

I believe, too, that anything less than what I am proposing would be regarded by the local authorities and others concerned in the area as wholly inadequate and, indeed, complacent. On the evidence of what they have said to you and me in recent weeks they would want to argue for even more than I am in fact proposing. But my judgement is that the assisted area regrading I recommend would be defensible and together with the package of measures already announced provide an effective starting point for the major renewal of industry and employment South Wales must have. It would not only help to disarm the growing criticism in Wales of present policies towards steel and coal, but would be helpful to BSC in their efforts to become more competitive through their programme of demanning. Without this response from the Government I do not think we should underestimate the difficulties they will have in achieving this.

There is the question of cost. It is not clear whether the present provision for selective financial assistance will be large enough to accommodate all the claims for assistance which will be received. I have to make it clear that there is no margin in my Industry programme provision to allow any diversion to s.f.a. from other purposes, and that there is also no scope for switching out of my other services. In any case such switching would be completely contrary to the recent agreement over block treatment for the bulk of my expenditure, when the Treasury insisted that my Industry programme should be outside the arrangement. I agreed then, in the light of the arguments the Treasury advanced, that the provision for Industry in Wales should continue to be fixed ad hoc. The particular part of it relating to selective financial assistance is essentially demand-determined and will have to be reviewed in the light of the demand which emerges.

I realise that we cannot come to final decisions until the steel strike is over and BSC have reassessed their position.

/But the



But the weeks are slipping by and the date in August when the assisted area regradings decided last Summer are expected to be implemented is coming nearer and nearer. Local authorities and industry are in a position of real uncertainty, knowing that the gradings are under review once again. Job opportunities are being placed at risk as a result. I can see real advantage in an early announcement, so that industry can plan on a secure basis and, as I propose, on a basis of assisted area support which not only recognises the scale of the problem but offers a way towards its solution.

I am sending copies to members of the Cabinet and of E Committee, and also to Sir Robert Armstrong.

Jim arm
Neil

2- APR 1960



✓
MS

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

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Secretary of State for Industry

The Rt Hon James Prior MP
 Secretary of State for Employment
 Department of Employment
 Caxton House
 Tothill Street
 London SW1

8 April 1980

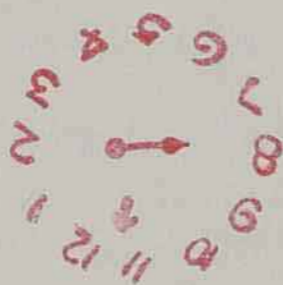
Dear Jim

You wrote to me on 17 and 26 March about the In-plant Training Scheme under Section 7 of the Industry Act 1972. As you know, we announced the Scheme on 1 April and it has already attracted favourable publicity. I am most grateful to you for undertaking that the DE Group will find what cash and bodies are needed for the Scheme by the Manpower Services Commission as we have done for ourselves from our Section 7 provision. Secondly, I am grateful for your comments on the date of 1 July which we have fully taken on board.

I am copying this letter to the recipients of yours.

Leon

Keith



- 8 APR 1980



Not ind
2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/11933/80

Your ref:

3 April 1980

12/4
Dear Kelt
REMEDIAL MEASURES FOR AREAS AFFECTED BY STEEL RUN-DOWNS

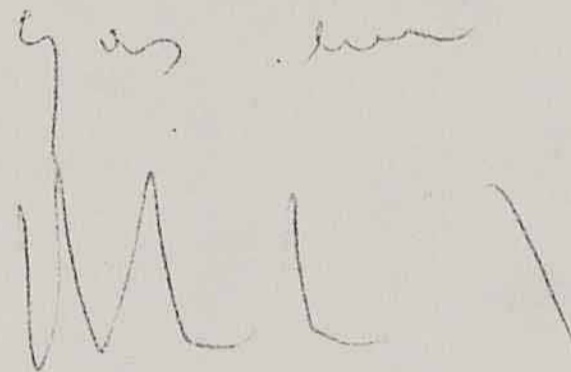
Thank you for sending me a copy of your letter of 28 February to Geoffrey Howe about Consett and Scunthorpe.

You ask particularly about land clearance in Consett. My officials' most recent study of the possible derelict land clearance programme there indicates a need for £10m in grant (1980 prices, spread over 3-4 years beginning in 1981/2). This is a higher estimate than the preliminary one in the interdepartmental report attached to your letter. Nevertheless I can agree to the inclusion in your draft statement of an undertaking to make such grant available. This would be done without an associated claim on the Contingency Reserve.

My officials are still looking into the possibility of helping Scunthorpe with a programme of prepared industrial sites (some of which may, indeed, prove necessary for your projected EIEC advance factories there). Until these investigations are complete - they await a promised sight of local authority plans which will in turn determine whether grant is payable - I should prefer to leave open the question of any new expenditure at Scunthorpe: and, indeed, of any consequential call on the Contingency Reserve which might arise. Without some concession to balance Consett's derelict land clearance programme, Scunthorpe may have ready cause for grievance. I hope to advise further on these points before the time comes for your public announcement.

Subject to these doubts about the balance between Consett and Scunthorpe, which would no doubt be improved by upgrading Scunthorpe's Assisted Area status, I am generally in agreement with the proposals in your letter, including the proposal to pace the provision of new factories according to demand; and I am not inclined, on merits, to favour the resuscitation of any options in my field other than those you have yourself endorsed or which I have noted above. Nevertheless, I am deeply conscious that your proposed package will seem slender alongside that approved for Wales. We should not be tempted on that account to engage in expenditure which would do no real good, but perhaps your statement could somehow leave room for second thoughts if some new and really useful possibility emerges - perhaps in the field of transport facilities to extend the journey to work areas of people in Scunthorpe and Consett.

Copies of this letter go to the other recipients of yours.

A handwritten signature in dark ink, appearing to read "Gus" followed by a flourish, and a larger, more complex signature below it.

MICHAEL HESELTINE

The Rt Hon Sir Keith Joseph MP

2F



- 8 APR 1980

SAVING TELEGRAM

MR P BRAZIER 10 D S

BY BAG

UNCLASSIFIED

FROM BONN

TO FCO

TELEGRAM NO 12 SAVING OF 8 APRIL 1980

Prime Minister

ENDING OF BRITISH STEEL STRIKE: GERMAN PRESS REACTION

1. There was wide coverage and much comment on the ending of the steel strike, the progress of which had been closely followed throughout by the German media. Agreement was widespread that in the event noone had won, although the protracted strike had served to demonstrate that the Government was not to be deflected from its policy of non-intervention. This, it was felt, could have a long term beneficial effect on British labour relations.
2. In a long and thoughtful leader, the Frankfurter Allgemeine Zeitung (Rudolph) took the view that the strike might be a lesson and a warning to many a British trade union. Provided that the Government continued to keep the increase in the money supply short, then many workers would in future think more than they had before about strike proposals made by their union officials. Thus there could be some changes in British working life after the dispute. It was also conceivable that those people in the Cabinet and the Conservative Party who were demanding a thorough reform of the strike and trade union law would feel that they had been proved right. The steel strike had made it clearer than other disputes before that the British workers needed strong legal protection against their own unions.
3. The Suddeutsche Zeitung (Bode) saw the strike as almost a political one. This was contrary to British trade union theory which did not admit the existence of political strikes. Although

THE

the actual figures did not look like a victory for the Government, the result of the strike was considered a Government victory, above all by the trade unions. The paper went on to ask whether Mrs Thatcher would be proved right in her belief that many trade union members were fed up with their militant and anti-ballot officials.

4. The Rheinische Post (Kuballa) saw the fact that the trade unions came round in the end as a victory for the Government's tactics, while Handelsblatt (Hahn) thought that non-intervention had paid off politically.

**THIS TELEGRAM
WAS NOT
ADVANCED**

OVERTON

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OLA
MISS BROWN

ADDITIONAL DIST:
PROBE

THE STEEL STRIKE

The consensus in the newspapers is that the steel strike which ended this week - the longest-running national dispute since the war - brought no victors; only losers.

That is tragically true.

The only effect of the dispute was that it:

- Lost an already nearly bankrupt British Steel Corporation hard-won orders to foreign competitors which will now be even harder to win back.
- Cost the British Steel Corporation a quarter of its annual production - the very last way in which to serve the customers and the nation.
- Cost each striker on average around £1,500 in wages - a needless waste which will not be recovered.
- Cost the principal union involved - the Iron and Steel Trades Confederation - reportedly £2m in picketing and publicity costs; and
- Cost you, the taxpayer, more than £8m in social security payments to strikers' families because the principal union involved paid no strike pay.

This is the appalling toll of a strike the Government never wanted - indeed, that no-one wanted.

The issue was not so much by what amount the steelworkers should increase their pay but rather how that increase should be paid for - ie through improved efficiency and productivity.

If there is to be any positive benefit in this strike, it will be that perhaps industry - management, unions and workers - will recognise that they have to learn to live together and sort out their problems on their own. They cannot rely, as they have done for decades, on the Government stepping in and trying to solve them.

It is not the Government's job to run industry. That is industry's task. It is the Government's job, on behalf of the taxpayer, to set a financial framework for nationalised industries within which management, unions and workers must operate.

Jobs in this and any industry will only be secure if people work efficiently, producing goods of the right quality, of the right design, at the right price and at the time they are wanted.

If that lesson is learned in Britain, then the best that can be said of the steel strike is that it will not have been entirely in vain.

Paymaster General's Office
Privy Council Office
68 Whitehall
SW1

3 April 1980.



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 Victoria Street
London SW1E 6RB

Telephone

Direct Line: 01-212 3301
Switchboard: 01-212 7676

TIM LANKESTER

With the Compliments of the
Private Secretary to the
Secretary of State for
Industry

→ Peter Stredder

~~Tim Lankester~~

PM via Nat Ind.

R
31/3

In accordance with the Terms of Reference agreed between the Iron and Steel Co-ordinating Committee of Trade Unions and the British Steel Corporation, this Committee of Inquiry into the Steel Dispute has determined:-

1. That there shall be a general pay increase of 11%: this to be inserted in Clause 4.1 of the Memorandum of Agreement between the parties.
2. That the minimum guarantee for participants in locally agreed lump-sum bonus schemes shall be 4.5%: this percentage guarantee to be inserted in Clause 5.7 of the Memorandum of Agreement.
3. In order to ensure an initial payment of the guaranteed element of bonus Clause 5.7 of the Memorandum of Agreement shall be modified:

a. to provide that the advance payment of 4.5% of individual gross earnings accruing from service with BSC during the 13 weeks ended 29 December 1979 shall be paid on the basis of a return to work no later than Tuesday, 8 April 1980:

and b. that where a local scheme is made before 1 July 1980 (or before some other date agreed between the parties) the minimum guarantee of 4.5% shall be paid retrospectively to 30 March and on a continuing weekly basis from the date of the local scheme being agreed

This 4 1/2% on
111 = 16%
in Kthl.

OR where a local scheme is agreed after 1 July 1980 (or some other date to be agreed between the parties) the 4.5% minimum guarantee is paid on a weekly basis following the date of the agreement but without retrospective payment.

The main concern of the Committee has been that this dispute continues to bring acute hardship to the workforce of the Steel Industry and is seriously damaging the Industry and its business prospects for the future. This can only be arrested if there is an early and orderly return to normal working so that all who work in the Industry can seek, to their benefit, to improve the business performance of the Steel Corporation.

The Committee are at one in their opinion that their determination provides the basis for a return to work in the interests of all the parties in this industry.

The Committee has been given much evidence about the control, management, business prospects, and negotiating arrangements within which the Industry is required to operate. The Committee wish to consider how best to give effect to its views on these matters of significant public concern.

We shall submit our full report to the parties as soon as practicable. My colleagues and I will continue to be at the disposal of the parties should they feel, at any point, that we can be of assistance to them.

The Right Honourable Lord Lever of Manchester - Chairman

William Keys

The Right Honourable Sir Richard Marsh



10 DOWNING STREET

MR. WHITMORE

Steel Strike

Bill Sirs has said that
he will recommend a return
to work.

NJS

31 March 1980

MR. WHITMORE ✓ NW

We have just received the bare figures from the Lever Enquiry. They are recommending:

11% for the central agreement
4½% for the local agreement.

This makes 16% in all, since the 4½% for the local agreement is a percentage on the 11% for the central agreement.

TPL

31 March 1980



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 SWITCHBOARD 01-212 7676

Secretary of State for Industry

23 March 1980

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

MS *Prime Minister*

Dear Tim,

TJ
28/3

... I attach a copy of the 25th Report of the Interdepartmental Contingency Group on the Steel Strike.

I am copying this to the Private Secretaries to members of E Committee, 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

DEPARTMENT OF INDUSTRY
ASHDOW HOUSE
131 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIXIE LINE 3132
SWITCHBOARD 3132



Department of Industry



28 MAR 1961



CONFIDENTIAL

STEEL STRIKE : 25th REPORT OF INTERDEPARTMENTAL
CONTINGENCY GROUP

This report summarises the position on 28 March.

BSC

2 The Committee of Enquiry under Lord Lever expects to reach a preliminary view on Sunday (30 March) and to report formally early next week. The Corporation have said they will abide by the findings of the Committee. Most of the craft unions, GMWU and TGWU say that they will do likewise. The ISTC, NUB and the Staff Side of AUEW consider that such decisions on acceptance should be taken by delegate conferences.

3 The joint industry committee which recently agreed the central and productivity parts of a new agreement with the Corporation, has broken up because of strong differences of view between the unions about BSC's "return to work offer" and about acceptance of the findings of the Committee of Enquiry.

4 Whilst there are indications amongst all the unions of a desire to return to work, there are reports today that the craft unions at the Port Talbot plant have joined with their ISTC and NUB colleagues in resolving not to return to work until the issue of jobs is settled in addition to the pay dispute.

Ports

5 The complete stoppage at the port of Liverpool continues, having been declared official by the TGWU, but talks aimed at securing a return to work are still going on. The militant call for wider action has been followed, reluctantly, by Ipswich dockers refusing to handle steel. But a mass meeting at Southampton on Wednesday voted against such action there. At a meeting today of the TGWU Docks National Trade Committee, no decision was made to call a national dock strike, despite a renewed call from militants. A delegate conference has been arranged for next Tuesday, at which TGWU officials will spell out the long-term dangers of a strike. It is believed that they themselves hope that results of the Committee of Enquiry will defuse the issue before then.

6 Existing restrictions on steel continue at the London wharves and at some East Coast ports but there has been no significant change in the handling of steel at ports elsewhere.

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CONFIDENTIAL

-2-

Private Sector Steel Producers

7 All the private sector steelmaking and re-rolling companies are achieving good production levels and good deliveries to customers. Restriction of deliveries continues at GKN Brymbo (Wrexham). Normally 60% of this production goes to the Group's Midlands re-rolling and drop forging companies by rail. Because of reluctance on the part of some TGWU drivers to cross picket lines, the company is unable to despatch as much as it produces so stocks are building up at the steelworks. As yet, this has not proved a constraint on production but could be a problem if deliveries are not increased soon.

8 There is no resumption as yet of negotiations between the ISTC and private sector re-rolling companies covered by the Midland Wages Board. Although operations are almost normal at the companies, there are still isolated instances of ISTC members refusing to do certain jobs. There is now a possibility that negotiations may proceed individually rather than collectively for a settlement backdated to 1 January.

Steel Supplies and Transport

9 With the continuation of good deliveries from the private sector, stockholders, and some imports, there is no new evidence of imminent shortages of steel nor of any significant change in the endurance of most user sectors. Notwithstanding the situation at the ports, reported at para 5 above, there remains little overall change in the movement of steel by road from the ports or between producers, stockholders and users.

Effects on Industry

10 The latest survey by the Business Statistics Office, covering week ending 22 March, shows that for the sixth week running overall manufacturing production has been at a level of over 95% of what it would have been in the absence of the strike (just over 97% if BSC's production loss is deducted). Home and export deliveries have again been maintained at 96% of what they would otherwise have been. Estimates for this week are that similar levels of production, home and export deliveries will be achieved this week, with little change even in the metal-using sectors.

11 Reports from the Regions and from the survey of companies suggest a limited increase in short-time working, but total layoffs as a result of the strike remain within the range 30-40,000.

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12 Although user sectors generally report little change in their operations, British Rail face increasing difficulties due to shortages of rails, wheels and axles. The shortage of rails has already stopped the track replacement programme and it has now become necessary to impose speed restrictions to ensure safety of operation and avoid undue deterioration of existing tracks.

Longer Term Effects

13 There is growing concern in some sectors about the immediate post-strike situation and longer-term effects. This applies particularly in the case of tinplate can producers (who at this time of the year would normally be building up stocks in advance of the main canning season), at British Leyland, where stocks of materials in the pipeline are very low and will take some time to replenish, and in the process plant sector, where there is a marked reduction in new orders being received (particularly for export).

14 The increasing number of companies who are turning to imports, often linked with longer-term supply contracts, also presents a potential longer-term problem for BSC in re-establishing their home market share after the strike.

Department of Industry
28 March 1980

CONFIDENTIAL

Nat lnd



Caxton House Tothill Street London SW1H 9NA

6400

Telephone Direct Line 01-213

Switchboard 01-213 3000

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

R 26/3

26 March 1980

John Wood

REMEDIAL MEASURES FOR AREAS AFFECTED BY STEEL RUNDOWNS

At its meeting on 24 March the Manpower Services Commission considered the proposed Section 7 training scheme and the other special employment and training measures set out in your letter of 28 February to Geoffrey Howe, on which I sent my interim comments on 17 March.

In brief, the Commission are prepared to co-operate in all these measures. However, they insist that this should not be at the expense of their general services in these or other areas. They say that their planned provision has already been reduced by successive cuts in finance and, more particularly, staff to the limit of what they regard as tolerable, and point out that they have made clear throughout that the special measures under discussion would require additional resources.

The Section 7 scheme would be financed and largely administered by your Department and much of the technical supervision required from MSC sources would be undertaken by ITB staff who are not civil servants. It would, however, require a direct MSC input equivalent to about 9 full-time staff.

The other special measures - short work-assessment/re-orientation courses, special training for redundant steel workers in the establishment of small business, additional mobility allowances, and provision for the continuation of the training of redundant apprentices - are broadly estimated to cost £1.8m (most if not all in 1980/81) and require between 5 and 10 additional MSC staff.

A total of under £2m and up to 20 staff may seem de minimis in relation to the total resources of the MSC, or indeed of the DE Group as a whole. But that sort of argument has now been deployed on too many successive occasions to make much impression on the MSC, certainly as far as staff numbers are concerned. Nevertheless, I propose to see Richard O'Brien shortly and urge him very strongly to absorb both the extra money involved and the staff numbers within his existing resources. I hope



that he will agree. But since I gather that you wish to announce the Section 7 scheme during the Budget debate, I undertake that one way or another the DE Group will find the cash and the bodies.

As far as the date of the inception of the scheme is concerned, I should point out that the EEC Commission might not, if they stick closely to the rules, be prepared to pay in respect of any operations starting before 1 July.

I am copying this letter to the recipients of yours and to Paul Channon.

*Yours
T
K*

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26 MAR 1960



① TPL to see

PA
MS

DEPARTMENT OF INDUSTRY

ASHDOWN HOUSE

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2
PRIME MINISTER

MS

25/3

PS / Secretary of State for Industry

25 March 1980

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

Dear Tim,

MS

... I attach a copy of the 24th Report of the Interdepartmental Contingency Group on the Steel Strike.

I am copying this to the private secretaries to members of E Committee, 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



CONFIDENTIAL

STEEL STRIKE : 24th REPORT OF INTERDEPARTMENTAL
CONTINGENCY GROUP

This report summarises the position on 25 March.

BSC

2 On Friday 21 March the BSC and the unions' joint industry committee agreed to terms of reference for a Committee of Enquiry to help in arriving at a settlement of the steel dispute. The unions conceded that it should confine itself to pay issues alone, and specifically to determining what the pay increase should be on the basis of the conditions agreed between the two sides on 12 March.

3 The Secretary of State for Employment on 24 March rejected a union request for the Government to appoint the Committee and the unions are expected to agree today on its being set up by ACAS, drawing on the latter's resources as secretariat, under a Chairman agreed by both sides. The unions are at present saying they will not be bound by the results of the Enquiry, but would refer them to their negotiating committees. The Corporation earlier indicated a general disposition to accept the recommendations. In arguing their inability to afford more than their latest offer they intend to rely on the recognition by both sides in the 12 March agreement that wage increases must be paid for by productivity.

4 Meanwhile the ISTC and NUB executives, to the dismay of some of the other unions and perhaps of many of their own members, have rejected the Corporation's offer of an immediate basic pay increase of 10% 'on account' in return for an immediate resumption of work.

Ports

5 It remains to be seen whether the call by Liverpool dock militants for a national dock strike will be followed in other ports. The sweeping nature of the call might be expected in itself to limit the response. Dockers in Liverpool stopped all work last Friday after a dispute over handling an export cargo from a private steelmaker. It is understood that the TGWU national docks organiser, Mr Alex Kitson, is intervening in an attempt to get them back to work.

6 As far as steel is concerned a national strike would mainly hit tinplate can producers, who have recently revived production thanks to imported supplies, and vehicle manufacturers like Ford and Vauxhall whose steel imports are largely handled by TGWU members. (BL's limited imports of steel are already blocked at Rochester.) Other importers, already relying in many cases on non-traditional routes, could be less severely affected.

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7 Meanwhile existing restrictions on steel continue at the London private wharves and at some East Coast ports.

Private Sector Producers

8 All the private sector steelmaking and re-rolling companies continue to produce and with one exception are making good deliveries to customers. The exception is at GKN Brymbo (Wrexham) where heavy picketing has deterred some TGWU drivers and deliveries to customers are being restricted as a result. Two steel companies in South Wales are heavily picketed but their production and deliveries are unaffected. Picketing at other private sector companies remains light.

9 Private steelmakers are concerned about the longer-term strike effects on multiple sourcing by customers and on possible price-cutting by BSC to recover market share.

Steel Supplies

10 Whilst a continuation of good deliveries from the private sector, most stockholders (unaffected by limited light picketing) and some imports are assisting the majority of users to maintain production levels, stockholders now report an increasing shortage amongst their members of products in which BSC predominate, particularly heavy shapes used in construction and in sheet steel for general engineering. However, we have no new reports of imminent layoffs or reduced production on this account.

Effects on Industry

11 The general position is of little significant change in stocks of steel and endurance of steel-users. The CBI's private enquiry of its sample of 56 companies also indicates little change from a week ago. The proportion of companies already affected has remained level at 20% and the proportion who expect to be significantly affected over the next 3/4 weeks has reduced slightly. Overall production levels remain at 95-96% of what they would have been in the absence of a dispute, with some companies very much lower than this.

12 The position at Metal Box in the production of tinplate cans has improved slightly following the receipt of imports. They are now producing 40% of customers' demands for cans and have also recalled some workers at the Neath can-end factory, which despite continued picketing has resumed limited production and some deliveries to other factories in the group.



13 Notwithstanding expressions of concern by Sir Michael Edwardes to BSC, British Leyland's latest assessment also represents some improvement in potential production prospects. They now see good prospects for planned car production of Minis, Allegros and Sherpas at least until the Easter break on 4 April (compared with a previous forecast of likely difficulties by late March), and of all other models at least until 19 April. Production of most trucks, with exceptions as reported earlier being minus certain components, is also considered possible, at least until 4 April. These estimates are based on existing stocks and private sector supplies - imports already being blocked (see paragraph 10 above).

Attitudes

14 The CBI regard a Press Association report today of imminent difficulties amongst steel-users as largely a generalisation by an inexperienced reporter from the already well-known sectoral difficulties of the canning industry, railway equipment producers etc. Their members are still exerting no pressure for a settlement, least of all in terms representing an abandonment of the principle on which the strike has been endured.

Department of Industry
25 March 1980

cc Mr Luffman
Mr Lyman
Mr Byrnes

CONFIDENTIAL

Prin. Invt. to

This is encouraging (except for Sirs' and Smith's imminent departure)

PS/Secretary of State

cc PS/Mr Butler for Berlin which
PS/Mr Marshall is mentioned)
Mr Ridley Dep Sec
Mr Woodrow Inf
Mr Murray IS3
Mrs Cohen IS1
Mr Long IS(Tech)
Mr D Smith DEm

24/13

STEEL PAY NEGOTIATIONS: BSC'S MEETING WITH UNIONS THIS AFTERNOON

Mr Scholey has reported that, after a very confused discussion, this afternoon's meeting ended at 4 pm because the ISTC and NUB negotiators were then due to meet their Executive Committees.

2 The Union side appeared to accept that the next step was the setting up of the proposed Committee of Enquiry and claimed they had been encouraged by Mr. Prior to try and reach agreement on the Chairmanship across the table. BSC presented four names of which /(George) Thomson was acceptable to both sides. For their part, the Unions presented four names, two of which were unacceptable to BSC and two were doubtful (Mr Scholey did not disclose the names, saying he had been asked to keep them confidential). The Union side pressed BSC to accept at least one of their names and proposed that the two names (ie Lord Thomson plus theirs) should then be presented to Mr Mortimer for him to select one as Chairman (assuming a willingness to serve!) I asked whether this meant that the Unions accepted that the Committee of Enquiry should be conducted by ACAS. Mr Scholey said this was not clear but they had clearly accepted that ACAS had at least a "secretarial" role to play, and perhaps more.

3 BSC then tabled a "return to work" formula, apparently based on a 10% pay increase against the central agreement (though Mr Scholey did not specify the details) and pressed for a return to work on Wednesday. Mr Sirs said this was not acceptable because there had not yet been agreement on a Chairman.

4 I asked whether this implied that an early return to work would be acceptable to Mr Sirs as soon as there was agreement on a Chairman but Mr Scholey could not say. However, he believes there is now heavy pressure on the Union leaders to arrange a return to work before the end of the financial year for tax reasons (the ending of income tax rebates?) However, Mr Sirs and Mr Hector Smith are attending a conference in Berlin later this week; Mr Smith leaves on Tuesday and Mr Sirs on Wednesday. Therefore, unless the two Executive Committees decide later this afternoon to go ahead with the selection of a Chairman in the meantime, nothing more is likely to happen this week. Mr Scholey expects to hear from

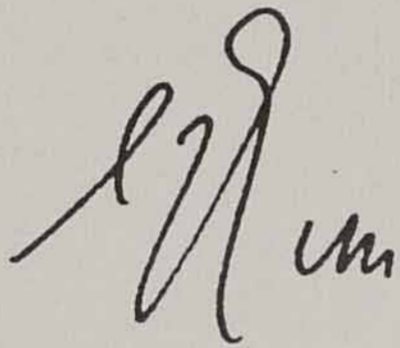
CONFIDENTIAL

Mr Sirs this evening following those meetings.

5 Meanwhile, Mr Scholey proposes to discuss in strict confidence with Mr Mortimer the names suggested by the Union side to see whether any of them would be acceptable as a reserve for Mr George Thomson.

6 I have discussed this with Mr Smith DEm who considers this afternoon's meeting represents moderately encouraging progress. The Unions have not reacted adversely to this morning's meeting with the Secretary of State for Employment and have instead moved on towards discussion of a Chairman potentially acceptable to both sides; secondly, an early return to work is now being discussed quite seriously.

> with ACAS provided at least "technical" backing



S J GROSS
Hd IS Division
816 Ashdown House
212 8705
24 March 1980

11 12 1
2 3 4
5 6 7 8 9

24 MAR 1980

Steel : Mr. Prior's meeting with the Unions

The meeting went very much as expected. The unions asked the Government to set up the enquiry. Mr. Prior said that this was not for the Government, but for ACAS. Sirs then suggested that the Government and ACAS should jointly set up the enquiry. Again Mr. Prior declined; but he did say that he would be prepared to ask ACAS to set up the enquiry.

Sirs said the unions' sides would consider this, ~~formally~~, and come back. In the meantime, he said the strike would go on.

The Department of Employment's impression is that Sirs and Smith are becoming increasingly isolated: the other unions are quite prepared for the enquiry simply to be set up by ACAS. Sirs' and Smith's objections are now largely cosmetic: they are prepared to have ACAS involved, but because of their longstanding objections to ACAS, they want some Government involvement as well.

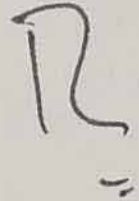
24 March 1980

B.
..
M.

NOTE FOR THE RECORD

MEETING HELD AT 10.30 am ON 24 MARCH 1980 AT CAXTON HOUSE WITH THE STEEL UNIONS COORDINATING COMMITTEE

Present:	Secretary of State	Mr B Sirs (ISTC)
	Sir K Barnes	Mr R Evans (ISTC)
	Mr D B Smith	Mr H Smith (NUB)
	Mr M Wake	Mr N Ledley (NUB)
	Mr R Shepherd	Mr F Wilkinson (GMWU)
	Mr A Moorey	Mr T Crispin (TGWU)
	Mr R Dykes	Mr F Cotton (GMWU)
	Mr J Anderson	Mr E Linton (NCCC)
		Mr L Hancock (NCCC)



The Secretary of State welcomed Mr Sirs and his colleagues and invited Mr Sirs to speak.

Mr Sirs said that the unions had throughout the dispute endeavoured to reach a settlement with BSC through negotiations. They had on a number of occasions advanced proposals for a settlement, and had ultimately joined together in a united union team, although they usually negotiated separately. This had been welcomed by BSC.

The unions had again met BSC on 21 March and advised them that they unanimously rejected the latest offer. The unions had over a number of weeks given BSC the incentive to settle but BSC was determined not to improve its offer. The unions had therefore concluded that a negotiated settlement was not possible and had proposed a committee of inquiry. They had initially wanted its remit to cover an enquiry into BSC management as well as the pay dispute, but had since dropped their demand for an inquiry into BSC management, although they would continue to seek an opportunity for an inquiry of that kind. Both sides had now agreed to a committee of inquiry and to terms of reference. The unions hoped that the Secretary of State would appoint it. They were not asking for the Government to interfere directly or to provide more money for wages. They hoped that the inquiry would provide for an acceptable conclusion.

The Secretary of State welcomed the progress made by the parties in developing the means whereby the long and damaging dispute might be

quickly ended, and he hoped that the earliest possible return to work might now be agreed. The terms of reference, and the presence on the committee of inquiry of one union and one management nominee had been agreed. The only outstanding problem appeared to be the appointment of a chairman.

The Government had not intervened in the dispute and the unions had not asked it to. It was surely best to avoid Government intervention in any dispute or in any way. If the unions could not agree a chairman with BSC, ACAS was available to assist the parties and in any case could organise the administrative arrangement for the inquiry very quickly. It would be damaging to ACAS to in anyway undermine its position and it was critically important that ACAS should continue to maintain a wholly independent and trusted role in the resolution of disputes.

Mr D Smith added that ACAS had been established 5½ years ago with the full support of Government, Opposition, CBI and TUC because of the experience of Government involvement in disputes. ACAS had developed widespread acceptability and trust with both sides of industry, which could be eroded if the Government itself adopted ACAS's role.

Mr Sirs said that both the ISTC's and the NUB's previous experiences had led their union executives to be disinclined to approach ACAS. Even if BSC and the unions agreed on a chairman it would seem that they would have to resort to ACAS for the inquiry's secretariat.

Mr H Smith said that when the NUB used ACAS in 1975 it had taken 10-14 days to obtain BSC's agreement to a chairman of an inquiry. He feared that ACAS would not be strong enough to get BSC to compromise and agree on a chairman.

The Secretary of State and Mr D Smith made the following further points in support of ACAS involvement.

- 1) There were many important administrative matters to attend to in establishing a committee of inquiry. Experience had shown that it was very helpful to have an independent secretariat and the expertise to provide this now lay with ACAS.

2) Ministerial involvement in disputes could introduce a political dimension, make a difficult situation the more difficult to resolve, and undermine the responsibilities of management and unions.

3) ACAS had a panel of potential chairman from which the parties could choose and would be able to suggest some possible chairmen that the unions and BSC might not have thought of.

The Secretary of State stressed the importance he attached to supporting ACAS. He wanted to build for the future and did not propose to undermine ACAS by adopting a short-term expedient of establishing a Government committee of inquiry in this case. BSC and the unions should agree on a chairman or else seek ACAS assistance. He was not going to accede to the unions request that he establish a committee of inquiry.

Mr Sirs said that the steel unions had considered all of the options for third party intervention and had decided upon an approach to the Secretary of State. He had rejected this initiative and no further progress seemed possible at this meeting.

Mr Cotton thought that the difference between the Secretary of State and the unions might be bridged by a cosmetic exercise. The problem was that some steel unions' experience with ACAS had turned them away from an approach to that body. Could the Secretary of State not forward a list of names for the chairmanship to ACAS? The Secretary of State said that he did not have powers to direct ACAS. An approach of this sort would undermine ACAS and he was not prepared to take it.

Mr Ledley suggested that the Secretary of State could involve himself in the establishment of a committee of inquiry by asking ACAS to draw up a list of possible chairmen for the two sides to the dispute to consider? The Secretary of State indicated a willingness to consider this form of involvement but before the matter could be discussed further Mr Sirs said that he had not been consulted about this suggestion being put to the Secretary of State.

The steel unions then asked for a brief adjournment.

When the meeting reconvened Mr Sirs said that the unions had noted the Secretary of State's rejection of their request to intervene on the basis sought. They also noted that it was the Government's policy to refrain from intervention in such a way. The Secretary of State's refusal to intervene would cause delay.

The unions appreciated that the Secretary of State had tried to be helpful. They would put the Secretary of State's comments to their union executives for consideration, and would advise BSC of the position at their joint meeting later that day.

John Anderson.

J ANDERSON
24 March 1980

cc: P/S to Prime Minister
P/S to Secretary of State for Industry
Mr Taylor
Mr Norris
Mr Wye
Mr Shepherd
Mr D B Smith
Mr Wake
Mr Covington
Mr Moorey



24 MAR 1980

A second message from BOB SCHOLEY

WHY I AM ENCOURAGED

THESE HAVE BEEN difficult days for us all. Your response to the first broadsheet has been more than encouraging, showing some light at the end of what has been a very long tunnel.

Four developments have encouraged us.

FIRST, that so many of you wrote to me following my personal message to you. I have tried to reply to you all. A number of the points you raised are highlighted on the back page of this bulletin. If you have any other points you wish to raise I would still be interested to hear from you.

SECONDLY, that the steel unions have for the first time negotiated together on the pay proposals. Such joint action is helpful both to the Corporation and, I am sure, to the unions involved.

THIRDLY, as you will read in the column alongside, the actual *words* of the new draft agreement have been accepted by both sides. We still have to agree on the amount of money to be paid, and how much of it is to be related to local improvements. It is crucial that



enough money is available at local level to provide an incentive for real change in performance.

FOURTHLY, that the majority of you who voted in the ballot voted in favour of a further ballot on the Corporation's pay offer. We have asked the unions to consider obtaining the views of their members in a second ballot on the Corporation's final offer, which is based on the recommended agreement you will find set out overleaf.

WHAT'S HAPPENED SO FAR

1. The steel unions came together for the first time as the Iron and Steel Co-ordinating Committee to discuss our pay proposals.
2. After three days of talks, a draft agreement was hammered out. This is printed IN FULL on the centre pages, highlighting the major changes from the last document.
3. What's missing from the draft agreement is the money and how it is to be paid. BSC and the steel unions could not agree on these points. A chart illustrating our differences is printed on the back page of this bulletin.
4. The Corporation has decided that its final offer — which is 10 per cent national increase plus 4 per cent minimum bonus payment for those divisions and works where local bonus schemes are agreed — is STILL the final offer.
5. The Corporation has responded positively to a number of points raised by the Iron and Steel Co-ordinating Committee and these are noted below.
6. The Corporation expects to meet with the Iron and Steel Co-ordinating Committee, following the unions consulting with their executives, in order to continue discussions.

WHAT HAS CHANGED

1. The recommended agreement has been negotiated with all the unions acting together as the Iron and Steel Co-ordinating Committee. (Preamble).
2. The Guaranteed Week question is to be dealt with by a Joint Working Party. (Clause 4.6).
3. The claim for improvement of the minimum adult rate is to be dealt with by the Joint Working Party considering junior rates, and the question of the age at which adult rates should apply. (Clause 4.11).
4. Given an orderly return to work by the 23rd March, 1980 with no victimisation or blacking of any kind, consideration will be given to restoring lost holiday entitlement and to giving employees an opportunity to catch up on lost pension entitlement where they wish to do so. (Clause 6).

This is the new deal

BOLD TYPE INDICATES SIGNIFICANT CHANGES. BSC COMMENT IN RED.

MEMORANDUM OF RECOMMENDED AGREEMENT made on _____ between the British Steel Corporation, 33 Grosvenor Place, London SW1X 7JG (hereinafter called "the Corporation") and the **Iron and Steel Co-ordinating Committee** (hereinafter called "the Unions") with regard to an increase in wages.

PREAMBLE

WHEREAS the unions submitted a comprehensive claim for an increase in wages and improvements in other benefits to take effect from 1 January 1980 and WHEREAS negotiations on the claim took place at a number of conferences held between 29th October 1979 and 10-11-12 March 1980 **IT IS NOW AGREED THAT**

- 1.1 Having regard to the Corporation's serious business difficulties the Corporation and Unions agree nationally the principle that in the year there should be significant pay increases but that these will be financed through improved performance **and any other savings from productivity deals**. The Corporation and the Unions therefore enter into an enabling agreement to ensure that for this particular negotiation a proportion of the annual increase shall be linked directly to the achievement of improvements in the Corporation's overall ability to pay by virtue of better financial performance at Division or Works level.
 - 1.2 The Corporation and the Unions agree that much remains to be done in respect of the commitments made by the signatories to previous agreements in respect of:
 - (a) The commissioning of capital projects.
 - (b) Speedy resolution of inter-union disputes without any embargo or restriction of work.
 - (c) Completion of WMIS.
 - (d) Improved working practice agreements between the Unions.
 - (e) Closer alignment of maintenance and process activities.
 - (f) Reducing absenteeism and unnecessary overtime.
 - (g) Reducing industrial disputes.
 - (h) The encouragement of payment by bank transfer.
 - 1.3 The Unions accept the continued need for joint discussions with the Corporation at national level and also at local level with TUC affiliated steel unions:-
 - (a) **with the objective of achieving international manning standards at all levels at ongoing plants to achieve the highest level of productivity, pay and conditions in line with overseas competitors, particularly the European Iron and Steel manufacturers, and**
 - (b) on the means by which closer working relationships can be established between the Corporation and all the nationally recognised TUC affiliated steel unions.
- ## **2. SCOPE AND COVERAGE**
- 2.1 (a) This agreement applies to all **manual grade employees** represented by the signatory unions, covered by Heavy Steel conditions and agreements and also any manual grade employees represented by the signatory unions in respect of whom agreement is subsequently reached between the Corporation and the unions that they shall be transferred to Heavy Steel conditions and agreements.
 - 2.2 This agreement is made for a _____ period from 6.00 am Sunday 30th December 1979 to _____

Both sides have agreed that the settlement will be for the 12 month period ending 31st December 1980

3. CONSOLIDATION OF PHASE II INCOMES POLICY SUPPLEMENTS

It is agreed that the consolidation of the phase II Incomes Policy Supplement shall be deferred until some jointly agreed date in the future.

4. GENERAL INCREASE

- 4.1 In recognition of the Unions' contribution to supporting the following programme within the principles outlined in clause 1 (including the introduction of the lump sum bonus schemes and associated payments as set out in clause 5), there shall be a general increase on all elements of pay of _____ with effect from **the agreed date is 30th December 1979. Union claim 14 per cent. BSC offer 10 per cent.**
- 4.2 The Unions and Management accept the urgent necessity for the restructuring of work at all levels to bring about within a period of **twelve months from the date of this agreement** the achievement of the objectives set out in clause 1.3(a) in the ongoing plants and offices so as to improve the Corporation's costs and hence its competitiveness.
- 4.3 At local level in line with the previous agreements specified in clause 1.2 Management shall aim to table by the **end of April and at the latest by the end of June** for discussion and negotiation with the Unions its local plans to
 - (i) reduce inbuilt overmanning through job restructuring, and
 - (ii) reduce absenteeism to **the minimum level possible**
 - (iii) reduce overtime to **the minimum practicable level compatible with maintaining plant efficiency**
- 4.4 These plans will include joint examination of the Corporation's proposals concerning areas of activity which are excess to requirements together with proposals for appropriate local productivity negotiations where increased work or higher responsibilities are involved.
- 4.5 The Unions at national level endorse the adoption at local level of policies of productivity negotiations on the basis that:
 - (a) local negotiations will allow non-recruitment
 - (b) Advantage will be taken of labour turnover and redeployment where possible to ease any necessary reductions in manpower.
 - (c) standard manning levels can be flexed by local agreement where productivity negotiations are in progress.

- 4.6 Given the difficult financial year ahead the Corporation **setting up of a Working Party** to discuss
 - (a) the possible advantages of the Government Scheme to the Guaranteed Week Agreement, and
 - (b) without precedent for the future, examining the benefits to the Corporation and the employees of the Guaranteed Week Agreement being suspended by mutual agreement at local level.

- 4.7 On the basis of the need for change in the industry the Corporation's concern regarding the need to improve relations between maintenance and process workers in the industry. Management and other appropriate unions so as to share the responsibilities of process and maintenance workers.

- 4.8 Any bonus incentive or other payment expressed in clause 5.1 shall have been added the increases stated in clause 4.1 above. Where necessary, such arrangements shall be made to ensure this condition is met.

- 4.9 In the case of workers subsequently transferred to other plants the increase detailed in clause 4.1 hereof shall apply from the date following expiry of twelve months from the date the increase took effect. Increases arising out of the agreement hereof will be subject to the same principle and conditions of transfer to ensure that the frequency and timing of increases is synchronised with all others elsewhere in the Corporation.

- 4.10 The Corporation and the Unions accept as a condition of this agreement that employees in the industry that they will hold conditions of employment of a 39 hour week or a shorter working week subject to satisfactory mechanisms including minimum standards. The Corporation agrees to introduce this improvement.

- 4.11 It is agreed that a Joint Working Party will be set up to discuss the following:
 - (i) **The phased movement to the payment of adult rates to employees who are doing adult job with a view to payment retrospective to the date of formation of the Joint Working Party.**
 - (ii) The relationship between adult rates and the minimum adult rate with a view to improving these from 1 January 1980.

- (iii) **The minimum adult rate for 40 hours paid to a worker with a view to implementing any improvements in the Joint Working Party.**

5.1 LUMP SUM BONUS SCHEMES

Lump sum bonus payments will be made at local level where it is demonstrated that:-

- (a) the cost of such increases has been funded by the Corporation
- (b) such payments will derive from agreed schemes of productivity performance on a Divisional or Works basis and
- (c) it is understood that the schemes described above will be applied at local level and above.

- 5.2 The detail of the supplementary schemes described above will be left for local determination. They will however be subject to the participants the opportunity to share in the benefits of the agreement that the responsibility will be on local management and Trade Union officials to design, implement and monitor.

- 5.3 Performance of local schemes will be assessed annually. The result will be applied as a percentage increase in the lump sum bonus has accrued during the three month period over which it has been assessed and will be paid as a lump sum.

- 5.4 While as previously stated in clause 5.2 hereof the matter for joint determination, it is agreed that the following:

- (a) Lump sum bonus payments (other than the minimum described in 5.7 below) will be made only in the event of improvements in business performance.
- (b) It is accepted that factors external to the Corporation's performance both adversely and favourably. No claim will be made for external influences.
- (c) Lump Sum Bonus payments will be made as a percentage of gross earnings during the relevant period. Any Lump Sum Bonus payments, advanced or arrears payments which may have been made in respect of the schemes in the terms of the schemes.

draft agreement

...cial year ahead the Corporation and the Unions agree to the
...g Party to discuss
...ages of the Government Short Time Working Scheme in relation
...week Agreement, and
...or the future, examining the possibility during 1980 only of the
...ation and the employees concerned of the provisions of the
...greement being suspended to meet local circumstances by
...local level.

...ed for change in the industry, the Unions recognise the Corpo-
...ding the need to improve working practices and relationships
...and process workers in the industry and agree to a dialogue with
...er appropriate unions so as to allow the relative position and
...ss and maintenance workers to be clarified.

...other payment expressed as a percentage of a rate to which has
...es stated in clause 4.1 above shall not be further increased as a
...t. Where necessary, such agreements will be adjusted accord-
...dition is met.

...subsequently transferred to Corporation Heavy Steel Conditions
...clause 4.1 hereof shall apply from 6.00.am on the first Sunday
...elve months from the date on which their last principal wage
...increases arising out of the local schemes described in clause 5
...to the same principle and discussions will take place at the time of
...he frequency and timing of payments arising from such schemes
...l others elsewhere in the Corporation.

...the Unions accept as a contribution to improving the conditions of
...stry that they will hold constructive discussions about the intro-
...week or a shorter working year. Subject to the Unions' commit-
...mechanisms including minimising the cost as far as possible, the
...introduce this improvement with effect from 1st January 1982.

...Working Party will be set up to examine

...ment to the payment of adult rates to 18 year olds not under
...ing adult job with a view to introducing the first phase of
...tive to the date of formation of the Joint Working Party.

...between adult rates and those for persons under training with a
...these from 1 January 1980.

...adult rate for 40 hours paid for various low-paid categories of
...w to implementing any increase from the date of formation of
...Party.

SCHEMES

...ments will be made at local level provided that it has first been

...increases has been funded by improved financial performance,
...will derive from agreed schemes designed to measure financial
...Divisional or Works basis described in 5.4 below,
...at the schemes described above will be applied to units at Works

...plementary schemes described above will be a matter for joint local
...all the unions concerned. The structure of local schemes will be
...ation. They will however be designed in such a way as to afford
...rtunity to share in the benefits of improved performance. It is
...sibility will be on local management and local lay and Full Time
...o design, implement and monitor their own schemes.

...schemes will be assessed 3 monthly in arrears.
...ed as a percentage increase to the earnings which each individual
...e three month period over which the scheme performance has
...be paid as a lump sum.

...tated in clause 5.2 hereof the detail of local schemes shall be a
...mination, it is agreed that each local scheme will incorporate the

...payments (other than the advance payment and guaranteed
...d in 5.7 below) will be made only after the actual achievement of
...business performance.

...factors external to the Corporation may affect business perfor-
...ely and favourably. No attempt will be made to offset for these

...payments will be made quarterly and will be calculated as a
...earnings during the relevant three month period, after excluding
...onus payments, advance payments, or guaranteed minimum
...y have been made in respect of the previous quarter under the
...s.

In order to implement these principles in varied circumstances in different parts of the Corporation and still preserve consistency of approach it is intended that each local scheme should be designed on the basis of one of the following options:

"Better business results and productivity as shown in improvement in added value related to employment costs."

OR

"Expression of overall business success in terms of improvement in a predominant physical index (or indices)".

OR

"The achievement of specified improvement milestones in circumstances of major change"

OR

"In the event of alternative schemes being locally acceptable to Management and to the Unions these will be considered"

5.5 Schemes which use added value as their basis will calculate this factor by subtracting the cost of materials and services from turnover and expressing the result of that calculation as a proportion of employment costs.

5.6 Lump sum bonus payments arising from local schemes will be paid on the nearest practicable pay date following the end of the period over which performance has been assessed, to employees in the Corporation's employment at the time they fall due. Any scheme which uses employment costs as part of the calculations of quarterly payments will take account of the costs of such payments in the period in which they are paid as distinct from the period on the result of which they calculated.

5.7 In consideration of the national undertaking to make local settlements on Divisional / Works Lump Sum Bonus Schemes and on the basis of a return to work no later than Sunday, 23 March 1980 the Corporation will make one advance payment (during the January-March 1980 quarter) equivalent to 4 per cent of individual gross earnings accruing from services with BSC during the 13 weeks ended 29 December 1979.

The union's claim is for 5 per cent.

Any excess over and above the 4 per cent which is generated by the actual performance of a local scheme during the period January-March 1980 will be paid as a lump sum as soon as possible after the end of the quarter.

In addition:

(a) Where a local scheme has been agreed before 29 March 1980 a continuing minimum guarantee of 4 per cent shall be paid on a weekly basis with effect from Sunday, 30 March.

OR

The union's claim is for 5 per cent.

(b) Where a local scheme is made between 30 March and 22 June 1980 the 4 per cent minimum guarantee will be paid retrospectively to 30 March and on a continuing weekly basis from the date of the local scheme being agreed

OR

(c) Where a local scheme is agreed after 22 June 1980 the 4 per cent minimum guarantee will be paid on a weekly basis following the date of the agreement but there will be no retrospective payment.

5.8 Having regard to the need for joint multi-union negotiation of local schemes covering the total job population in a Division or Works the Unions agree subject to the provisions of clause 5.2 to participate in the setting up of a special negotiating machinery. Such negotiating arrangements will be for the sole purpose of dealing with the local schemes described in clause 5.1-5.7 hereof and will be completely separate and distinct from the normal arrangements embodied in national agreements or established custom and practice.

5.9 The precise nature of the special joint local negotiating machinery described in Clause 5.8 above shall be a matter for local arrangements but shall be so constructed as to permit expeditious negotiation of those schemes on a Works-wide or Divisional basis.

6. RETURN TO WORK

Given an orderly return to work not later than Sunday 23 March with no victimisation or blacking either within the Corporation or outside eg with suppliers and stockholders, the Corporation will give consideration to:

(a) a proportion of the holiday entitlement for the holiday year 1980-81 being unaffected as a result of the strike, and

(b) employees being given the option, to be exercised within six weeks of a return to work, to pay out of future earnings pension contributions in respect of earnings lost during the dispute and the Corporation matching the employee's contributions with its normal contribution..

7. FUTURE RELATIONSHIPS

The Unions agree to hold constructive discussions during 1980 with the Corporation and the other recognised Unions in the Corporation, regarding the possibility of a common approach to future national negotiations affecting the whole of the workforce.

8. EXISTING AGREEMENTS

Except as amended by or in consequence of this Agreement, all conditions under existing agreements or arrangements shall be continued.

SOME POINTS YOU RAISED

I am in the staff area myself and am not sure whether I am covered by the local bonus schemes or not.

Yes, you are. All employees will be covered by these schemes and all will benefit from them.

I agree with most of the points in the agreement, but cannot agree with the ending of the guaranteed week. That seems terribly wrong.

The Corporation does not propose to end the guaranteed week agreement unilaterally. What we have now agreed with the unions is that there should be a joint working party to look into the advantages of the Government's short time working scheme. In some circumstances the Government scheme might pay out more than the guaranteed week agreement. The agreement could only be suspended by mutual consent between unions and management.

I see that you want to cut the number of manual workers yet again. Isn't it about time staff and management was hit too?

There have been staff and management reductions throughout BSC. The streamlining of manning at on-going plants will affect all grades of employees — staff, management and manual grades. There will be no exceptions.

I see the amount to be earned from the bonus scheme is 4 per cent. That doesn't seem much.

Four per cent is the MINIMUM that can be earned through the schemes. Earnings could increase overall to between 18 and 21 per cent this year, though one must admit that the longer the strike goes on, the harder it will be to reach these figures.

I did not receive a ballot form. If there is to be another ballot, can someone ensure that I am not missed out again?

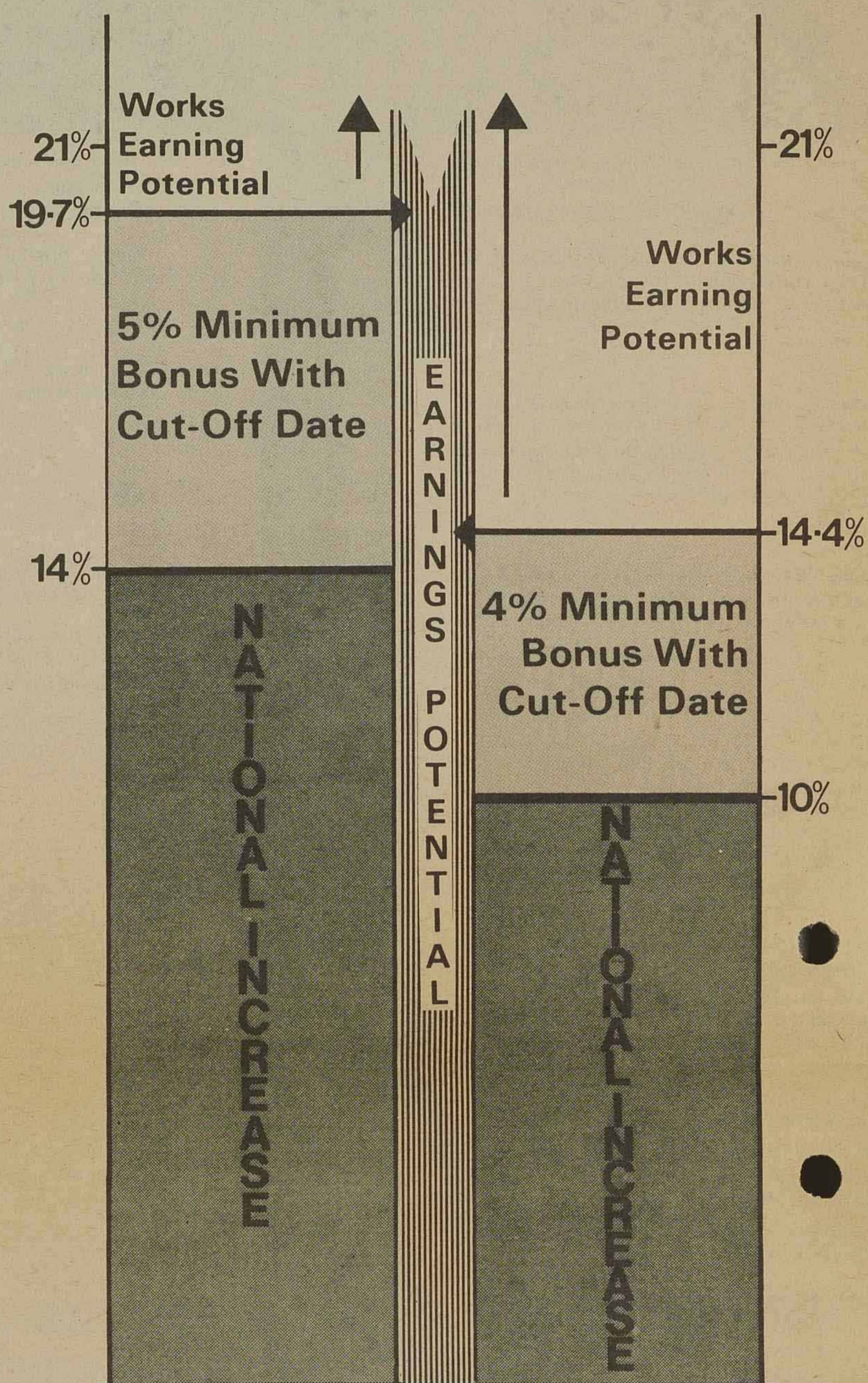
Possibly you did not get a form because you have recently moved home. Whatever the reason, those who did not receive a form should phone their local personnel officer.

Why does the pay deal have to be self-funded?

Because otherwise we will price our steel out of the market and inevitably this would mean further job losses. Our steel is already the most expensive in Europe.

TRADES UNION CLAIM

BSC OFFER



THIS CHART clearly shows the present differences between the steel unions and the Corporation on how the pay increases ought to be paid.

The most the industry can afford this year is an overall increase in pay of between 18 and 21 per cent.

THE UNIONS want 14 per cent of this to be paid as a general national increase and 5 per cent minimum bonus paid in those divisions in which local bonus schemes are agreed, with further earnings coming from those bonus schemes and productivity bargaining as performance improves.

THE CORPORATION wants the national increase to be 10 per cent, the minimum bonus payment to be 4 per cent — with the rest coming from the bonus schemes and productivity bargaining. BSC's position is that the greater the amount of money to be earned at local level through the bonus schemes the more incentive there will be for change.

PRIME MINISTER

(dictated by Mr. Solly Gross)

Steel Wage Negotiations

The following is the remit to a committee of inquiry agreed by BSC and the unions this evening.

"On 12 March 1980 a document was produced by the Iron and Steel Union Coordinating Committee and BSC specifying conditions relating to an increase in wages for manual workers employed under heavy steel conditions other than the percentage values of the two elements of the increase in wages, namely - the general increase and the minimum guarantee for participants in local schemes.

The difference between the parties on the two elements of disagreement were as follows:-

BSC offer: general 10%, minimum guarantee 4%.

The union claim: general 14%, minimum guarantee 5%.

The committee of inquiry is requested to determine what these percentages should be."

BSC are pleased that the terms of reference are so narrowly defined and do not refer to management or closures. Secondly, that the general agreement is taken as read. While the remit does not refer to ability to pay, the general agreement does refer to the need to finance pay increases through improvements in performance etc, which is an essential feature of the BSC case.

The unions will seek from Government appointment of a committee of inquiry by the Secretary of State for Employment.

/ BSC

Nationalised
Industries

BSC will not join them in that approach since BSC maintain that the committee of inquiry should be appointed by ACAS.

The unions have left open the issue of an early return to work.

I shall be discussing with the Secretary of State for Industry and Mr. Douglas Smith how the above should be reflected in the Secretary of State for Employment's meeting with the unions on Monday morning.

The unions and BSC have arranged to resume talks at 2 p.m. on Monday.

21 March, 1980.

Mr. Gross phoned again at 2325 to say that he had consulted the Secretary of State for Industry and in the light of the narrow terms of reference proposed it has been agreed that the meeting with the unions should be chaired by the Secretary of State for Employment on his own.

Not Incl.



10 DOWNING STREET

Prime Minister

MK

This brief assumes
there is a meeting on
Monday with Bill Siro.

As of 8.30 pm this evening,
the talks are still going
on, and it now seems
possible that BSC will
persuade the unions not
to pursue the court of
enquiry idea. In that
case, there will be no meeting.

R.
2/3

COVERING SELLER

Prime Minister



Caxton House Tothill Street London SW1H 9NA
Telephone Direct Line 01-213 6406.
Switchboard 01-213 3000

This seems OK.
But you might want
to have a word with
Sir Keith on
the phone.

21 March 80 RL
21/3

Dear Tim,

Herewith a copy of an initial brief
for Monday's meeting with Bill Sirs etc.
I have told my Secretary of State that
the Prime Minister may want a word with
him some time on Sunday evening.

You ever

Richard Dyker

Tim Lauterk Etc
10 Downing Street.

SECRET

BRIEF FOR MEETING WITH MR SIRS AND OTHER STEEL TRADE UNIONS - 10.30
MONDAY 24 MARCH

Response to steel unions' request for a Government inquiry

General

- (a) From the outset the Government had made clear that it did not propose to intervene in the dispute. That is still the position.
- (b) It was for the BSC and the unions to reach agreement on the terms and conditions of employment to be afforded, reflecting the needs of the industry.
- (c) When it became apparent that a settlement could not be reached by negotiations, the Government expected (and had hoped) that the BSC and the unions would agree to put their difference to arbitration; for which there are some agreements.
- (d) The unions refused arbitration for reasons which are still unclear. But ACAS was always ready to provide other means of third party assistance which might be agreed between the parties, eg mediation. That is still the position.
- (e) ACAS was set up by the previous Administration with the full support of the TUC and the CBI. It was welcomed by the Conservative party when in Opposition. It was created just because it had become generally accepted - and particularly by the trade union movement - that Government intervention into industrial disputes undermined the principle of collective bargaining and the responsibilities of parties in dispute. The appointment of an inquiry by the Government would undermine the development of ACAS, a wholly independent statutory body.

(f) In the Government's view, the unions should now urgently seek ACAS's assistance in reaching agreement with the BSC on arrangements for the resolution of the dispute which could allow the earliest possible return to work, in the interests of the steel industry and the union's own members.

Particular

(a) It is not for the Government to take sides on the issue of what form of third-party intervention might be most appropriate eg terms of reference, mediation, composition.

(b) But it would be wholly inappropriate for the Government to set up an inquiry, not least in the midst of a long and damaging strike, into the decisions or performance of management discharging their proper responsibilities. It is of course a function of Government to maintain an oversight of all nationalised industries, but not to interfere in management decisions.

(c) /If the unions suggest they would have been ready to recommend an immediate return to work/. It is critical that BSC resumes production just as quickly as possible. The strike has been immensely damaging. Great hardship has no doubt been endured by the unions' members. Surely agreement must now be reached - with the help of ACAS if necessary - on how the pay issue is to be resolved.

(d) The Government has been assured by the BSC that they are anxious for further consultations just as soon as possible with the unions on their proposals for closures and the basis for them. They have also made clear that the date first set for the conclusion of these consultations is no longer to be kept.

NICK SANDERS FROM TIM LANKESTER

I told you earlier today that Bill Sirs had asked for a meeting with Mr. Prior and Sir Keith Joseph to discuss his request for a Government inquiry. I also told you that the 2 Ministers had decided that they would meet him on Monday morning.

As of 8.45 p.m., the talks are still going on, and I have heard via the Department of Employment that BSC are moving in the direction of persuading the union side that a Government sponsored inquiry covering management, closures, etc., is not on. In other words, they have managed to move the talks back on to the subject of pay, and Bill Sirs seems to be increasingly isolated. This of course may come to nothing, and the talks may break up with the unions saying they still want an inquiry. In that case, Sir Keith and Mr. Prior will agree to see them on Monday.

However, they have not yet told Sirs that they will meet him on Monday. If the unions emerge from the talks asking for an inquiry, they will communicate with Sirs tomorrow afternoon, and tell him that they will see him on Monday. It is most important that nobody knows they are willing in principle to meet him until the talks break.

21 March, 1980.

JH



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ASHDOWN HOUSE
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PS/ *Secretary of State for Industry*

21 March 1980

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

Dear Tim,

... I attach a copy of the 23rd Report of the
Interdepartmental Contingency Group on the
Steel Strike.

I am copying this to the private secretaries to
members of E Committee, 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

✓

ms

Peter Stredder

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CONFIDENTIAL

STEEL STRIKE : 23rd REPORT OF INTERDEPARTMENTAL
CONTINGENCY GROUP

This report summarises the position on 21 March.

BSC

2 The joint industry committee, representing the 13 unions in dispute with the Corporation, met on Wednesday 19 March to consider a response to the BSC's final offer, following formal rejection by the Union Executives earlier in the week. A further meeting between the joint industry committee and the Corporation is taking place today. There are increasing signs of dissension within the union leadership and of a growing disposition towards some form of third party intervention to achieve a settlement. The Corporation remain ready to co-operate over arbitration on terms which take account of their financial situation.

3 It may be relevant that tax rebates being paid to strikers will cease at the end of the financial year, ie early April.

4 In advance of the union's response the Corporation has made no further moves to conduct its own ballot. But they have now sent out a broadsheet to all employees setting out the details of agreements already reached on the central and productivity aspects of a settlement and summarising the differences between the BSC pay offer and the unions' most recent claim.

Private Sector Producers

5 All the private sector steelmaking and re-rolling companies continue to produce and are making good deliveries to customers. Two private sector steel plants in South Wales are heavily picketed without effect on production. Private sector re-rolling companies hoped to obtain further supplies of semi-manufactured raw materials from steel currently held in the British Rail yards in the Midlands, but have been frustrated, at least for the time being, by the unsuccessful attempt by British Rail to deliver steel to a West Midlands stockholder (see para 7 below). A few re-rolling companies, who depend heavily on BSC, are unable to procure suitable supplies of semi-manufactured steel from the private sector steelmakers and are now expecting to lay off some workers over the next few days. It is not possible to identify the potential effects of this with any specific user sector.

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-2-

Steel Supplies and Transport

6 Good deliveries from the private sector and continuing imports are maintaining the endurance of most steel-using sectors and there is no new evidence of imminent steel shortages. Steel stockholders are making deliveries to users with little interference from picketing, with the exception of parts of South Wales.

7 British Rail employees attempted on Tuesday to deliver a large consignment of steel to a stockholder in compliance with a High Court Order for its release from a British Rail yard at Wolverhampton. The NUR had instructed its members to obey the Court Order but not to cross picket lines. However, British Rail vehicles were met by a massive picket line and promptly returned to the depot. TGWU workers at the stockholders' premises had also been instructed by their officials not to handle the steel. Steel stocks at the company are so low that lay-offs are now imminent.

8 There is growing unrest amongst railway workers, who are losing earnings because of the ban on steel movement by rail and who fear permanent loss of business to road transport. The NUR General Secretary has written complaining to the TGWU about the continuing high level of steel movement by road, but its purpose is probably presentational.

9 There is little overall change either in the movement of steel by road or at the docks, where some restrictions on handling of imports in London and East Coast ports are continuing.

10 The Customs and Excise figures for February 1980, which represent steel imports landed, but not necessarily moved from the ports, were 359,000 tonnes compared with 307,000 tonnes in January. The respective months of 1979 were affected by the transport strike, so that a direct monthly comparison is not meaningful. They compare with an average of 381,000 tonnes per month for the last five months of 1979.

Effects on Industry

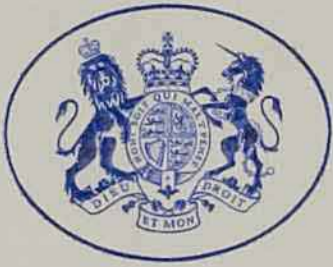
11 This week's survey by the Business Statistics Office shows that overall manufacturing production in week ending 15 March remained at 95% of what it would have been in the absence of the steel strike (just over 97% if the BSC's

*But Lippo
Liverpool
dockworkers*

*today refused
to load steel
for export to
India from
a private
producer.*

12.

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-3-

production loss is deducted). This is at a similar level to the previous four weeks. Exports are being maintained at a level near to 96% of what it would otherwise have been. Estimates from the 453 companies responding to the survey, 18% of which are affected by the strike, are that at least 95% production and 96% exports, will again be achieved this week, with no significant deterioration expected even in the most vulnerable sectors.

12 The metal-using sectors which cover all engineering, shipbuilding, vehicles and "other metal goods" have continued overall to produce and export at levels of 3% below what they would otherwise have been. In the worst-affected sector ("other metal goods"), which includes tinsplate cans and metal boxes, drop forgings (eg components), steel wire and hand tools, production losses due to the strike remain about 11%, with loss of export deliveries at 9%. In mechanical engineering, shipbuilding and vehicles, production and deliveries for the sectors as a whole seem still to be virtually normal.

13 Metal Box, the major tinsplate can producer, have been able to increase their level of production, following the receipt of imports, and is now able to meet 40% of customers' demand. Reads, the other can producer, also currently achieving only a limited production, are arranging for imports of tinsplate to cover the whole of their April requirements.

14 In the automotive sector, British Leyland still expect to continue planned production of most cars, until the end of March, but have not yet provided an estimate of the prospects beyond that date. As expected, production of Minis and Allegros at Seneffe, Belgium, using UK kits, has now stopped. Four models of commercial vehicles and all farm tractors are being build short of certain components.

15 The other vehicle manufacturers have adequate supplies of steel and components for planned car production for at least 2/3 weeks, but some types of commercial vehicles at Vauxhall and Talbot are being affected by shortages of components.

Department of Industry
21 March 1980

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Prime Minister *4*

to the Director



To ~~the~~ glance.

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

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273

20 March 1980

[Handwritten signature]

PRIME MINISTER

Adam Butler sent you a note on the possible longer term industrial effects of the steel strike on 15 February. His note included some estimates of the macro-economic effects by his economists. I thought that you and our colleagues most concerned with the strike would be interested to see a rather fuller assessment of the macro-economic effects of a 3-month strike which Treasury economists have made.

2. I must stress that these estimates are subject to great uncertainty. Although the Business Statistics Office, the CBI and the Department of Industry's own contacts with industry are providing us with valuable clues to the industrial effects of the dispute, we have as yet very little official economic data for the period from 1 January and so it is difficult to make confident predictions about the industrial, let alone the wider economic, effects of a 3-month strike.

3. Subject to these important qualifications, the assessment suggests that a 3-month strike could reduce GDP by almost $\frac{1}{3}\%$ in 1980, worsen the current balance by £400m and increase the PSBR by about £325m in calendar 1980.

[Handwritten scribble]

this will actually impact mainly on 1980/81 because of lags in bill payments and tax payments.

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1980. The monetary effects seem likely to be small - there will probably be some increase in $\text{\pounds}M3$ in the first half of 1980 which may be partially reversed later in the year.

4. I am sending copies of this minute to members of E Committee, George Younger, Nicholas Edwards and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be "G.H.".

(G.H.)

MACRO-ECONOMIC EFFECTS OF THE STEEL STRIKE

This note provides an assessment of the short-term macro-economic effects of a strike at BSC lasting for 3 months. It inevitably involves a number of fairly arbitrary assumptions about the effects of the strike. The available evidence on the impact of the strike so far has been taken into account in making the assessment. Nevertheless major uncertainties remain especially about the size and timing of the impact on steel-using industries and about the extent of the recovery after the strike.

Summary of Major Effects

2. A 3 month strike could reduce GDP by almost $\frac{1}{3}\%$ in 1980 - the impact being greatest in manufacturing where output could fall by $\frac{2}{3}\%$; it could worsen the current balance by £400m; and it could increase the PSBR by about £325m in calendar 1980. The effect on output will be concentrated in the first quarter of 1980 when GDP might fall by nearly 2%. There should then be some recovery later in the year. However, the adverse effects on the PSBR and the balance of payments are likely to be felt almost entirely in the second and third quarters of 1980.

Effects on the steel industry

3. Including the impact on private steel manufacturers, the steel industry will probably lose over half of its output during the 3 months of the strike - equivalent to about $\frac{1}{4}\%$ of GDP - and a certain amount more in the month or so it takes to restore full production. It has been assumed that one-third of this lost output will be recovered during 1980 and that the remainder is a once-for-all loss which is replaced by additional imports of steel.

4. No allowance has been made in this assessment for any permanent loss in BSC's market share as a result of the strike. Some continuation of the past loss in share would have been likely in any case. The strike will probably at least bring forward the timing of this loss although the size of this effect is very difficult to assess.

5. The strike will cut BSC's gross trading surplus by well over £100m in the first quarter of 1980, some of which should be recovered as output is increased later in the year. However, it seems likely

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that BSC's cash position will actually improve in the first quarter. BSC grants a large amount of trade credit and, provided customers continue paying bills, revenue should still flow in during the strike at a time when outgoings, especially on labour costs, will be reduced. The adverse effect on cash flow will probably be felt primarily in the second quarter.

6. About 150,000 BSC workers are on strike or laid off. There are also some lay-offs in the private sector.

Effects on other industries

7. These are particularly difficult to assess and have been the source of considerable error in previous disputes.

8. It has taken longer for the output of steel-using industries to be affected than seemed likely when the strike began. The evidence of, for example, the Business Statistics Office surveys suggests that the impact on manufacturing increased in February but still remained fairly limited. A further increase is likely in March but there is no indication that there would be a major worsening of the situation if the strike were settled by the end of the month. It has been assumed for this assessment that steel shortages outside the steel industry will reduce GDP by about $\frac{1}{2}\%$ in the first quarter of 1980. This is equivalent to an output loss of about 2% in the steel-using industries (Industrial Orders 7-12) in February - broadly the size of effect suggested by the Business Statistics Office Surveys - and a loss of 3% in March. Most of the loss can probably be met out of stocks but there could also be some effect on imports and exports and on other elements of domestic demand, such as investment. It has been assumed that, after the strike, over 80% of this loss is recovered through additional production.

9. The decline in production and movement of steel will also reduce the demand for domestically produced inputs into steel such as transport, electricity, and refractory materials. It has been assumed that most of this - equivalent to about $\frac{1}{2}\%$ of GDP - will be reflected in lower production in the first quarter and that the remaining output will be split between a small temporary rise in stocks and import replacement. Later in the year, demand and output will recover somewhat in line with the extra production in the steel industry and the rebuilding of steel stock levels.

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10. On top of these direct effects, there will also be effects on output resulting from reductions in consumption and possibly investment in response to lower disposable incomes and output as a consequence of the strike. These second-round effects seem likely to be small.

11. Lower production will produce short-time working and lay-offs outside the steel industry. These have been fairly small so far but are likely to increase^{as} the strike continues.

Effects on the balance of payment

12. The current balance is unlikely to be much affected in the first quarter of 1980. There could be some deterioration in the steel balance if steel imports continue to hold up and in the balance in those metal products whose output is affected by the strike. However, this should at least be offset by lower imports of inputs into production as a result of lower domestic output. Subsequently, there is likely to be a significant worsening in the current balance as steel-users turn to imports to make good their stocks of steel after the end of the strike. The net effect could be a worsening in the current balance of around £400m for the year as a whole.

Effects on the PSBR and the money supply

13. The underlying financial position of the public sector is likely to worsen by about £450m in the first quarter of 1980 as a result of the strike, of which around £200m represents lower tax accruals and higher benefit payments resulting from lower economic activity and the remainder is mostly lower trading surpluses of BSC and other public corporations. After the strike, there should be an improvement of over £100m in 1980/81 as the recovery in output raises tax revenue and public corporation surpluses.

14. However, the adverse effect on the public sector's actual cash position and hence on the PSBR will be mainly felt in the financial year 1980/81 because of the assumed effect of bill payment lags on BSC's cash flow as well as lags in the payment of taxes. In fact it seems possible that the PSBR will ^{not} rise at all in the first quarter of 1980 but will increase by about £325m in the financial year 1980/81, most of which will be concentrated in the second quarter of 1980.

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15. In the first quarter of 1980, the counterpart to the higher underlying PSBR and to a likely lower personal sector surplus - as striking and laid-off workers draw on their savings to partially maintain their expenditure - will be an improved company sector financial position as steel stocks fall and some workers are laid off. Some of this cash will be used to pay off trade credit extended by BSC. Later in the year these effects will be reversed as companies' positions deteriorate when they build up stocks again.

16. The monetary effects of these changes are uncertain but seem likely to be small. They will probably involve some increase in £M3 in the first half of 1980 which will perhaps be partially reversed later in the year.

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20 MAR 1980

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PS/ Secretary of State for Industry

*Mr Wolfson
Mr Hyman*

*Prime Minister
for information*

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*John Norton
Duty Clerk
20/3/80*

Nationalised Industries

20 March 1980

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

Dear Tim,

Sir Charles Villiers rang my Secretary of State this evening "to have a chat with his shareholder" about developments in the steel dispute.

The BSC were seeing the steel unions tomorrow, 21 March. Sir Charles expected the unions to demand more money, which BSC would refuse. The unions would reject the idea of a ballot and would also reject mediation or arbitration by ACAS. He expected the unions instead to ask the Government to set up a Court of Enquiry which would look into both the question of pay and the management of the BSC. Sir Charles said that BSC expected to take the line that the union's rejection of arbitration was disappointing, but they would not pre-empt any Government reply about a possible Court of Enquiry. The Corporation would take the line that ACAS was there to provide arbitration facilities and they would hold the idea of a unilateral ballot in reserve until the prospects of action through ACAS has been explored. He thought that the proposal for a Court of Enquiry was a considerable climb down by Mr Sirs, it indicated that things were on the move but a Court would be an attempt to involve the Government and to return to the "good old tripartite days". The idea of an enquiry about management was not a good one since the dispute was about pay.

My Secretary of State agreed with Sir Charles that it would be wrong to have a Government sponsored Court of Enquiry and he agreed with Sir Charles about ACAS. He was confident that the Employment Secretary would join with him in rejecting the proposal for a Court of Enquiry and in continuing the line, which had been taken many times before, that it was up to management and the unions to sort out their dispute with the assistance of ACAS if this was what the two parties wanted. He thought there was justice in Sir Charles' comments about an enquiry into management being inappropriate.

My Secretary of State enquired about the options which were open to Sir Charles. He appreciated the point about no more money being available but he wondered whether any private polls had been taken about the possible outcome of a second ballot. Had the Corporation been surprised by the result of the first ballot? If a second ballot was successful would the Corporation have difficulties getting the men back to work? Were there any other alternatives to a ballot?

Sir Charles replied that the Corporation did have private

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/sources.



sources of information in which they had considerable confidence. Present indications were that if there was a second ballot the Corporation would have to work very hard to win it. The question they had in mind would not be specific about pay, but might, for example, ask the workforce to make a choice between accepting the Corporation's existing offer or going to arbitration. At the present time probably only a minority supported the Corporation's offer but opinion was moving in the Corporation's direction each week. The prospects for a second ballot would therefore be said to be favourable but not very favourable and he thought it was right for the Corporation to be cautious about the idea. The best course would be to get the unions to agree to go to ACAS about pay and then to persuade their men to go back to work. If a ballot were successful it would still be a struggle to get the men to go back to work and many concerned would never forgive the Corporation. The unions were divided but when they got together Mr Sirs dominated and mesmerised them. Mr Sirs' acceptance of the idea of a Court of Enquiry was coming quite close to the idea of arbitration, so it appeared that the union side were in retreat.

Sir Charles asked whether, if the unions wanted to speak to Ministers there would be any delay in seeing them. My Secretary of State replied that his door was open to such requests but he would want to consult the Employment Secretary and his other colleagues before giving a firm decision. However, he thought he would be able to respond within 24 hours. He hoped that if BSC were faced with a proposal for a Government Court of Enquiry the BSC would not reply hastily or attempt to pre-empt the Government's reply.

Sir Charles agreed; he would say that a Court of Enquiry was not a good idea but would leave the reply to the Government.

Following his discussion with Sir Charles, my Secretary of State has decided that if the unions decide to ask the Government for a Court of Enquiry he should not make any substantive responses to press enquiries. He would instead, wait until a formal approach had been made to him or to the Employment Secretary. He is, however, sure that the idea of a Court of Enquiry should be rejected and the parties concerned should be invited to use the facilities of ACAS to help sort out their differences.

I am sending copies of this letter to Martin Hall (Treasury) and to Richard Dykes (Employment).

Yours ever

Ian Ellison

I K C ELLISON
Private Secretary

21.30
20.3.50





Nac 100

BSC PAY NEGOTIATIONS : POSITION ON 20 MARCH

Background

Representatives of all the unions involved in the dispute with BSC met yesterday evening to consider their response to the BSC final offer of 10 per cent advance payment until 30 June for local productivity bonus schemes. The ISTC and NUB executives formally rejected the offer on Tuesday, as did the T&GWU. The union claim remains at 14 per cent plus 5 per cent against local schemes.

2 The unions have not disclosed the line they propose to take when they meet the BSC. The media were told that the meeting was to take place on Monday or Tuesday of next week. However, we have just learnt in confidence that the meeting has been arranged for tomorrow, Friday.

3 The framework for a settlement and for local productivity schemes has been agreed. It has been sent to all BSC workers in the attached broadsheet, distributed yesterday, which also on the back page illustrates the difference between the BSC offer and the union claim.

4 The BSC believe that there is considerable dissension between the unions and that the craft unions in particular are strongly in favour of bringing the dispute to an end. The BSC will not therefore take any initiative to conduct their own ballot of the workforce until they have heard the union response, since to do so would be seen as provocative and could unite the other unions behind the ISTC.

5 BSC are also preparing a case for arbitration/mediation, if the unions agree this next week as an alternative to negotiating a settlement or balloting the workforce.

Line to take

- 6
- (i) Continue to say that it is up to the management and unions to reach an early settlement to enable the dispute to be brought to an end as soon as possible.
 - (ii) Stress that further delay - which the unions themselves seem to be responsible for - is very damaging for the workers who have lost so much already.
 - (iii) If a Government appointed Court of Inquiry is raised, say that what is needed is for BSC to get back to work and to get its productivity up to international levels as soon as possible, not to have a lengthy inquiry which could delay this process. ACAS remain available to arrange for mediation or arbitration between the parties if this is what they want.

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PAY INCREASES FOR BSC BOARD MEMBERS

The Daily Mirror reports today that "British Steel chiefs want £250 a week more".

2 BSC themselves are putting out a statement about this, and a copy will be sent over as soon as it is available. The article is however completely misleading when it says that "steel chiefs are certain to get 20 per cent next month as a result of a 3 stage deal negotiated 2 years ago". In fact Board members staged increases on 1 April range from 3 per cent to 16 per cent. (The 16 per cent is Sir Charles Villiers whose salary as Chairman will increase from £41,695 to £48,500).

Line to Take

- (i) The pay of nationalised industry board members is determined by the Government in consultation with the Chairman, and is based on recommendations by the Top Salaries Review Body.
- (ii) Increases due on 1 April represent staged increases deferred from last year's TSRB report. They represent 16 per cent for the Chairman of BSC, and between 3 and 11 per cent for other Board members.
- (iii) Further increases from 1 April 1980 are likely to be recommended by the TSRB, which is still collecting the necessary evidence. It is important to keep the pay of Board members of nationalised industries at a competitive level.

20 March 1980

PA

PRIME MINISTER

The Steel Dispute

The trade unions have asked for a meeting with BSC at 2.00 pm tomorrow (Friday). BSC have agreed to this.

Scholey has heard privately from a trade union dissident that:

- (i) the union side will categorically reject the 14½% offer;
- (ii) they will propose a court of enquiry or court of arbitration (the two terms seem to be interchangeable - the latter does not mean arbitration as we understand it). The enquiry would consider not only pay, but also the wider question of closures, etc.
- (iii) the unions will say that, if Sir Keith Joseph will come out in support of the enquiry, they will return to work immediately.

BSC and Sir Keith intend to reject any idea of a wide-ranging enquiry. Woodrow has telephoned to say that BSC will respond by offering arbitration (which of course they offered 5 weeks ago), with a 10% immediate payment if they will go back to work.

TL

20 March 1980

Not Ind.

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 8545 (Llinell Union)



WELSH OFFICE
GWYDYR HOUSE
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Tel. 01-233 3000 (Switchboard)
01-233 8545 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

From The Secretary of State for Wales

19th March 1980

Dear Mike,

CF Ms. P. WJ MBM P. 2073

Thank you for your letter of 3 March enclosing a copy of one from Mr M E J Rush, about the report of the Standing Conference on Regional Policy in South Wales entitled 'South Wales and the 1980 Steel Crisis - An Impact Study Action Proposals'. My Secretary of State received a copy of the report direct from Mr Rush and I attach a copy of our response.

There is room for argument over many of the figures used in the Conference report and, therefore, about some of the recommendations and conclusions. Hence the suggestion that there should be a preliminary meeting at official level with representatives of the Standing Conference.

Yours
[Signature]

D M ROLPH
Private Secretary

M Pattison Esq
Private Secretary
10 Downing Street
LONDON SW1

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From The Secretary of State for Wales

19th March 1980

Dear Mr. Rush,

The Secretary of State has asked me to thank you for your letter of 28 February with which you enclosed copies of the Standing Conference's document 'South Wales and the 1980 Steel Crisis'.

The Secretary of State has read with interest the Standing Conference's document. The report contains much information and argument which the Secretary of State believes could helpfully be examined and considered further. He thinks it would be worthwhile - in advance of any meeting such as you suggest - for his officials to have the opportunity to discuss the report more fully with officers representative of the Steering Group. On that basis he has asked Mr Lloyd Jones or Mr Annand to be in touch with you to arrange a meeting.

Yours sincerely,

D M ROLPH
Private Secretary

M E Rush Esq
Hon Secretary
Standing Conference on Regional
Policy in South Wales
The Guildhall
PO Box 11
Swansea
SA1 4PA

20 MAR 1971



URGENT.

PS/ PRIME MINISTER

Steel Pay Talks

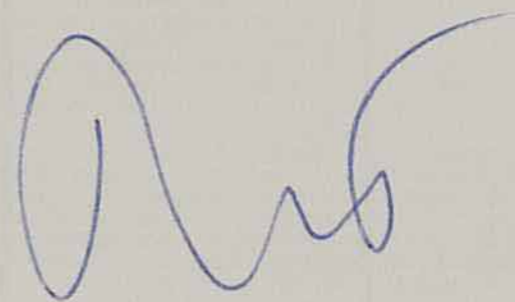
As announced to the media, the unions decided at their joint meeting this evening to approach BSC for a meeting on Monday or Tuesday. No details were revealed about the nature of their response to BSC's various proposals.

I gather in strict confidence that there was in fact much dissension between the unions. All except for the ISTC and NUB said their members wanted to end the strike and pressed for contact to be made with BSC tomorrow, Thursday, perhaps to propose mediation, though this was not clear. However, Mr. Sirs and Mr. Smith insisted on playing for time, i.e. to early next week, apparently in the hope that BSC would make a move in the interim, e.g. for a second ballot by management which would facilitate a united union response in opposition.

In the light of this BSC proposes to sit tight and do nothing until approached by the unions.

I understand that earlier today Mr. Sirs approached someone about his willingness to act as a mediator, so he has apparently not ruled out mediation even though he opposed it at the joint union meeting later.

S.J. GROSS
Department of Industry



19 March 1980

PRIME MINISTER

ms

The Steel Strike

All the 10 unions involved in the dispute met at 1700 this evening; as of 2030 they still seemed to be in session. They had promised a statement at 1900, but so far nothing. However, Bill Sirs is scheduled to be on "Newsnight" at 2245 this evening.

My contact at BSC tells me that, if they propose an enquiry, BSC will almost certainly reject it. If they propose arbitration they will probably agree in principle - but everything would then depend on who would be the arbitrator. BSC have several names in mind - he would not tell me who they are, but he did say that it would probably be a professional arbitrator rather than a major public figure such as Lord Robens.

If the unions do not propose arbitration, BSC will then have to decide whether to go for a second ballot. This will be a tricky decision - not just because the outcome would be more uncertain than with the first ballot, but also because BSC could have severe problems in actually implementing the productivity implications of their offer without formal union agreement. Of course, much of the productivity improvements are up to management; but they also require detailed negotiation at local level. Without a centrally ratified deal, it might be difficult to get the cooperation of union leaders at local level.

Having said this, however, my guess is that if the unions are still completely intransigent after tonight's meeting, BSC will take the plunge and go for a second ballot.

T.P.L.

19 March 1980

JU

Peter Mc Ingham



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2

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Secretary of State for Industry

18 March 1980

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

Peter Stredder

[Handwritten signature]

13/13

Dear Tim,

... I attach a copy of the 22nd Report of the Interdepartmental Contingency Group on the Steel Strike.

I am copying this to the private secretaries to members of E Committee, 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



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STEEL STRIKE : 22nd REPORT OF THE INTERDEPARTMENTAL
CONTINGENCY GROUP

This report summarises the position on 18 March.

BSC

2 The union representatives on the steel unions' joint industry committee are reporting back to meetings of their respective Executives about the latest position in negotiations with the Corporation. The committee, representing the 13 unions involved in the dispute, will meet tomorrow to co-ordinate its views. The Corporation remains ready to meet the unions again, possibly on Thursday, but in the absence of any positive move by the joint committee, BSC is very likely to go ahead with a further ballot of its workforce. In the meantime the Corporation is sending out a new broadsheet setting out the details of the agreements reached on the central and productivity aspects of a settlement.

3 Reports in the press over the weekend have suggested increased pressure amongst some of the unions to withdraw safety cover at the Corporation's blast furnace and coke oven plants. This would involve principally NUB members, with limited numbers from other unions. Despite threats, there has been no practical effect at the plants. BSC management have contingency plans in case such a withdrawal occurs, but there is no indication that this currently has any support from central union officials.

Private Steel Producers

4 All the private sector steelmaking and re-rolling companies are now producing and delivering steel again, Alpha Steel Ltd (Newport) having resumed full operation during the last few days. This is the sole private sector company making hot rolled wide strip in coiled form, and this production will be particularly valuable to companies in engineering and those engaged in further cold processing for general applications.

Steel Supplies and Transport

5 The private sector steel companies and the stockholders are maintaining good deliveries of steel over much of the product range. Shortages of steel remain in products in which BSC predominate, eg tinplate, heavy shapes for constructional purposes and plates used by process plant manufacturers and shipyards. Picketing continues in various parts of the country but is restricting steel movement only in some parts of South Wales. There is little overall change in the movement of steel by road, and in the flow of imports, except at the London private wharves, some East Coast ports and Newhaven, where the embargo on handling imported steel continues.

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-2-

6 Yesterday a West Midlands stockholder was granted an injunction against British Rail for the release of 500 tonnes of steel held in a British Rail yard at Wolverhampton by sympathetic industrial action by the NUR. Early reports today suggest that a determined effort is being mounted by pickets to prevent the steel reaching the stockholders' premises. It is reported that 20,000 tonnes of steel are held at British Rail yards in Wolverhampton and Brierley Hill. If this material were to be released and moved to customers it would be a considerable help to private sector steel re-rolling companies whose stocks of semi-manufactured raw material are severely depleted.

Effects on Industry

7 There are no reports of significant changes in the stocks of steel at steel users or in their potential endurance. The CBI have indicated privately that whilst 20% of the 60 companies in their sample survey remain affected by the strike, overall production is being maintained at 95-96% of what it would have been in the absence of a dispute, though there are some companies within the sample with production running much lower than this. This is broadly in line with the assessments from the Business Statistics Office survey which were given in the Group's last report (No 21 on 14 March). The CBI expect that failing an early resumption of work at BSC and assuming no substantial increase in the effectiveness of picketing, overall output will decline slowly over the next three weeks.

8 A limited number of layoffs are now in prospect in addition to those reported last week in shipbuilding, drop forgings, tinplate can production and food canners. These include Austin and Pickersgill (British Shipbuilders), where the 3,000 employees currently on short time will be laid off on 24 March because of shortage of BSC steel plate; 1700 people at International Harvester, Doncaster, which is running short of some tractor components, and 60 people at Henry Boot Railway Engineers Ltd, which like British Rail is being affected by the shortage of steel rails.

Department of Industry
18 March 1980

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19 MAR 1980

12



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Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

R
17/3
7 March 1980

Thank you for sending me a copy of your letter to Geoffrey Howe of 28 February.

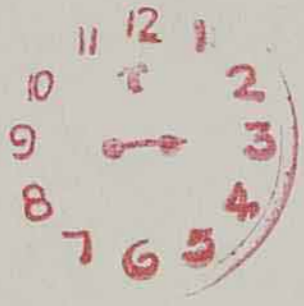
As you say, the MSC's proposals included in this package of measures are "modest" in scope, though this simply reflects the difficulty of finding cost-effective things to do. This does however make me think that your announcement ought to include at least a "trailer" for the Section 7 training scheme, if all concerned can reach agreement on this. It seems to be the only measure in the package which might catch the imagination of those concerned and enable us to demonstrate that we have prospected new ways of attracting firms to the closure areas.

Unfortunately the scheme poses a major difficulty for MSC, and I shall not be able to give you my views on it for a little while yet. I hope that this will not lead to any problems: presumably you are not contemplating any announcement until some time after the end of the steel strike?

Meanwhile, however, I should make it clear that it cannot be assumed that I shall be able to absorb the cost even of MSC's "modest" measures by what John Biffen's letter of 7 March calls "some adjustment of priorities".

I am copying this letter to those to whom you sent yours.

17 MAR 1980



vb

Had Ind

17 March 1980

I attach copies of two telegrams from Derek Norton, Chairman of Hadfields in Sheffield.

I have acknowledged these telegrams and shown them to the Prime Minister. I do not feel there is any further action to be taken on them.

TPL

Peter Stredder, Esq.,
Department of Industry.

9

JH



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

14 March 1980

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

Prime Minister

Dear Tim,

at the Prime Minister's

MS.

7

19/3

... I attach a copy of the 21st Report of the Interdepartmental Contingency Group on the Steel Strike.

I am copying this to the private secretaries to members of E Committee, 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

CONFIDENTIAL

STEEL STRIKE: 21ST REPORT OF INTERDEPARTMENTAL CONTINGENCY GROUP

This report summarises the position on 14 March.

BSC

2 Negotiations between the BSC and the joint industry committee of the 13 unions involved in the dispute were adjourned on Wednesday, 12 March, without agreement. Some progress was made on the central part of a new agreement and on the cut-off date for local productivity schemes. On the figures for pay increases, the Corporation reaffirmed their earlier offer, but the unions' bid is for at least 5% more. The union representatives will be reporting back to their respective Executives early next week. It is expected that their joint industry committee will meet mid-week and then resume negotiations with the Corporation.

Private Sector Producers

3 All but one of the private sector companies are producing and delivering steel; Alpha Steel, Newport has not yet resumed production. There was a very heavy picket and some violence at Hadfield's (Sheffield), on Wednesday, 12 March, coinciding with the BSC pay talks, but production was not affected. In the Midlands the reported renewal of instructions by the Regional ISTC organiser, urging members to refuse to load and unload steel, has been ignored and, for the time being at least, there are no problems on this account.

Steel Supplies and Transport

4 The private sector is maintaining good deliveries of steel to users. Picketing of steel stockholders, with isolated exceptions in Wales, remains light and their deliveries to users are being maintained over most of the product range. Encouraging reports from the Regions indicate continuing ingenuity in making the best use of steel supplies, including agreements with customers to use alternative types of steel. Although picketing of lorry transport of steel has intensified, there is little overall change in the transport of steel by road. At the ports, the embargo on handling steel at the London private wharves and East Coast ports is continuing and there is now also a restriction at Newhaven. In both cases TGWU pickets are mainly responsible.

5 There have been instances in the past few days of heavy picketing at engineering companies in the Sheffield area, but we have no evidence to suggest serious effects on their production. Union officials have stated their intention to step up picketing of the Corporation's major customers.

Effects on Industry

6 This week's survey by the Business Statistics Office shows that overall manufacturing production in week ending 8 March remained at 95% of what it would have been in the absence of the steel strike (just over 97% if the BSC's production loss is deducted). This is

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a similar level to the previous week. Metal using sector production overall remained at 3% below what it would otherwise have been, but there were greater production losses in drop forgings (ie. components), hand tool manufacture, tinsplate cans and the food canning sectors. Estimates for this week are that an overall production of 95% is expected by the 436 companies in the survey, 17% of whom are affected by the strike.

7 There is little evidence to suggest any general deterioration in stocks of steel held by steel users or in their potential endurance. Exceptions to this continue to apply to sectors largely dependent on BSC, e.g. tinsplate users, limited parts of the automotive sector and component sectors, process plant (special steel plates, boiler tubes), shipbuilding and certain heavy sections used for construction purposes.

8 In the automotive sector British Leyland now expect to be able to continue planned production of most cars, trucks and buses until the end of March. However, assembly of Allegros and Minis at Seneffe, Belgium using UK kits is likely to cease shortly, and UK production of Allegros and Marinas could be affected during the last week of March. Some heavy trucks are being produced short of certain components.

9 The other automotive companies now expect to continue planned production for another two weeks, with the exception of one of Vauxhall's commercial vehicles for which there is a shortage of components.

10 In British Shipbuilders, Austin and Pickersgill will be increasing the number of employees on short time working during the next 2 weeks. Seven other shipyards in the Group are planning a total of 1200 layoffs between now and the end of March.

Department of Industry
14 March 1980

to similar level to the previous year. Metal using sector production overall remained at 95 below what it would otherwise have been, but there were significant production losses in the electrical, i.e. components and tool manufacturing, textile and the food, animal sectors. Estimated for the year that overall production of 95 is expanded by the 100 million in the survey, 75% of which are affected by the

14 MAR 1960

There is little evidence to suggest any general deterioration in stocks of steel held by users or in their potential requirements. In fact, the steel industry is largely dependent on the automotive sector, which is the largest user of steel plates, boiler and component sectors, process plant (especially steel plates, boiler tubes, shipbuilding and certain heavy sections used for construction purposes.

In the automotive sector British Leyland now appear to be able to continue planned production of most cars, trucks and buses until the end of March. However, assembly of lighters and other general, domestic items is likely to cease shortly, and the production of lighters and other items could be affected during the last week of March. Some heavy trucks are being produced short of certain components.

The other automotive companies now expect to continue planned production for another two weeks, with the exception of one of Vauxhall's commercial vehicles for which there is a shortage of components.

In British shipbuilding, Austin and Johnson will be increasing the number of employees on short time working during the next 2 weeks. Seven other shipyards in the group are planning a total of 1500 layoffs between now and the end of March.

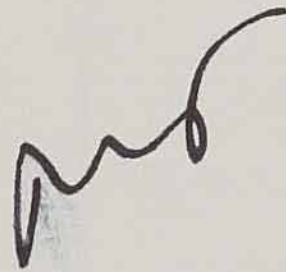
Department of Industry
14 March 1960

PRIME MINISTER

(GA) -
copies of
telegrams to
industry. 2

I attach two telegrams from Derek Norton, Chairman of Hadfields. Further complaints about picketing, and a repeat of his offer to take over the management of BSC.

I have acknowledged these telegrams. I do not think there is any point in your sending a substantive reply. You have already written to him about pick^{et}_hing and about the BSC management (Flags A and B).



R.

Further
on hand
and.

R.

14 March 1980

14 March 1980

I am writing on the Prime Minister's behalf to acknowledge your two telegrams which were received on 12 and 13 March.

I have placed both of these before the Prime Minister.

TPL

Derek Norton, Esq.



T

889113 PO SW G
TELEGRAMS LEEDS

D66 2215 12TH ROTHERHAM LS CORRECTED COPY 116

PRIME MINISTER 10 DOWNING ST
LONDON

R1313

IN MY LETTER TO YOU DATED 16TH JANUARY 1980 I STATED 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 APPROACHING PARAGRAH THE DREADFUL SCENES OUTSIDE
OUR MAIN GATE YET AGAIN TODAY ARE SURELY TOTAL JUSTIFICATION THAT
MY FORECAST WAS RIGHT PARAGRAH THE LEADERS OF YOUR NATIONALISED
STEEL INDUSTRY ARE PUSHING YOUR GOVERMENT OVER THE PRECIPICE
DUE TO THEIR INCOMPETENCE PARAGRAH I IMPLORE YOU TO RECONSIDER
THE OFFER MADE TO YOU IN THE FIRST SENTENCE OF THE FINAL
PARAGRAH OF MY LETTER TO YOU DATED 16TH JANUARY

YOURS SINCERELY DEREK NORTON CHAIRMAN HADFIELD SHEFFIELD+

~~CALL 10 1980 16TH 16
READ 2ND LINE PUT ITS
AND 7TH LINE GOVERNMENT+~~

889113 PO SW G
TELEGRAMS LEEDS



12.MAR80 11591

67

299992 PO TS G
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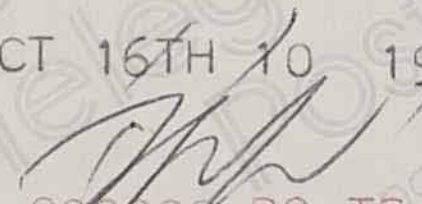
PRIME MINISTER 10 DOWNING ST
LONDON

below

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PARAGRAPH I IMPLORE YOU TO RECONSIDER THE OFFER MADE TO YOU
IN THE FIRST SENTENCE OF THE FINAL PARAGRAPH OF MY LETTER TO YOU
DATED 16TH JANUARY

YOURS SINCERELY DEREK NORTON CHARIMAN HADFIELD SHEFFIELD

CT 16TH 10 1980 +


299992 PO TS G
557041 PO LS G

PART 6 begins:-

Tel Norton to PM 12.3.80

PART 5 ends:-

S. Gross to PM 12.3.80

