MEETINGS OF THE NEDC. THE QUESTION OF MINISTERIAL MEMBERSHIP

PART 2.

ECONOMIC POLICY

PT 1. MAY 1979

PT 2. DEC 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~9.1.80~~							
~~22.2.80~~							
~~6.3.80~~							
~~16.5.80~~							
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~~24.11.80~~							
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~~11.12.80~~							
~~6.1.81~~							
11.12.81							
Part 2 ends							

PREM 19/429

PART 2 ends:-

PM to Finance for Industry Ltd ~~to PM~~ 29/12/81
(Ld Caldecote)

PART 3 begins:-

Press notice of NEDC meeting (by JJ Monaghan)
6.1.82.

NATIONAL ECONOMIC DEVELOPMENT COUNCIL
(NEDC)

The following NEDC papers/minutes of meetings were enclosed on this file. They have been removed and destroyed. Records from NEDC and the National Economic Development Office are held elsewhere in The National Archives - see series FG1, FG2, etc.

Reference	Date
NEDC (80) 7	19.12.1979
NEDC (80) 1	20.12.1979
NEDC (80) 5	20.12.1979
NEDC (80) 3	31.12.1979
NEDC (80) 1st Meeting, Agenda and Minutes	01.09.1980
NEDC (80) 65	01.10.1980
NEDC (81) 4	15.01.1981
NEDC (81) 3	19.01.1981
NEDC (81) 6	26.01.1981
NEDC (81) 7	26.01.1981
NEDC (81) 4 (Revise)	02.05.1981
NEDC (81) 2nd Meeting, Minutes	04.02.1981

Signed OWayland Date 22 March 2011

PREM Records Team

File

DS

cc: HMT

10 DOWNING STREET

THE PRIME MINISTER

29 December 1981

Dear Lord Caldecote,

Thank you for sending me a copy of your paper on the Capital Structure of Industry in Europe.

I am pleased that it has been widely circulated, since it is important to dispel the idea that our problems would necessarily disappear if we adopted institutional arrangements that happen to have grown up in other countries. I, and no doubt my colleagues, will look forward to the next instalment of your studies.

I hope also that your own organisation will continue to play with its customary success its own distinctive part in our financial system.

Yours sincerely

Margaret Thatcher

Viscount Caldecote, D.S.C.

DS

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

23 December 1981

M.C. Scholar, Esq.,
Private Secretary,
10, Downing Street

Dear Richard,

In your letter of 15 December to Peter Jenkins you asked for the draft of a reply which the Prime Minister might send to Viscount Caldecote of Finance for Industry, in response to his letter of 11 December about the FFI paper on Capital Structures of Industry in Europe. FFI, as the Prime Minister will know, is owned by the clearing banks (85 per cent) and the Bank of England, and specialises in long-term industrial finance, notably through its small firms subsidiary ICFC.

The paper was sent to almost all Cabinet Ministers with an identical covering letter, and it has subsequently been sent to all MPs. It received some press coverage on Monday, 14 December, extensively in the Financial Times and a fair mention in the Telegraph.

The findings are very much in line with our understanding of the position of companies in the European economies studied. Reliance on bank finance is fine when growth can be depended upon and when nominal interest rates are low, but these conditions are no longer so easily maintained, and there now are calls for a revival of equity finance.

A similar paper on non-European economies is promised next year, and the research reports on individual countries will be published in due course.

..... I attach a draft letter which the Prime Minister may like to send.

Yours ever,

J.O. Kerr

J.O. KERR

pl type for PM

DRAFT LETTER FOR THE PRIME MINISTER'S SIGNATURE

Viscount Caldecote, DSC, FEng., CBIM.,
Finance for Industry plc
91, Waterloo Road,
LONDON,
SE1 8XP.

Thank you for sending me a copy of your paper on the Capital Structure of Industry in Europe.

2. I am pleased that it has been widely circulated, since it is important to dispel the idea that our problems would necessarily disappear if we adopted institutional arrangements that happen to have grown up in other countries. I, and no doubt my colleagues, will look forward to the next instalment of your studies.

3. I hope also that your own organisation will continue to play with its customary success its own distinctive part in our financial system.

File

22/12

Visc[illegible] CALDECOTE

cc. Ingham
Duguid

Chased 23/12

10 DOWNING STREET

From the Private Secretary 15 December 1981

The Prime Minister has received the attached letter from Viscount Caldecote, Chairman of Finance For Industry Limited, together with a copy of FFI's pamphlet on the capital structure of industry in Europe.

I would be grateful for a draft reply for the Prime Minister by Tuesday 22 December, if at all possible. The Prime Minister has commented that she hopes that the FFI paper would be given a wide press coverage.

I am copying this letter and enclosure to Ian Ellison (Department of Industry) and Tim Allen (Bank of England).

M. C. SCHOLAR

Peter Jenkins, Esq.,
HM Treasury.

RM

Trap

15 December 1981

I am writing on behalf of the Prime Minister to thank you for your letter of 11 December.

I will of course place this before her at once and a reply will be sent to you as soon as possible.

M. C. SCHOLAR

Viscount Caldecote, D.S.C.

Econ Pol

Finance For Industry Limited
91 Waterloo Road, London SE1 8XP Telephone: 01-928 7822

Chairman

Prime Minister 2

The summary at A is interesting. I will ask the Treasury to draft a reply for you.

WR 11/12

11th December 1981

It is a very sound summary - I hope it will be given wide press coverage. MT.

The Rt Hon Mrs Margaret Thatcher, MP
Prime Minister
House of Commons
London
SW1A 0AA

Dear Prime Minister

I am enclosing with this letter a copy of FFI's paper on the "Capital Structure of Industry in Europe".

The availability of finance on suitable terms is of prime importance to British industry: never more so than in the immediate future to help industry recover from the current world recession. But there has been much discussion and some criticism about the adequacy of the sources of finance available to British industry compared to those which our competitors, particularly in Europe, enjoy.

Unfortunately, as the Wilson Committee reported in 1979, "there is a grave shortage of statistical evidence about the financing of small business". So in order to improve our understanding of this subject, earlier this year senior executives from FFI visited financial institutions in eleven European countries to find out what their experience had been.

Their findings are now published as the first of two papers from FFI on matters of major importance to the financial sector. The enclosed paper reviews the validity of the criticism that lack of government subsidised debt places Britain at a disadvantage vis-a-vis its competitors.

A further paper will be produced during 1982 on the experience of non-European industrial countries where we are currently conducting further research.

I would like to draw your attention to the summary on the front page of the enclosed paper which I believe you will find interesting.

Telex: 917844
Telegrams: Incof London SE1
Registered Office: as above
Registered in London no. 1142830

Although we must never be complacent about the financing of British industry and must always be seeking ways to provide a better service, there is little support to be found from our research to suggest that the European system would be any improvement.

We shall be giving this paper wide distribution. We would be pleased to provide further copies if this would be helpful and to discuss the paper with you or your staff.

Yours sincerely

Caldecote

FFI

The capital structure of industry in Europe

Summary

1. The common view that lack of government subsidised debt places business in Britain at a disadvantage vis-a-vis its competitors is not consistent with recent European experience.

2. This is shown by the results of a detailed survey of European practice in financing small business conducted by Finance for Industry.

3. European companies have been able to carry more debt financing than UK companies in the past because they have generally been more profitable.

4. But the present recession is causing severe difficulties, and in some cases bankruptcy, for highly geared enterprise on the continent.

5. Government encouragement to companies to over-extend themselves by subsidising or guaranteeing loans has increased the present financial difficulties in Europe.

6. High government borrowing (partly to subsidise loans to industry) has tended to raise interest rates compounding the burden of high gearing.

7. Continental banks are currently increasing their bad debt provisions and stiffening the terms on which they will lend.

8. In contrast to Britain there is a growing awareness in Europe of the dangers of debt financing and the value of increasing outside equity participation , a course of action for which the institutional machinery on the continent remains inadequate.

Finance for Industry plc

91 Waterloo Road London SE1 8XP. Tel: 01-928 7822 Telex 917844

Introduction

One of the themes which has developed in the course of Britain's industrial introspection over the past decade is that restrictions on the availability of finance put British industry at a serious disadvantage compared with enterprise in the more successful economies of the world. The general line of argument was summarised by the Wilson Committee in its report "The Financing of Small Firms" published in March 1979. "There are two main aspects of the banks' relationships with their actual or potential small firm customers to be considered" said Wilson, "the availability of finance and the terms on which it is offered. The banks are often alleged to be too cautious about both. Their attitude towards risk, and ability to assess it, are said to make them unnecessarily restrictive in their lending policy, particularly towards new or rapidly expanding small firms. In addition the terms on which they do make facilities available are sometimes criticised as being too severe. Similar accusations of excessive caution have also been made in respect of the level of gearing which the banks are prepared to accept. It has been suggested that the lower gearing ratios required of them put small firms in the UK at a severe disadvantage compared with their European counterparts." Although the Wilson Committee was cautious about accepting these criticisms in full they continue to be advanced by a vocal lobby.

The purpose of this paper is to review the validity of the criticisms in the light of a survey of the financial structure and conditions in different European countries carried out by senior staff of Finance for Industry. As Wilson remarked, there is a grave shortage of statistical evidence about the financing of small business, and FFI decided to conduct their own survey through personal contacts with government departments, financial institutions and small businesses. Eleven European countries were visited in the course of the spring and early summer of 1981 and a report prepared on each offering a sketch of the economy, information about the small business sector, methods of industrial finance and the extent of government aid to industry, the financial institutions and the stock market.

Effects of high gearing

All these reports to a varying degree tell a similar story. It is perfectly true that during the 1970s bank credit was more freely available to business on the continent, including small business, than it was in Britain and frequently governments reduced the burden of debt service by subsidy. But although soft loans helped companies in many instances to maintain an enviably high rate of investment the high gearing ratios which resulted have left many businesses in a very weak financial position in which to face the harsher economic conditions of the 1980s. This financial weakness is now causing alarm in many countries. Banks have increased their bad debt provisions and are tightening the terms on which they will lend, small business organisations are lobbying for easier access to equity finance and governments are seeking to liberalise stock markets.

Ten years or even five years ago continental companies could afford a debt burden which the average British company would have found difficult to live with. The average return on investment in Europe was substantially higher, allowing more financing out of retained profits and providing a deeper cushion to absorb the pressure of a large fixed burden of debt interest. British companies by contrast needed a larger equity base, on which no fixed return was payable, to provide them with protection in the more hostile environment in which they traded. In the last two years the continental economies have seriously weakened to the point where few are anticipating positive growth this year. In this British-style economic winter many European companies are finding themselves uncomfortably naked and are calling for the same remedies which have been so criticised in Britain, namely a bigger element of equity financing and a smaller burden of debt interest.

Government action has exacerbated the problems in Europe in two ways. In the first place, by subsidising interest rates and offering soft loans of various kinds the authorities have encouraged and indeed obliged the banks to relax the normal commercial criteria which they would have applied to loan applications in the absence of government intervention. The result is over-lent banks and over-borrowed companies to the detriment of business in the long run. Secondly, many continental governments have massively increased the level of borrowing by the public sector, helping to raise interest rates to much higher levels than were customary in the early 1970s and increasing the burden of any given quantity of debt incurred by the private sector.

Contrasting perceptions

The contrast between the financing arrangements of continental companies as they are often perceived in this country and as they are perceived on the continent is illustrated by the following two quotations. The study group set up by the Conservative Backbench Industry Committee concludes an introductory section of its report published on October 25 1981 by saying: "There is much evidence to indicate that the much envied economic performances, particularly in West Germany and Japan, are based primarily on the availability of long term, low cost investment credit to their industries. British industry should be given the opportunity to respond to similar financial resources." Yet as early as October 1978 the Monthly Report of the Deutsche Bundesbank had this to say:

> "Economic developments since the mid-sixties have appreciably weakened the capital base of German enterprises. This has been due to a variety of factors. To begin with (from 1968 onwards) the expansion of enterprises was so rapid that, even when profitability was good, firms were unable to keep the increase in their own funds in line with the growth of their fixed and current assets. This phase was not followed by one of balance sheet consolidation (although this would have been desirable), not least because of the abrupt change in economic trends in the years after 1973. Moreover, even before 1973 enterprises' earnings had come under increasing pressure – despite the acceleration in the pace of price rises – owing to both higher labour costs and to the growing government share in overall income. Following the rapid increase in the cost of imported raw materials caused chiefly by the oil price hike in 1973, and following the adoption of the indispensable anti-inflation policy in Germany permitted by the transition to floating exchange rates, the pressure on enterprises' profit margins mounted further. Firms then tried to strengthen their financial base by cutting down their capital investment, but in general they only managed to insure in this way that their own funds decreased no further relative to their balance sheet total. Increases in own funds through issues of public and private limited company shares remained modest during those years (and the corporation tax reform that came into force at the beginning of 1977 has not so far significantly enhanced companies' activity in this field). Even a slight change for the better in enterprises' earnings in 1976 made no difference to the downward trend in the ratio of own funds to enterprises' overall financing. In fact, the capital base ought really to have been enlarged as a safeguard against risks, given the growing hazards facing enterprises as a result of the movements of costs, the sales and earnings prospects (particularly in the export

field), the legal conditions to be met when establishing new industrial plant, etc."

Continental gearing ratios

In Britain, listed companies' equity rarely falls below 50% of total assets (a debt-equity ratio of 1:1) while in FFI's experience, the equity in smaller companies averages 30% to 40% of total assets. In Germany by contrast, the Bundesbank study quoted above showed shareholders' funds declining from 29.8% of the balance sheet total in 1965 to 23.1% in 1976. With only 4% of new external financing in the form of equity, these ratios have continued to worsen since then. In some other countries considerably lower figures are quoted. In Belgium, the Netherlands and Portugal it is not uncommon for smaller companies to have as little as 10% of their assets financed by shareholders' funds, figures which look almost unbelievable by British standards.

Taking all companies together the proportion of shareholders' equity in capital employed fell in Belgium from 58% in 1971 to 34% in 1979 and in Norway from 29% in 1972 to about half that now. In Austria equity capital represents 30% of total funds but is only 15% of new funding. As for the Netherlands, the proportion fell from 35% in 1970 to 24% in 1978, figures that lend support to the observation made in a 1975 study* published by the English Institute of Chartered Accountants, "There does, therefore, seem to be something of a Macmillan-type gap in the availability of funds for the small Dutch company" – in other words a similar shortage of equity funding for the small business to that identified in the UK by the Macmillan Committee in 1931. In 1981 this is an understatement and it applies all over the Continent.

*Samuels J M, Groves R F V, Goddard C S, *Company Finance in Europe*, Institute of Chartered Accountants in England and Wales, 1975, pp 154 f.

Guarantees and subsidies

Debt financing and suspicion of outside equity are long established traditions on the Continent but in virtually every country this proclivity has been nurtured and increased by extensive government subsidies to industrial borrowers. With the exception of the Industrial Development Agency in Ireland and a similar but less extensive Belgian scheme, government support for industry in Europe is normally by way of loan subsidies or guarantees rather than cash grants.

Guarantees for equity as opposed to loan finance exist in the Netherlands and Norway via the Industrial Guarantee Funds and Industrifundet respectively, but they have not attracted much interest. In Germany both the Federal and Lander governments offer guarantees to institutions lending to the Mittelstand (the small and medium business sector) and these are now a very important consideration in the banks' lending decisions. In France many of the loans advanced to this sector by the industrial development institutions attract a minimum state interest subsidy of 1.25% which may rise as high as 3.25% in favoured circumstances.

Most other European countries including Belgium, the Netherlands, Austria, Portugal and Denmark also provide either soft loans or guarantee schemes. In Italy state-supported financing is particularly important with 76.5% of all borrowing for investment at the end of 1978 made under the government's credito agevolate scheme which subsidises investment loans by varying amounts depending on the regional location of the borrower. Despite the fact that agevolate lending is seldom for more than 60% of the investment and in spite of the government's reference rate (from which the payments to banks are calculated) falling below market returns from time to time this form of soft loan has oiled the wheels of much of Italy's post-war industrial reconstruction. But the long-term implications of the system were clearly spelt out by the country's largest long term lender Istituto Mobiliare Italiano (IMI) in a paper to the European Long-Term Industrial Credit Institutions at their meeting in Vienna in September 1977. The very success of the scheme, said IMI, had led to a situation where borrowed money accounted for 85% of the assets of Italian companies, a level at which they were unable to meet their debt-servicing commitments out of cash flow let alone enlarge their equity base through profit retentions.

Effects of government borrowing

The problems raised by this serpentine encouragement by governments for banks and companies to relax the standards of commercial prudence normally regulating transactions between the two have been compounded by the financial policies of governments themselves. Large budget deficits have tended to raise interest rates, more than offsetting the apparent attractions of government subsidised loan rates and making the consequences of such financial over-extension increasingly painful. In most European countries public sector borrowing has more than doubled as a percentage of gross national product since 1976. Criticism of high government borrowing is especially vehement in Denmark, Italy and Spain where business complains that deficit financing by the government has driven interest rates to levels which are prohibitive to other borrowers. The situation is worsened where, as in Italy and Spain, the government requires substantial deposits from the banks at below market rates of interest forcing the banks to charge maximum rates on such free funds as remain. In Spain a black market in credit, extra tipos, has sprung up where day to day interest rates have sometimes exceeded 50%. In the heart of Italy's thriving small business sector in Milan the leading small business association, Associazione Lombarda della piccola e media industria, argues that the greatest service the Italian government could now render to industry would be to scrap its various schemes of industrial support altogether so as to reduce its own indebtedness.

The reaction of banks and other credit institutions to the expanding burden of debt assumed by their customers and the strains of high interest rates has been to sharpen the terms on which they advance new money and to increase substantially their provision for bad debts. Higher bad debt provisions coupled with losses on bond portfolios resulting from unstable interest rates have seriously affected bank profitability throughout Europe making the banks progressively less anxious to take on new lending commitments. In Germany a number of enterprises have been rescued recently by the banks agreeing to convert some debt into equity much as they did after the hyperinflation of 1923 and again after World War II. It is ironic that in these instances the painful consequences of Germany's debt financing which seems to be admired by so many in the UK are now being ameliorated by restructuring the capital of these companies on more Anglo-Saxon lines.

Bank lending

Although bank lending on the continent, in contrast to the British overdraft system, has generally been for the medium term at fixed rates of interest the banks are now tending to shorten the term of their lending and, as a result of the recent instability in interest rates, fixed rates are being replaced by floating rates. At the same time security requirements, which in Germany especially were already severe, have become even more rigorous. In France the banks normally lend at floating rates for not more than two years. The Dutch banks have also gone over to floating rates and now regularly require personal guarantees from borrowers. The Norwegian banks are likewise increasingly reluctant to grant longer term finance, interest rates are variable at three months' notice and rates vary according to the degree of security. The average bank loan in Portugal is now for less than one year while in Spain bill discounting, which is the main form of bank finance, is seldom for more. In France, Italy and Spain entrepreneurs have formed guarantee societies among themselves in an attempt to improve both their access to bank finance and the terms on which they can get it.

The same trends are visible in the operations of the specialist term lending institutions which play an important role in Europe. These institutions generally finance themselves largely by bond issues or other long term loans but in increasingly competitive credit markets this kind of financing is becoming hard to find and, as a result, they are being forced into lending at variable rates for relatively short periods. In Spain, for instance, where the long term lenders are particularly important because of the restrictions on the commercial banks they have been forced more and more into short term lending. Last year 51% of the credit advanced by Spain's largest industrial bank, Banco Urquijo, was for less than 12 months. Industrial bonds, where such financing exists, are also tending to become shorter. Where 15-year maturities were common in the Netherlands in the 1950s seven years is now the norm.

The increasing burden of debt interest and the growing caution of the banks is beginning to convince many on the continent that a larger element of equity financing is desirable if it can be procured. CONFAPI, the Italian small business federation, and its Irish equivalent, the Small Firms Association, have both been pressing for easier listing requirements to give small business access to the Stock Exchange. From the investor end the Monory reforms in France were directed towards increasing the attractiveness of equity investment; investors were granted tax concessions and SICAVs, or unit trusts, were set up under government regulation with some constraints on investment policy. In addition a few European countries have tried to devise equity substitutes such as the participating loan (pret participatif) in France, the silent partnership (Stille Beteiligung) in Germany and the subordinated loan in the Netherlands. Prets participatifs made a good start on their introduction in June 1980 but in general small business appears to regard the various quasi-equity instruments as a last resort if applications for conventional fixed interest finance fail. Companies do not seem to regard them, as was intended, as a genuine alternative to fixed interest financing. Institutions set up to specialise in equity finance have generally failed to fulfill expectations. France's 15 SDRs were originally established in the late 1950s to provide equity capital for small business but have subsequently turned increasingly to fixed interest finance.

Equity funding

There is undoubtedly a big educational job to be done before the typical family business in Europe can be persuaded to accept the benefits of outside equity and relinquish borrowing habits which served well enough while economies were buoyant and profits grew rapidly. Yet the traditional distaste for equity funding is only partly from choice. Equity trading in Europe barely matches that on The Stock Exchange in London, taking all countries together. The result is that it is difficult for institutional investors to dispose of significant holdings and correspondingly unattractive to acquire them.

The Dutch insurance industry is relatively of similar size to the British but it invests very little of its funds directly in equities preferring bonds and property. In Germany, Belgium and Spain the markets are dominated by the banks whose holdings have usually been acquired more by accident than design. In Italy both the

Stock Exchange and its legal framework are years out of date, while personal investors until recently preferred easily portable investments like jewellery. With secondary markets narrow and relatively inactive equity funding is not easily found, and while equity funding stays out of fashion secondary markets remain narrow.

Whatever the obstacles to equity funding on the continent, both psychological and institutional, it is difficult to conclude from this brief survey that the wisest course for Britain would be to follow the Europeans and load more debt onto British companies. Historically companies in the UK have been much less able to service large amounts of debt than their continental counterparts. With continental economies mostly in deep recession European companies are now beginning to feel the same constraints for which their financial structure has left them signally unprepared. In any case it is questionable how important availability of finance is in determining the level of investment. Again and again the message from small companies in Europe was that investment decisions did not primarily depend on the price of credit but on the "entrepreneurial climate" in its widest sense. Thus the small business community centred on Milan is almost certainly the most vigorous in Europe, and yet Milanese businessmen show ill-concealed contempt both for the banks and the government, whom they regard not as contributors to growth but as obstacles to it. As the Confederation of British Industry said in its written evidence to the Wilson Committee, "The clear conclusion of an overwhelming majority of our members is that it has not been a shortage of external finance that has restricted industrial investment but rather a lack of confidence that industry will be able to earn a sufficient return."

This is powerful evidence which is difficult to set aside. But even if one does so and argues that Government help is necessary to encourage industrial investment we conclude from our survey of European practice, supported by our own experience, that to use the credit system as a vehicle for such assistance creates distortions in the supply of capital and in the capital structure of corporations which are so harmful that they heavily outweigh any short term advantages.

Finance for Industry

Finance for Industry is a private sector financial institution. Its function is to support the development of British industry and commerce primarily by channelling private sector funds into productive investment mainly in the form of medium and long term finance.

It is the policy making, fund raising and holding company for the activities of Industrial and Commercial Finance Corporation (ICFC) and Finance Corporation for Industry (FCI).

Through ICFC, FFI has particular interest in the financing of smaller businesses and is the chief source of long-term finance for small and medium sized British companies. Since 1945 it has supplied £600m to more than 6,000 companies, in amounts ranging from £5,000 to £2m. Whilst the main form of investment is loan and equity finance, ICFC also provides a range of services for this sector including plant leasing and hire purchase and the development of small industrial estates.

FCI provides loan and equity capital to companies larger than those normally served by ICFC. Such finance can be provided in a variety of forms for a company's development and expansion in sums ranging up to £35m.

FFI raises all its normal resources on fully commercial terms in the domestic and international financial markets. It is owned by the London and Scottish Clearing Banks (85 per cent) and the Bank of England (15 per cent).

NEDC

National Economic Development Office

Millbank Tower, Millbank, London SW1P 4QX
Direct line 01-211 or Switchboard 01-211 3000

R.

20TH ANNIVERSARY DINNER OF NEDC

Members of the Council will recall that at the August meeting the Chairman announced that it had been decided to hold a dinner to mark the 20th anniversary of the Council. It has been established that 15th December is convenient for most members, and the dinner will therefore be held then in the Council Room at Millbank Tower, starting at 6.30 pm for 7.00 pm and ending at the latest by 10.00 pm. The occasion is a wholly private one and is confined strictly to members of the Council.

P G Davies
Secretary to the Council

17th September 1981

10 DOWNING STREET

From the Press Secretary

MR VEREKER

cc Mr Hoskyns
Mr ~~Lankester~~
Mrs Gilmore

NEDC - August 5

Ref the minutes on this subject.

I think we are trying too hard. In any case the Chancellor's paper has been circulated.

What matters now is what the Chancellor says on the pay/employment nexus.

But I must confess I have some sympathy for his cautious point of view. You will recall that when the pay restraint point was pushed at a previous meeting the TUC turned nasty. The Chancellor is entirely justified in playing this aspect of the meeting carefully.

This does not prevent our working very hard after the meeting to get over a few essential points, whether or not the Chancellor says them - though it would help if he did in elaboration of his paper. We shall carry greater credibility in briefing the harder the Chancellor speaks in introducing his paper; but we can still get those essential points over to the media by way of our gloss on the paper.

Could I suggest you give me five points to get over on August 5 and leave me (and Mrs Gilmore) to our own devices?

All this is without prejudice to the release of the Chancellor's paper after NEDC.

I should add that I am adamantly against Peter Dixon's idea that we whisper to the press that the NEDC paper submitted by the Chancellor is a revise of the one that went to Cabinet on June 17. That will do no good whatsoever. First, it will put the Prime Minister's back up about references to what is discussed in Cabinet. Second, it will set off speculation (and effort to determine) about the changes in the paper since June 17. We don't need to give the Chancellor's paper Governmental respectability: it has it already.

Finally, I like the idea of circulating the NEDC paper to Ministers - and I hope all members of the Government - with a covering note which might usefully take the form of the speaking note of five points to get over which I have asked for above.

B Ingham
30.7.81

MR GORDON

Principal Priv.Secretary
cc Mr Downey
Mr Kemp
Mrs Gilmore
Mr Folger   Mr Burr
Mr Mortimer
Mr Vereker No. 10

FOLLOW-UP TO NEDC AND E COMMITTEE ON PAY

I have been discussing with Mr Vereker how the Chancellor could best follow up the remit from E on 2 July to "consider further, with the Ministers most closely concerned and the Chancellor of the Duchy of Lancaster, whether further guidance on pay themes could usefully be provided for use by Ministers generally".

2. We have seen this as being very tied up with the Government's stance in the NEDC on 5 August, and the follow-up to that.

3. The Chancellor's paper will, we hope, be released to the Press after the meeting. If we want the Press to give it attention, this could probably be achieved by letting it be whispered that it is a revised version of what went to Cabinet on 17 June. Mrs Gilmore will no doubt consider the practicality - and wisdom - of that.

4. The manner in which the meeting is reported to the Press will depend very much on what the Chancellor says. Anything that we want to get reported to the Press will, perhaps boringly, have to be uttered at the meeting even if it is already in the paper. We will bring this out in the briefing for the Chancellor.

5. The Chancellor will also need to decide how the meeting should be handled. The paper, while making all the pay points, has deliberately avoided a direct approach on this in places. The meeting itself, however, gives the Chancellor an opportunity for greater directness, and for saying what he thinks, on the role of the pay bargainers in creating unemployment. There is also a choice on how far to develop the "low single figures" theme, possibly with reference to the simulations of the St James's Group.

6. In the light of the NEDC meeting as it turns out, Mr Vereker is proposing that a further guidance note should be circulated to Ministers generally by the Chancellor of the Duchy of Lancaster; this would have attached to it the Chancellor's paper to the Council, which will then have been released to the Press but which the Press will probably not have printed in extenso. The covering note will draw on themes presented to the NEDC by the Chancellor at the meeting (for this purpose we need to get Mr Vereker a seat at the Council).

P V Dixon
28 July 1981

CONFIDENTIAL

MR. DUGUID

cc. Mr. Hoskyns
Mr. Lankester
Mr. Ingham

NEDC: 5 August

We agreed last week to have a word early this week about what ought to happen in NEDC on 5 August about pay, which I raised in my minute of 15 July, and which John Hoskyns in his note of 13 July had also covered.

Peter Dixon sent me last week a first draft of the paper the Chancellor is proposing to put to NEDC, which I attach: it exactly fits John Hoskyns' description of a long and desperately boring paper full of worthy aspirations. So I talked to Peter Dixon about it, and about John's ideas, again this morning.

He had already put to the Chancellor the thought that it would be better to preach the unions a more explicit sermon on pay, and the Chancellor rejected it. The final version of the paper will be based on the one attached, will be only slightly more explicit on pay, and maintains the generally oblique approach. I hope to get hold of a copy later today. Nonetheless the Chancellor has apparently accepted advice that it would be useful to use this occasion to present the TUC directly and head on with the pay/unemployment trade-off. Peter Dixon fears, however, that the Chancellor will probably back off this approach, since the group dynamics of NEDC mean that there is rarely a discussion of that nature.

I think this means it is too late the propose to the Chancellor the kind of paper John Hoskyns has in mind. But I did agree with Peter Dixon two things:

(i) Since we are all agreed that it would be highly desirable for the Chancellor to go in hard on pay and unemployment, it would be useful if John could send him a short brief, based on the outline in his note of 13 July, encouraging him to do so. Perhaps we could have a word about this.

/ (ii)

CONFIDENTIAL

(ii) And, since there is a remit from E - which was dreamt up by Peter le Cheminant without any basis in the discussion on 2 July - for the Chancellor to consider further guidance on pay themes for use by Ministers generally, we will circulate the Chancellor's paper to his colleagues after NEDC - with a covering note drawing out the main points and encouraging them to use it. Since I will have to do the covering note, Peter Dixon is trying to arrange for me to be present at NEDC.

J. M. M. VEREKER

28 July 1981

Econ Pol
Strategy

cc ~~Mr. Lankester~~
Mr. Ingham

MR. DUGUID

Econ Pol

NEDC

Peter Dixon told me this morning that the Chancellor intended to prepare for NEDC on 5 August a watered-down version of his recent paper for the "Economic Cabinet", with a view to its subsequent publication. He thought the Chancellor was aiming for a fairly substantial discussion in NEDC about the prospects for pay in the coming year (but is not proposing to publish his recent paper for E on that subject).

Are you in touch with all this? It does seem to me rather important that this goes off properly. On the assumption that the Civil Service dispute is ended by then, early August would be a good time to start reintroducing the thought of low single figures for the next pay round, and the link with employment prospects. But equally, we must avoid a backlash from those whose expectations are still running much higher than that.

J. M. M. VEREKER

15 July 1981

6

cc PS/Chancellor
Mr Burns
Mr Evans
Mr Neuberger
Mr Sedgwick
Mr Hicklin

MR SPRINGTHORPE

BACKGROUND BRIEFING FOR No. 10

You asked for briefing on recent movements in productivity for possible use by the Prime Minister in Thursday's unemployment debate. The Prime Minister was keen to make some reference to encouraging signs of productivity improvement. There is some highly tentative evidence for this though it is in part anecdotal. But there is also evidence, again somewhat tentative, that recent productivity movements are not significantly different from what might be expected at this stage of the cycle. In the circumstances it seems best to avoid making any such references until we can be more confident in our understanding of recent developments in productivity.

R Springthorpe

for J S HIBBERD

(233-5592)

Because the employment response to falls in output occurs with a lag output per head ordinarily falls in the downturn of economic activity. There is some highly tentative evidence however that the fall in employment, especially in the manufacturing sector has been much faster relative to output in this cycle than, say, in 1975/76. The fall in output per head in 1980 may be somewhat less at this stage of the cycle than we would normally expect.

But the evidence is slight. First there have been references in the last two CBI surveys of Industrial Trends to manufacturers taking deliberate action to improve productivity performance. Thus in the October 1980 Survey the CBI wrote "These survey results point to a labour shake out occuring at an unprecedented rate in comparison with the last twenty years". And in the Survey for January 1981, which reported a record fall in employment in the fourth quarter of 1980 with further very large falls to come in the first quarter of this year, the CBI note: "In relation to the relatively slower decline expected for output, the falls in employment expected for the next four months seem large. This suggests that manufacturers are seeking to improve labour productivity."

The usual relationships between employment and output also suggest that actual productivity through 1980 was somewhat higher than we would expect.

For a number of reasons however this "evidence" must be treated cautiously. First the actual output and employment data on which these assessments are based are still highly provisional. Second the evidence is basically drawn only from the last three quarters of 1980. This is far too short a period on which to draw confident conclusions. Third the most important concept of productivity in the determination of sustained improvements in efficiency and competitiveness is the notion of underlying or trend productivity growth. Again it is still too early to determine whether the improvement in actual output per head is a purely cyclical phenomenon or also represents some improvement in the trend.

Some evidence that trend productivity has not improved is provided by the CSO. They have developed a technique which corrects output per head for cyclical factors. In their monthly Economic Brief, a summary of which is sent to No. 10, they note that "on a "cyclically" corrected basis" output per head over the period September to November was about 1½% above its average 1979 level. This represents an annual growth rate of 1-1½ per cent per annum, which is not significantly below the trend during the mid to late 1970s.

All in all therefore the evidence must at this stage be regarded as inconclusive. It should be stressed that productivity <u>fell</u> in 1980, and fell particularly in the manufacturing sector. The evidence above suggests that the fall has been less than might have been expected - not that there has been a "good" productivity performance in any absolute sense. But once output picks up - or even levels off - then the figures should record a marked increase in productivity.

HM Treasury
3 February 1981

Econ Pol
NEDC

National Economic Development Office

Millbank Tower, Millbank, London SW1P 4QX
Telephone 01-211 5386 or 01-834 3922

Director General
Geoffrey Chandler CBE

2nd February 1981

Dear Tim,

I think it likely that The Times may publish the enclosed in tomorrow's paper and that the Prime Minister should be aware of this before we meet, if only in principle.

I did not send it sooner because I had expected it to appear today and I do not like burdening busy people's in-trays unnecessarily!

Best wishes.

Geoffrey

Tim Lankester Esq.

ARTICLE FOR THE TIMES

BY GEOFFREY CHANDLER, CBE, DIRECTOR GENERAL
of the NATIONAL ECONOMIC DEVELOPMENT OFFICE

The Prime Minister chairs the monthly meeting of the National Economic Development Council (NEDC) next Wednesday. It is a little more than a year since she last did so - a year in which, despite all the difficulties of relationships, the NEDC has provided a unique national forum in which there has taken place a succession of discussions between government, management, and trade union representatives on the government's economic policies and other central facets of the economic and industrial scene.

Rising unemployment has deepened the divide between government and trade unions on economic policy. The impact on an inheritance of non-competitiveness of a strong pound, high interest rates, and, in certain areas, high energy costs, has left the CBI membership ambivalent in its attitude to a government which it also believes has done much in the interests of British industry.

All this had fed the national predilection for seeking scapegoats for our relative economic failure and attributing blame to any but our own sector of society.

At the CBI Conference last year a delegate asked how many of those present felt some responsibility for the state of the economy. The small scatter of raised hands exemplified our problem. A similar response could be expected from any representative trade union gathering, from the engineering institutions or, I fear, from any of us.

The barriers preventing change in these attitudes are firmly institutionalised: an education which conceals its economic basis from those who are educated; differences of status unrelated to function or purpose; an absence of consultative mechanisms in all too many industrial companies; management and trade union training which is studiously segregated, so protecting dogma and shibboleth from critical examination; collective bargaining too often carried out in the dark, with bluff or brinkmanship substituting for equal knowledge and analytical capability on both sides.

The complexity of the causes of our economic and industrial problems is such that change is needed on the part of all. But an institution that can help diminish barriers and create linkages has a vital contribution to make.

A single month's meeting of NEDC, viewed in isolation, may often be no more meaningful than one month's trade figures, although impressive in its moderation and constructiveness of discussion. But regular monthly discussions constitute a cumulative learning process which has led to perceptible positive changes in tone and language and attitude and a gradual extension of the agenda.

The ability to include in discussion government's role in industry, unemployment, the role of pay as an economic variable, the use of North Sea oil revenue, and next week, the medium-term prospects for British industry, is itself of crucial importance.

Blunt disagreements exist on these fundamental issues and are bluntly expressed, and it would be wrong to suggest that there has been significant outward change in the approach of the parties: NEDC is not the road to Damascus. But these discussions, while repetitive in disagreement on some of the central economic themes, have also sought to enlarge areas where positive progress can be made. A programme for using public purchasing as an aid to industrial efficiency, renewed attack on the intractable problem of specifications and standards, the acceptance that energy pricing problems exist for specific parts of industry, have all been stimulated or strengthened by the efforts of Council.

It would be too much to say that NEDC represents an implicit bargaining process, because power lies elsewhere. But if part of the essence of bargaining is men making reasonable argument for their point of view, it is a contributory factor to the national bargaining process.

Unrealistic expectations constitute the greatest danger to Neddy: criticism from those who are not parties to the monthly debate is often in direct proportion to their distance from it. Council represents an idea - that consensus is a necessary condition of progress in this country, not to fudge policies, but to provide mutual understanding so that, at the least, disagreement can be better informed and, at best, change can be stimulated.

The strong industrial orientation of Neddy has now been maintained under two governments through the tripartite committees of Council. These cover a wide spectrum of manufacturing and other sectors. Though perhaps less cohesive than in a period of greater government involvement with industry, they exercise at sector level the function that Council plays nationally in bringing the three parties together and provide a practical approach to problems which have not yielded to market forces. The willingness of a large number of distinguished managers, trade unionists, and independents to give their time voluntarily as chairmen or members of these committees is an indication of the potential value which they see in the process.

Of the diverse activities of the committees, some of the most important are demonstrating best practice, improving market knowledge, and creating linkages which should have, but have not, been brought about by competitive pressures:- between users and makers of both industrial and consumer products, so that manufacturers can better understand the reasons for the inroads into our home and overseas markets; between government agencies and industrial needs; between industries whose technologies are changing and merging but which, unlike our competitors, have remained too rigidly separate.

The aim is to help re-create international competitiveness and restore to the words 'Made in Britain' their former meaning. But at the end of the day it is individual companies which must make decisions and take action and it is change at company and plant level, assisted by the stimulus the committees bring to awareness of problems and their potential solutions, which will be the most important validation of their work.

Without Neddy we would be left with trench warfare, the views of each side visible to the other only when fusillades are publicly discharged. NEDC is a monthly reminder to the economic protagonists of this country that there are at least two sides to a problem and that ultimately government, management and trade unions work by consent, not by authority.

It symbolises that sense of reason, moderation, and equity which lies deep in this country and whose harnessing is an essential condition of change.

14th January 1981

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

2 February 1981

T.P. Lankester, Esq.,
No.10, Downing Street

Dear Tim

NEDC, 4 FEBRUARY: BRIEFING : THE TUC ECONOMIC REVIEW

..... I attach as promised:-

(i) a short supplementary brief on the TUC Economic Review;

(ii) the DOI brief on industrial trends and prospects (item 1 on the agenda). It is Annex C to the steering brief sent over last Friday;

(iii) the DOI brief on the sectoral report on diesel engines (item 3 on the agenda). It is Annex E to the steering brief.

Yours ever,
Peter

P.S. JENKINS

NEDC, 4 FEBRUARY: BRIEFING

Industrial Trends and Prospects: TUC Views
The TUC Economic Review (NEDC(81)8) is relevant to the discussion

The TUC will almost certainly wish to use the opportunity provided by this meeting of Council to attack the Government's general economic policy. Although such a general attack will no doubt wander from the subject matter immediately in hand - industrial trends and prospects - the best course will probably be to let the TUC blow off steam.

2. The line of attack the TUC will choose to follow is expected to be that contained in their Economic Review published on Monday. The TUC had asked that the Economic Review should feature as one of the agenda items for the meeting, but others objected, and it was eventually agreed that the Review should be referred to as "relevant to the discussion" on the industrial trends and prospects item.

3. The first part of the Economic Review examines the industrial recession. It shows that, since May 1979, industrial output has slumped 11%, and both public and private investment has fallen sharply. The result has been an increase in unemployment to over 2 million, with an additional 1 million who would also like to work but who are not registered as unemployed (giving a total "job shortage" figure of over 3.5 million). The Review goes on to argue that Government policies are responsible for making Britain worse off in the current recession than other countries.

4. The second part of the Review outlines the TUC plan for national economic recovery. The TUC advocate an immediate reflation of £6.2 billion (including additional spending on public sector construction projects (£400 million), larger cash limits for the nationalised industries (£600 million), improved social security benefits (including £750 million for pensioners), ½% off the NIS (£540 million), a cut in employees' national insurance contributions (£1000 million), an expansion of employment measures (£700 million) etc.) In order to stimulate investment in the longer term, the TUC argue for the setting up of an investment facility - a "national investment bank" -

with revenue from the financial institutions and North Sea oil (£1 billion from each). They also want an expansion of "managed trade" - including the introduction of selective and temporary import controls, the negotiation of additional export restraint arrangements with other countries, a "buy British" campaign etc.

5. The TUC have been campaigning for some time for the setting up of a national investment bank - along the lines of the proposal made by the minority group in Chapter 20 of the Wilson Report. This proposal, along with other aspects of the Wilson Report, is being examined at present by a high level NEDC sub-committee called the Committee on Finance for Industry.

6. Line to take. Mr Prior will be ready to respond for the Government side on the TUC point about the "true" level of unemployment. Other points to make include:

- the TUC's plan for national economic recovery has one overwhelming weakness - it does not include a feasible policy for defeating inflation;

- the £6 billion reflation advocated by the TUC would not constitute a solution to Britains economic problems. It would more likely stoke inflation and suck-in imports. What is required is a sound monetary policy - the sort of policy pursued by countries like Germany and Switzerland with relatively low unemployment levels;

- North Sea Oil revenues are already being used to help industry. By reducing the PSBR, they help contain the growth of money supply, and ease pressure on interest rates, so adding to industrial investment;

- the Wilson Committee considered the argument about having a North Sea Oil and Gas Fund and a new investment facility. The majority view was that the UK already had a highly developed capital market, and it was difficult to see how a new financial institution could channel resources more effectively into productive investment. Existing bodies such as

Finance for Industry, the NEB, and the development agencies already performed this job well;

- import controls are not the answer to industry's problems. The widespread introduction of such controls would almost certainly invite retaliation. The case of Indonesian Textiles has shown us the danger here. The Government accepts, however, that selective, temporary controls can have a part to play for those sectors of the economy suffering from unfair competition and disruptive import penetration.

RESTRICTED

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

30 January 1981

T.P. Lankester, Esq.,
Private Secretary,
10, Downing Street

Dear Tim,

NEDC, 4 FEBRUARY: STEERING BELIEF

.... I attach a Chairman's steering brief for the Council meeting on 4 February.

The section of the brief on overseas capital projects is based on a contribution from the Department of Trade.

We have not yet seen a copy of the TUC Economic Review, which is relevant to the first item on the NEDC agenda, "industrial trends and prospects". Copies of the Review should be circulated in the next day or two, and we hope to send over a short, supplementary brief on it early next week.

Annexes C, D and E to the brief will be circulated later. (attached)

I am copying this letter and enclosures to Richard Dykes, David Edmonds, Ian Ellison, Stuart Hampson and Julian West, whose Secretaries of State will also be participating in the Council.

Yours ever,

Richard Tolkien.

R.I. TOLKIEN

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cc Chief Secretary
Financial Secretary
Minister of State (L)
Minister of State (C)
*Sir D Wass
*Mr Ryrie
*Mr Burns
*Mr Middleton
*Mr Unwin
Mr Dixon
Mr Lovell
Mr Patterson
Mr Hawtin
Mrs Gilmore
Mr Buckley
*Mr A N Ridley
Mr N Owen - DOI
Mr D Coates - D/Trade
Mr E Whybrew - D/Employment
Mr Worsley - D/Energy
Ms Williams - DOE
Mr Stewart (PPS)

(*without attachment; copy of brief already received)

NEDC, 4 FEBRUARY: PRIME MINISTER'S STEERING BRIEF

I attach a copy of the Prime Minister's steering brief for next Wednesday's Council meeting.

2. Annexes will be circulated when available to those attending the meeting. A short, supplementary brief on the TUC Economic Review will be circulated early next week.

3. The section of the brief on the overseas capital projects item is based on a contribution from the Department of Trade.

J E MORTIMER

30 January 1981

NATIONAL ECONOMIC DEVELOPMENT COUNCIL: WEDNESDAY 4 FEBRUARY

CHAIRMAN'S BRIEF

THE COUNCIL: BACKGROUND

The Council was set up by Ministerial decision in 1962 with broad terms of reference to examine the economic performance of the nation. Over the years, a wide range of economic and industrial issues have been considered. When you last chaired a Council meeting, in January 1980, the main item on the agenda was technological change, industrial adjustment and employment. A list of current Council members is attached at Annex A.

2. The Council has no executive powers. Its role (and its strength) is as a forum in which the Government, management and the trade unions can exchange views. Whilst it provides an opportunity for the Government to explain its policies, its success depends on the Government demonstrating its willingness to listen, and to respond constructively, to the views of other members.

3. You will recall from your previous visit that the tone of the meetings tends to be informal and loosely structured. The practice has been for the Chairman to concentrate on inviting contributions from others to the proceedings and on drawing out, and summing up, on each item, any areas of agreement and points which need to be followed up by one or more of the parties. The Chairman normally leaves it to the responsible member of the Ministerial team to take the lead in responding for the Government on individual items of substance.

4. The meetings are held in private but the normal practice is for papers to be released to the press, if the Council agree, and for the Director General to hold a press conference immediately after the meeting at which he gives an objective account of the proceedings.

5. The last Council meeting was at the beginning of January, when the main item discussed was international energy prices. It was argued then by NEDO and the CBI that some large UK industrial energy users paid higher prices for energy (especially electricity) than their counterparts overseas. It was agreed that a task force should be set up (with representatives from the CBI, TUC, Department of Energy, the Nationalised Energy Industries, and NEDO) to establish the facts. The task force will report back to Council in March. The minutes of the meeting are attached at Annex B.

AGENDA

	Item	Suggested length of discussion
1.	Macro-economic discussion: industrial trends and prospects	1¼ hours
2.	Overseas capital projects	¾ hour
3.	Sectoral report: diesel engines	½ hour

6. Sir Keith Joseph will be some half to three-quarters of an hour late for the meeting. Mr Baker has agreed to stand in for him during this time. You may care to convey Sir Keith's apologies for his late arrival to Council.

7. Dr Frankel, Chairman of the Diesel Engines SWP, will join the Council for the discussion on the sectoral report.

OPENING REMARKS

8. You may care to open by thanking Council for inviting you to chair the meeting. You might say that you found the discussion at the meeting you attended a year ago last month most valuable. It confirmed your belief that the Council had an important part to play in improving our understanding of the UK's economic problems.

You could add you are looking forward to the discussion on industrial trends and prospects and on overseas capital projects. Both items raise issues which go to the heart of our economic difficulties and what to do about them.

ITEM 1: MACRO-ECONOMIC DISCUSSION

Industrial Trends and Prospects (NEDC(81)6)
TUC Economic Review (NEDC(81)8), also relevant

9. You will wish to invite Mr Chandler to introduce the NEDO paper. You could then invite the reactions of the TUC and the CBI. Sir Keith Joseph and the Chancellor will be ready to contribute for the Government side. The DOI brief prepared for Sir Keith Joseph is at Annex C.

10. With the Budget only five weeks away, there is a danger that the TUC and the CBI will use this occasion for putting forward their Budget representations. It is to be hoped, however, that the bulk of the discussion will be on the question in hand - industrial trends and prospects.

11. Background. Council has had a series of valuable discussions on macro-economic questions. In recent months, they have looked at the macro-economic effects of North Sea oil and gas, the relationship between pay, prices and unemployment, the Wilson Report, industrial profitability and trends in employment. Papers by Sir Keith Joseph and the TUC on industrial policy were considered last Summer.

12. In these discussions, the Government has tried to get others to understand the thinking behind its macro-economic policy, and to establish as much common ground as possible on what needs to be done. "Industrial trends and prospects" is designed to provide a fresh angle from which the macro-economic discussion can be approached. The hope is to avoid a discussion involving a sterile reiteration of entrenched views.

13. Further macro-economic discussions are planned for future months. Council will shortly be considering papers on the public and private service sectors (and the relationship between them) and on

"soures of growth", which will be an analysis of where growth might originate in the next upswing. A discussion on the lessons to be learned from the Japanese approach to industry is also planned.

14. The NEDO paper looks at past industrial trends and examines future prospects. It points out that, in the past, British industry has performed badly in relation to industry overseas. It argues that industry has been slow to adapt to the changing pattern of world demand and to seize opportunities. The paper goes on to say that growth over the next three or four years is likely to be slow. If industry is to succeed, it will need to come to terms with: sluggish growth in world trade; increased competition from the newly-industrialising countries; high energy prices; the rapid development of new energy sources; the continuation of a relatively high UK exchange rate; developments in technology (especially in relation to micro-electronics and biotechnology) and lower real levels of public expenditure. On the basis of work done by EDC/SWPs, the paper concludes by attempting to identify which sectors of the economy are likely to do well in the future, and which are likely to fall back.

15. Line to take:

- there is much to agree with in the NEDO paper - particularly with what it says about how badly British industry has done in the past, and about how industry will need to adapt to a changing environment if it is to succeed in the future. Do the TUC and CBI think that the two sides of industry are aware of how the business environment is likely to change and of the need to respond flexibly? How can the message be got across?

- the paper shows that some sectors will do better than the economy as a whole, some will do worse. The key point is that the opportunities are there for the competitive firm. The Government believes that small firms are particularly capable of responding. This is why, through income tax cuts, modification in capital taxation, and the enterprise package, Government policy has been to encourage small firms;

- paragraph 1 of the paper presents a fairly gloomy picture of the future. With a declining rate of inflation, however, the removal of restrictions to the free working of markets (eg pay, price, dividend and exchange controls) and a fairer balance of industrial power, the business environment will be improved;

- the Government cannot make industry competitive. Industry must respond by itself. Nevertheless, the Government does provide a generous measure of industrial support, including capital allowances (worth possibly £4½ billion in 1979-80) and DOI grants (worth something like £1100 million in 1980-81). Help is designed to stimulate additional investment, attract internationally mobile projects to the UK, help bring about major improvements in productivity, promote the adoption of new technology, and to provide help for the regions.

Cap allowances £4½ b

DOI grants £1100m. 80-81.

16. TUC views will be contained in the Economic Review. We have not yet seen a copy. A supplementary briefing note on the Review will be circulated later.

17. The TUC are unlikely to miss the opportunity provided by the NEDC meeting to criticise the Government over the level of unemployment. They will no doubt refer to the recently published figures which showed that, at the January count, unemployment (seasonally unadjusted, including school leavers and adult students) rose by 175,000 to 2.42m. (The seasonally adjusted figure, excluding school leavers and adult students, rose 103,000 to 2.24m.)

18. Line to take:

- Ministers are very concerned about the level of unemployment. But there is little that can be done about it consistent with a sensible strategy for economic recovery. Attempts to reflate demand would merely add to inflation and so quickly erode any initial increase in output and employment. The Government is attempting to create the conditions in which sustainable economic recovery can take place. The first priority must be to bring down inflation to acceptable levels. The long term answer to unemployment has to be founded on improved productivity and lower pay settlements which are now at last starting to show through.

19. CBI views. The CBI have not put in a paper for this discussion. But they are likely to support the broad thrust of the Government's macro-economic policy - in particular the need to reduce inflation through firm fiscal and monetary policies. Points they are likely to emphasise are the importance of reducing public expenditure further (especially the public sector wage and salary bill), and the need to reduce business costs (ie concentrating tax cuts, such as cuts in the NIS and business rates, on industry rather than on persons). They would also like a more positive exchange rate policy.

20. The CBI are at present working on a medium term strategy document, to be published on 5 March. The document will predict that unemployment will continue to rise through 1982 and 1983, with little prospect of a downturn. While it will talk about the need for industrial self-help, the document could well have something of an intervenionist flavour, advocating, in particular, the use of North Sea oil revenues for industrial policy.

21. Line to take:

- the Government is aware of the heavy tax burden borne by industry. But significant reductions in the NIS and business rates would be enormously expensive (each 1% off the NIS costs about £700 million in a full year);

- the CBI should not underestimate what the Government has already done to cut public expenditure. In 1981-82, public spending is likely to be about £6 billion less than the previous Government planned to spend in that year;

- there is very little that the Government can do to bring the exchange rate down. The strength of sterling largely reflects the availability of North Sea oil at a time of uncertainty in world oil markets;

- the most effective way of helping industry in the medium term is by reducing public sector borrowing. This will ease the pressure on interest rates and help restrict the growth of the money supply, with beneficial effects on inflation.

22. Summing up:

- this has been a useful discussion. There are clearly fundamental differences of view on industrial policy, but there are also important areas of agreement between all parties. There is a general appreciation of the extent of our failure in the past, as well as the magnitude of the task in front of us, if we are to do better;

- the discussion has shown that the opportunities are there for competitive firms to do well. Particularly those, for example, producing high quality, up-market products; those operating in areas of rapid technological change such as micro-electronics; those engaged in producing energy-saving and energy-extracting equipment; those ready to respond to opportunities in the growth areas of world trade, such as the newly industrialising countries;

- small firms have a particular contribution to make. They are the seed-corn of industry. The Government has given priority to creating the conditions in which small firms can flourish;

- while the Government can help by providing an economic framework in which industry can adapt to a changing environment, the bulk of the work in becoming more competitive must be done by industry itself.

ITEM 2: OVERSEAS CAPITAL PROJECTS

Memorandum by the Director General (NEDC(81)7)
Memorandum by the Public Sector Corporations (NEDC(81)4)

23. You will wish to invite Mr Chandler to introduce the NEDO paper and then Sir Peter Parker to introduce the paper prepared by the Nationalised Industries' Overseas Group (NIOG). Mr Biffen will be ready to speak in the discussion for the Government side. A copy of the DOT brief for Mr Biffen is attached at Annex D.

24. In recent months, Council has had a number of useful discussions on how to improve the competitiveness of British industry. It has discussed, for example, the importance of product quality as a factor in non-price competitiveness, and how the use of standards in support of health and safety legislation can contribute to, and detract from, the competitiveness of British industry. It has also discussed how public purchasing policy can be used constructively to strengthen industrial competitiveness. The overseas capital projects item provides a basis for considering how the competitiveness of this one important sector of the economy can be improved most effectively.

25. Although large civil export projects account directly for between 5 and 10% of overseas trade, they are normally highly visible; they provide a means of market entry both through the supply of spares and follow-on orders; they enable firms to develop and apply new technologies which will keep them in business for years to come. On the other hand the direct cost of supporting such projects is high as a result of officially supported interest rates for long-term export credits (at present levels of interest rates, this support can be equivalent to a subsidy of up to one-third of the value of the project). Also it is often necessary in order to win business in these highly competitive sectors, to find additional

means of support (eg mixed credits) to counter the tactics and advantages of our competitors. The setting up of EX Committee ensures that this is done in an efficient and measured way. The new Division in the Department of Trade (Projects and Export Policy Division) is also devoted exclusively to this sector, as is the Department's Overseas Projects Board (an advisory body of businessmen) which is developing the capability to assist with the formation of consortia where appropriate, and also to advise on which British group should be supported where it is clearly necessary to have a national bid and where industry has failed to arrive at a solution itself. NEDO have also appointed the former HM Ambassador to Norway, Sir Archie Lamb, to look into the problems of the private sector and to report on ways of overcoming them. He will report to NEDO in the Autumn.

26. The UK's weakness in the market for large overseas capital projects was discussed last Wednesday at a meeting between the Chancellor and six Chairmen of EDC/SWPs. At the meeting, Sir Cyril Pitts, Chairman of the Process Plant EDC, said that he had received the impression from officials in the DOT that Ministers were doubtful about the value of winning additional orders for large overseas projects, and thought that such projects already received too much support from the Exchequer. It will be important to rebuff this notion. Doing well in this area is regarded by Ministers as a high priority, as reflected in the setting up of EX Committee and the PEP Division in the DOT.

27. The NEDO paper gives five reasons why the UK does not win its fair share of orders for large overseas capital projects. They relate to the UK's weakness in assembling bids, the tendency to put in too many UK bids for any one project, the financial weakness of many UK firms in this field, the relatively short-term marketing strategies employed by UK companies, and the failure by some firms in both the public and private sectors to give priority to export promotion.

28. The paper goes on to say that the Overseas Projects Board is working to remedy these weaknesses but action is required in other areas. It argues, in particular, that new "lead" organisations are

Paradise ad hoc!

needed to help coordinate bids, and that a more positive role should be played by nationalised industry consultancies.

29. Line to take:

- the NEDO paper is right to say that the UK should win a larger share of the orders for overseas capital projects. But has the paper identified all the areas where improvements can be made? It does not discuss at all many factors which are central to competitiveness - such as price, quality and delivery - but deals primarily with institutional questions;

Role of consultancies [illegible] Stakeholding [illegible]

- the paper is possibly too generalised. The problems of different parts of the project industry require different solutions. For example, the need for stronger lead organisations and for the development of the supporting role of the nationalised industries is greater in some sectors than in others.

30. The NIOG paper, which covers all overseas activities of the nationalised industries (including sales of aircraft and ships), shows that they already play an important role on projects, particularly by offering consultancies based on their operating experience. The paper also implies that there could be statutory or financial restrictions which prevent nationalised industries playing a lead role or taking major financial risks.

31. Line to take:

- in general, nationalised industries should support export efforts. However, the desirability of different industries playing a more prominent role, and the obstacles preventing them from doing so, vary from case to case;

- those industries that feel that their powers are inadequate should raise the matter with their sponsor Department and DOT,

32. Summing up:

- the two papers have been helpful to the debate on how the UK can improve its export performance in this area;

- it must be primarily for industry, together with the banks, to develop solutions to the problems that have been identified;

- nevertheless, the Government stands ready to complement the work of industry. The DOT's Overseas Projects Board plays an important role here. In addition, the Government provides both financial and political support for those bidding for, and engaged on, large overseas contracts;

- the nationalised industry consultancies should discuss with their sponsor Departments and the DOT any obstacles that they believe prevent them from playing a more positive role in export promotion;

- perhaps the Director General would be good enough to follow-up points raised in discussion and report back to the Council in the Autumn when he has received Sir Archie Lamb's report.

ITEM 3: THE PROSPECTS FOR THE UK DIESEL ENGINE INDUSTRY

Memorandum by Dr Frankel (NEDC(81)3)

33. You will wish to invite Dr Frankel to introduce the report on the work of his SWP. Dr Frankel has been Managing Director of Staveley Industries since 1970; he was appointed Chairman last year. He was formerly Managing Director of English Electric - AEI Turbine Generators Ltd. Dr Frankel was born in Poland, and came to the UK in 1946. He is a mechanical engineer by training.

34. Dr Frankel's paper explains that UK production of diesel engines has remained static in volume terms over the last 15 years, although the world market is growing at a trend rate of 9% per annum. It argues that, to regain competitiveness, the industry needs to be rationalised with mergers or tie-ups involving diesel engine producers and equipment manufacturers (especially vehicle producers). It also argues that a more rapid improvement in productivity is needed, as well as additional long term financing, further Government support for selective R and D, and efforts by the Government to support UK equipment manufacturers through public purchasing, and in international negotiations etc.

35. Sir Keith Joseph will be ready to reply to these points for the Government side. He will no doubt argue that, on the most important of Dr Frankel's points - the need for the rationalisation of the diesel engine industry - action lies very much with industry itself. A copy of the DOI brief prepared for Sir Keith is attached at Annex E.

36. There is one point for the Treasury in Dr Frankel's paper. In paragraph 24, it is argued that many firms are finding it difficult to raise long term finance. Later, in paragraph 30, the paper talks about the need for new types of industrial bond. In reply, the Chancellor might say that it is true that few firms have been raising money in the industrial debenture market in recent years. The main problem here has been high nominal interest rates. If inflation can be got out of the system, interest rates should be lower, and this should lead to some revival in the industrial debenture market. It could be pointed out that the Government attempted to relieve some of the pressure in the long term money market by introducing its national savings package in November, thus reducing its need to borrow long term.

37. Sector reports usually go down well with Council, and there should be no shortage of comments or questions on Dr Frankel's paper from non-Government members of the Council. In conclusion, you will no doubt wish to thank Dr Frankel for his presentation.

ANNEX A

NEDC MEMBERSHIP

Chairman

The Chancellor of the Exchequer

Government

The Secretary of State for Industry
The Secretary of State for Employment
The Secretary of State for Trade
The Secretary of State for Energy
The Secretary of State for the Environment

TUC

Mr Len Murray, General Secretary TUC
Mr David Basnett, General Secretary GMWU
Mr Moss Evans, General Secretary TGWU
Mr Terry Duffy, President AUEW
Mr Frank Chapple, General Secretary EETPU
Mr Geoffrey Drain, General Secretary NALGO

CBI

Sir Raymond Pennock, President, CBI
Sir Terence Beckett, Director General, CBI
Sir Jeremy Morse, Chairman Lloyds Bank Ltd
Mr Harold Whittall, Chairman Amalgamated Power Engineering Ltd
Mr Ronald Utiger, Chairman British Aluminium

Nationalised Industries

Sir Peter Parker, Chairman British Rail

Independents

Sir Richard O'Brien, Chairman Manpower Services Commission
Mr Gordon Richardson, Governor of the Bank of England
Mr Michael Shanks, Chairman National Consumer Council

NEDO

Mr Geoffrey Chandler, Director General NEDO

ANNEX B

National Economic Development Council

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NEDC(81) 1st Meeting

MINUTES of a Meeting at the NATIONAL ECONOMIC DEVELOPMENT OFFICE, Millbank Tower, Millbank, London S W 1 on WEDNESDAY, 7 JANUARY 1981 at 10.00 am

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Present:

The Rt Hon Sir Geoffrey Howe MP
Chancellor of the Exchequer
(in the Chair)

Mr D Basnett

Sir Terence Beckett

Mr G Chandler CBE

Mr F J Chapple

Mr T Duffy

Mr A M Evans

Sir Jeremy Morse KCMG

The Rt Hon Lionel Murray OBE

Sir Richard O'Brien

Sir Peter Parker MVO

Sir Raymond Pennock

The Rt Hon James Prior MP
Secretary of State for Employment

Mr M J Shanks

Mr R E Utiger CBE

Mr H A Whittall CBE

The following were also present:

Dr D V Atterton
Chairman of the Iron and Steel Sector Working Party

Mr N Lamont MP
Under-Secretary of State, Departmemt of Energy

Mr N Tebbit MP
Minister of State, Department of Industry

Mr D Andren
HM Treasury

Mr J Boulter
Bank of England

Mr W Callaghan
Trades Union Congress

Dr A Catterall
Department of Industry
(For Item 3)

Mr A Cave
Trades Union Congress

Dr D Davies
Department of Industry
(For Item 3)

Mr P Dixon
HM Treasury

Mr K Fraser
National Economic Development Office

Mr R Gibbs
National Economic Development Office

Mr W Green
National Economic Development Office

Mr S Halls
Department of Industry
(For Item 2)

Mr J R S Homan
National Economic Development Office

Mr G Houston
Department of Energy

Mr P Jenkins
HM Treasury

Mr D le B Jones
Department of Energy

Mr D Lea
Trades Union Congress

Mr I Lightman
Department of Industry

Sir Donald Maitland GCMG OBE
Department of Energy

Mr H McCormick
National Economic Development Office
(For Item 4)

Mr K McDowell
Trades Union Congress

Mr P Middleton
HM Treasury

Mr J Monaghan
HM Treasury

Mr B Murray
Department of Industry
(For Item 4)

Mrs D M T Oldershaw
National Economic Development Office
(For Item 2)

Mr N Owen
Department of Industry
(For Item 2)

Mr A Reddrop
National Economic Development Office
(For Item 4)

Mr G Reid
Manpower Services Commission

Mr T Rickett
National Economic Development Office

Mr A Ridley
HM Treasury

Mr W Ryrie
HM Treasury

Mr A Scott
Confederation of British Industry

Mr R Shepherd
Department of Employment

Mr W J Skinner
National Economic Development Office

Mr M Smith
Trades Union Council

Mr I Stewart MP
HM Treasury

Mr T Sweet
Confederation of British Industry

Mr P Taylor
Confederation of British Industry

Mr N Wicks
HM Treasury

Mr P Vaight
CPRS

Mr E Whybrew
Department of Employment

Secretariat: Mr P G Davies
Mr D A Truman

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INTRODUCTION

1. The CHANCELLOR OF THE EXCHEQUER said that he was sure the Council would wish to record their pleasure at the award to Mr Drain, in the New Year's Honours List, of the CBE. Unfortunately, Mr Drain had been prevented from attending the present meeting by unavoidable circumstances. Apologies for absence had also been received from the Secretary of State for Industry, the Secretary of State for the Environment, the Secretary of State for Energy, and the Governor of the Bank of England. The CHANCELLOR suggested that the scale of absences pointed to the desirability of holding the January meeting of the Council a little later in the month. He noted that the Secretary of State for the Environment had now been appointed to the Council and he looked forward to the attendance of Mr John Biffen, who had been appointed Secretary of State for Trade in succession to Mr John Nott. He welcomed to the meeting Mr Norman Lamont, the Parliamentary Under Secretary of State at the Department of Energy, who was representing the Secretary of State for Energy, and Mr Norman Tebbit, Minister of State at the Department of Industry, who was representing the Secretary of State for Industry. Finally, the Council would wish to know that the short media filming session which had been planned for the current meeting had been deferred until March.

INDUSTRIAL ENERGY COSTS: UK-COMPETITOR COUNTRY COMPARISONS

2. The CHANCELLOR OF THE EXCHEQUER recalled that the Council had dicussed last August the cost of industrial energy in the UK relative to competitor countries. It had then been agreed that further study was necessary to establish the facts and indicate where the most anxiety was felt.

The three papers now before the Council suggested to him that these areas were the price of electricity for bulk users, the price of bulk gas supplies and the heavy fuel oil duty.

Introducing his paper (NEDC(80)78), SIR TERENCE BECKETT said that some progress had undoubtedly been made towards securing agreement, but further efforts were required. The differences that remained between the parties had been highlighted by a press leak of one of the Council papers. In his view, the subject was far too important to allow discord to persist. He proposed that a small task force should urgently be established, comprising two representatives each from the Department of Energy, the TUC, NEDO and the CBI, with the aim of concerting a common view and conclusions. The task force should report in March.

The CBI considered that the energy-intensive industries in the UK had been placed at a disadvantage compared with their overseas competitors. The view was corroborated by the NEDO paper and by the sectoral studies that had been made for, respectively, steel, chemicals, and paper and board. So far as electricity was concerned, the problem centered on the large consumer. Fortunately it was recognised that further discussion and negotiation were necessary here, but the CBI were concerned that the process should not be confined to the Area Boards, but should involve also the central electricity authorities. Large industrial users of electricity were not seeking preferential treatment, as was sometimes suggested, but simply treatment comparable with that accorded to their Continental competitors. As to oil prices, the references in the CBI paper related to the position last summer, when clearly the UK was at a disadvantage. He recognised that Continental oil prices had since risen, though the crossover point had come only last November, so that UK industry had been disadvantaged for ten months. There was no guarantee that industry would not be handicapped again in the course of 1981. As with the other fuels, the CBI believed that the situation required further study and further monitoring - and indeed they would shortly be updating their overall analysis to the end of 1980 and would then roll it forward to end-March 1981. Turning to gas, it appeared that Continental suppliers did not make as sharp a distinction as the British Gas Corporation between firm and interruptible supplies; and there was also the problem of the substantial difference between renegotiated prices and average prices. Coal, happily, presented less of a worry, though the CBI were concerned that the price should not get too far out of line with that available to competitor industries abroad. He deprecated any suggestion that the CBI were seeking energy subsidies. The suggestion had been made by a member of the Commons Select Committee on Energy, and had been reported in the press. It was wholly unjustified.

The DIRECTOR GENERAL said that his approach, as set out in his memorandum (NEDC(80)83), had much in common with that of the CBI and the Department of Energy. The ground was littered with statistical booby traps, which made generalizations and averages suspect. The Office had therefore been highly selective in their approach and had rejected evidence which did not stand up to scrutiny. They had found international comparison of price levels difficult, because of movement in exchange rates; and there was always the problem of following a moving target, particularly where oil price relationships were concerned. The Office had exposed their figures in draft to a number of organizations, including the Department of Energy. At the request of that Department, they had included their detailed figures in an appendix to the paper. The Department had indicated that there were differences between them and the Office, but he did not believe that these differences affected the Office's conclusions. Clear conclusions did indeed emerge. Put summarily, they were that a problem did exist: energy costs for a specific group of UK industrial users, namely medium and large users in energy-intensive industries, were higher than for their overseas competitors. Moreover, the state of the market and of competition did not allow these higher costs to be passed on to consumers.

The DIRECTOR GENERAL emphasized that these conclusions were substantiated in detail in his paper. The case was plain for electricity and gas; for heavy fuel oil, however, the situation had recently changed, though it remained to be seen whether the present disappearance of the price disparity was anything more than a temporary phenomenon. The fact was that for most of 1980 heavy fuel oil, including duty, was around 20 per cent cheaper in Continental countries than in the UK and that over the last two years Continental prices had generally been slightly lower than in the UK. For electricity, the Office had established that some Continental consumers had a cost advantage of up to 40 per cent over their UK counterparts: the average advantage might be some 20 per cent. For gas, the cost for comparable large users on the Continent appeared to be around 15 per cent below that for their UK counterparts, taking both firm and interruptible supplies together.

The DIRECTOR GENERAL acknowledged that exchange rate fluctuations made comparability more difficult. However, if one looked at prices in terms of own currencies, UK prices of gas and electricity rose significantly faster between 1973 and 1978 than French or German prices; between 1978 and 1980 Continental countries, except Germany, had tended to catch up. A further important point was the degree to which energy users exploited the opportunties offered by tariff structures. This could lead to greater differences between the average prices actually paid, which the Office paper had recorded, than between tariff rates. Some EDCs and SWPs had suggested the need for a radical change in the basic principles of UK energy pricing policy. The Office had not adopted this approach. They had assumed that strong price signals were desirable for energy conservation, for the development of energy-efficient technologies, and for continuing investment in all energy sources. This did not preclude anxiety about over-strong signals which might deplete cash flow. The Office's assessment had led him to question not the policy but the manner of its application and the resulting impact on an exposed and sensitive section of industry.

As to correcting the situation, there were specific options open, and some were already being examined by the Secretary of State for Energy. In the Director General's opinion, the rationale for the duty on heavy fuel oil - the protection of the coal industry - no longer existed. That duty was more than twice that of any other country save Ireland; indeed, with the exception of Germany, the Netherlands and Ireland, duties in the EEC were nil or negligible. One option open to the Government was the reduction or removal of the duty. As to gas and electricity, he believed that the desirability of matching Continental practices should be reviewed. This was not a plea for a subsidy, and certainly not for under-pricing; he was simply looking for practicable steps within the context of existing policy. Naturally some cost would attach to any change of practice - for instance, allowing for both direct and indirect effects, every £1 reduction in the current excise duty on fuel oil and gas oil of £8 a ton would cost the Exchequer about £50 million. He considered that industry could also improve its energy management techniques, and certain of the tripartite committees, notably the Paper and Board SWP, were pursuing this. He doubted whether the figuring could profitably be extended much further. The truth was that, whatever the differences of detail, a problem existed, and he hoped that the Council would agree to the task force proposed by Sir Terence Beckett as a step towards tackling, within the framework of the existing principles of energy policy, the specific difficulties that had been identified.

The PARLIAMENTARY UNDER SECRETARY OF STATE FOR ENERGY deplored the leak of his paper (NEDC(80)84) in The Times the previous day. The Times had suggested that there was confrontation between the Government and industry over the issue of comparative energy prices, which was quite untrue. His paper drew three broad conclusions: first, that as compared with the US, UK prices were certainly higher; second, that some large users in the UK were at a disadvantage compared with Continental users - certainly this was true of electricity and possibly also of gas; and third, that generally speaking UK energy prices were not out of line with those on the Continent.

Turning to the position of specific fuels, the PARLIAMENTARY UNDER SECRETARY OF STATE said that while small and medium users of electricity were not disadvantaged, large users might be, though cost differences would play a part here - for example, France had abundant low-cost hydro-electric power. There was certainly scope for more discussion between particular industries and the electricity supply authorities. But it would in his view be unrealistic to fail to recognize that where genuine cost differences existed, and accounted for price differences, they could not be escaped: either they would have to be borne by other users, or by the taxpayer. On heavy fuel oil, he accepted that prices in the UK were higher than on the Continent for much of last year, but the position had now changed and UK prices were now virtually the lowest; moreover, taking the period 1976-1979, the UK had not been out of line with some other countries, for example, Germany. The CBI had asked whether the UK's new-found advantage would persist. He could not guarantee that it would, but the Government had told the oil companies that they expected UK industry to have access to oil at the most competitive prices. As to gas, he could not accept the Director General's figures for firm and interruptible supplies. The fact was that 85 per cent of the gas sold in the UK was priced at under 26p a therm, and the average for 1980 would be some 20p a therm - figures which conveyed a rather different impression from those quoted in the other papers before the Council. He did not agree that in general Continental competitors secured gas at fuel-oil related prices, though there might be individual instances where this was so. Again, the problem might be one that was confined to the large user, where discounts were relevant.

He hoped that the Council could agree that energy should be supplied at the long-term price of supplying it. As to cash limits and financial targets, to which reference had been made in the various papers, it was not Government policy to force up energy prices to accommodate to the limits and targets; the requirement was simply conformity to the energy pricing principles adopted by the Government, though certainly it was true that the cash limits were set consistently with those principles. Supporting Sir Terence Beckett's proposal for a task force, he suggested that the force should include representatives of the nationalized energy industries.

Turning to what action could be taken over particular fuels, the PARLIAMENTARY UNDER SECRETARY said that, on electricity, he had asked the industry to review urgently the bulk supply tariff and also to consider large user discounts. There was scope for fruitful consultation between individual Area Boards and large users over load management. On heavy fuel oil, he could not comment on the level of the duty, which was a matter for the Chancellor of the Exchequer. On gas, a number of steps had already been taken. His department had asked the British Gas Corporation to look at prices for new supplies of gas, some of which were very high and might have distorted the figures used for comparison. The Corporation had also relaxed their contract renewal policy for firm gas supplies, reducing the renewal rate from 100 per cent of the gas oil level to 75 per cent. The Director General's paper had raised the question of a new type of interruptible contract, and the Department had asked the Gas Corporation to consider this and also the question of discounts. All these matters could be considered in the projected task force. Meanwhile, the Council could be assured that the Government would pursue with other governments any evidence of unfair pricing, whether within the EEC or in North America.

MR CHAPPLE said that the TUC found much to agree with in the papers. It had undoubtedly been demonstrated that the UK was at a disadvantage, both in relation to Continental Europe and to the US. A defect of the papers was that the facts on coal were not brought out, save in a minor way. Yet the National Coal Board had the lowest subsidy and the lowest production costs in Northern Europe. If the Board received the same subsidy as, say, the German coal industry, cheaper coal for UK users would be possible and coal exports to the Continent might be feasible. He supported the notion of relaxing cash limits to prevent further increases of fuel prices in the UK. However, the TUC would want to see a further analysis of the impact of heavy fuel oil on industry before any decision was taken to reduce the duty. The TUC favoured the direct alleviation of industry's energy costs, but not at the expense of the domestic consumer. They believed that more should be done to promote energy conservation, and also good energy management. The Council was not a suitable forum for formulating energy policy. Formerly there had been an Energy Commission, but this had been wound up. If the task force were to be the seed and forerunner of a new energy forum, the TUC would welcome it.

MR SHANKS agreed with Mr Chapple that the domestic consumer should not be penalized in order to ease industry's problems. That would be inflationary, and in any case the domestic consumer had endured large price increases recently, even though he had fared better than the industrial consumer. He, too, regretted the abolition of the Energy Commission.

MR BASNETT endorsed the proposal for a task force, and for the inclusion of representatives of the energ-producing nationalized industries. He accepted that there was a problem for large consumers of electricity and that there was also a problem with gas, though in the latter case it would be important to take full account of the depletion policy aspects. On oil, he had nothing to add to what Mr Chapple had said. As to coal, the TUC's standpoint was different from the CBI's. They believed that it was necessary to subsidize coal as competing nations did. It was essential to view the coal industry in a long-term horizon. He was concerned that the terms of reference of the task force should not be too restrictive. Energy policy posed other issues besides the competitiveness of UK industry. Energy pricing must support energy policy, the purpose of which should be the minimizing of energy consumption, but problems of depletion and conservation were also relevant. Subsidies could be used to foster the use of alternative fuels and of more fuel-efficient plant.

SIR TERENCE BECKETT expressed worry about the suggested widening of the composition and remit of the proposed task force. The prior and urgent task was to establish the facts about competitive pricing and to secure agreement on the means of alleviating industry's problems, so that a report could be put to the Council at their March meeting. This objective would be at risk if the wider issues of energy pricing were concurrently explored and if the membership of the task force were expanded from the eight he had envisaged to ten or a dozen.

The PARLIAMENTARY UNDER SECRETARY OF STATE FOR ENERGY dissented from this view. It would surely be a mistake not to include representatives of the nationalized energy industries who would have valuable expertise to contribute; furthermore it would be desirable to consider the issues widely and not solely from the viewpoint of consumers. SIR RAYMOND PENNOCK pointed out that the task force would assuredly wish to acquire basic information from the nationalized industries.

SIR PETER PARKER agreed that the creation of a task force was urgent. His own briefing from within the nationalized industries had brought out differences of view about the correctness of the data displayed in the various papers. He agreed that it would be helpful if the task force embraced the nationalized energy industries. MR BASNETT and the MINISTER OF STATE, DEPARTMENT OF INDUSTRY, also expressed support for the inclusion of nationalized industry representatives. SIR TERENCE BECKETT agreed that such representatives should be nominated to the task force. MR WHITTALL proposed that the initial terms of reference of the task force should focus on the problem of price competitiveness and that the wider aspects of energy policy should be considered subsequently. MR DUFFY stressed the urgency of the task force's work, given the deteriorating position of certain industries. MR BASNETT confirmed the importance he attached to the widening of the terms of reference of the task force after it had addressed itself to the short-term problem of competitive pricing. The facts had first to be established; appropriate action would have to be considered later in the wider context of national energy policy. Supporting Mr Basnett's view, the PARLIAMENTARY UNDER SECRETARY OF STATE FOR ENERGY observed that by the 1990s the UK's oil resources might have begun to run down. He recalled that, to provide incentive to domestic producers, US oil prices were actually above world levels before 1973 and only fell below them after the oil price explosion in that year. The disparity since that explosion had produced a huge increase in US internal consumption of oil and in the country's dependence on imports. SIR PETER PARKER, referring to the concern felt by the Nationalized Industries' Chairmen's Group about the operation of cash limits, said that he would like to pursue the points raised in paragraph 7 of the Director General's paper. The SECRETARY OF STATE FOR EMPLOYMENT remarked that some people considered that the UK should be using its abundant energy supplies to compensate in part for the burdens that industry was now bearing as a result of the high value of the petro-pound. He felt that American policies in this field would repay study.

Summing up the discussion, the CHANCELLOR OF THE EXCHEQUER said that the Council had identified three main areas of concern. The first was the level of the fuel oil duty: this was less pressing at the moment, but would have to be taken into account in framing the Budget judgement. The second problem was the price of electricity, especially to high-load users. The third related to some aspects of gas pricing. The Council had noted the specific areas of progress described by the Parliamentary Under Secretary of State for Energy. They had agreed that there should be a task force as proposed by the CBI; that it would include representatives of the nationalized energy industries; and that its objective would be to secure agreement on an assessment of relative energy costs. It should be chaired by the Director General and should report back to the Council in March.

THE COUNCIL:

(1) noted NEDC(80)78, 83 and 84;

(2) agreed to the establishment of a task force comprising representatives of the CBI, TUC, Department of Energy, NEDO and the nationalized energy industries, under the chairmanship of the Director General, to assess and agree on the facts pertaining to the cost of energy to UK industrial users as compared with their overseas competitors and to report back to the Council in March.

R&D AND INNOVATION

3. Introducing NEDC(80)79, the MINISTER OF STATE, DEPARTMENT OF INDUSTRY, said that although everyone was agreed on the merits of R&D, it was useful to consider why. Military R&D accounted for much of the total effort; it was undertaken primarily for national security, but there were important spin-offs in terms of exports and employment. Space R&D was becoming more commercially oriented. Much of the rest was clearly profit-oriented - aimed at improving existing products and developing new ones. If the fruits of R&D were not used - for example, as a result of practices in industry that nullified new technology - the expenditure would be wasted and industry's competitiveness endangered.

R&D could be carried out by firms themselves; or it could be bought in, as was the practice of many companies, though those who undertook no R&D of their own might not know what they should buy in or how to use it. The public sector was responsible for a good deal of R&D and not least for promoting awareness of the opportunities which new technologies presented. Private industry's concern was with applied R&D, which hinged on awareness of market opportunities and was not therefore effectively undertaken by Government. He endorsed the validity of Lord Rothschild's views, in the context of R&D expenditure, on customer requirements: it was necessary to work more closely with industry to determine how R&D could best contribute to profits. The paper displayed an essentially commonsense approach and he hoped that the Council would be ready to endorse it on this basis.

SIR RAYMOND PENNOCK agreed that the paper was not contentious. He noted that the UK had been spending about 2 per cent of GDP on R&D over the last decade, a figure which did not compare unfavourably with other countries and which was higher than in the 1960s. How was it, then, that our performance was not better? He believed that the explanation lay in the bottleneck of new investment, a view that had also been expressed recently by the distinguished scientist, Sir Alan Cottrell, in a recent lecture. With the current level of profitability in British industry as low as 2-3 per cent, the investment required to apply the fruits of R&D could not be forthcoming; thus R&D was rendered useless. As the Department of Industry's paper showed, R&D in the UK was declining. Such expenditure was always the first to be sacrificed when recession struck. These trends were potentially disastrous for the nation - but they were also very sad, given that the quality of UK research remained comparatively high. The figures in the paper appeared somewhat puny. The £52 million industrial support package announced by the Chancellor of the Exchequer last November included additional support for R&D; but other key magnitudes in the economy, for example the PSBR, were measured in billions, not millions.

Another disappointing figure was that for total annual Department of Industry expenditure on R&D schemes and programmes of some £170 million; this was no more than the research budget of ICI alone. It was disappointing that the Government spent on civil R&D so much less than the French and the Germans. Admittedly British defence spending was much higher, but even allowing for spin-off it was open to question whether this was right. Taking R&D expenditure as a proportion of GDP could be a misleading source of self-congratulation, since UK GDP was much lower than its competitors'. A better measure was the amount spent per head of working population; on this basis, as figures he would now informally circulate showed, our performance was much inferior. In sum, while he welcomed the paper, and was gratified by the continuing high quality of UK research, the link between exiguous profitability and declining R&D was inescapable, and the modest absolute scale of UK civil R&D was depressing. SIR TERENCE BECKETT commented that whereas much of British R&D was related to specific military requirements, a good deal of US defence R&D was used in ways that brought industrial spin-offs: for example, in electronics and aerospace. British R&D did not lend itself to the same fertile development because its scale was so much smaller. Turning to the figures circulated by Sir Raymond Pennock, he pointed to the negligible defence-related expenditure of the Japanese - this gave them an enormous advantage - to the high level of R&D expenditure per head of population in the US, and the very high proportion accounted for by defence in the UK. The figures, moreover, were two years old and undoubtedly R&D spending by UK industry was being curtailed under current conditions.

MR DUFFY pointed out that expenditure on military R&D was not wasted to the extent that it made possible the retention of skilled workers and the fostering of apprenticeships. SIR JEREMY MORSE, recalling that the Diplomatic Service had transformed itself remarkably so far as the promotion overseas of British industry and trade was concerned, wondered whether a similar change-round was not possible in respect of defence sales. The MINISTER OF STATE, DEPARTMENT OF INDUSTRY, observed that much military R&D had in the first place been directed at procuring weapons and weapon systems which were too sophisticated to be prudently exported or so expensive that overseas countries could not afford them. MR SHANKS, drawing on his experience as a former director of the Royal Ordnance factories, thought that although these had a corporate plan, there was no overall strategy for attacking potential markets throughout the world. The full logic of hiving-off had not been fully pursued.

SIR PETER PARKER, referring to paragraph 34 of the paper, emphasized the interdependence of innovation, design, productivity and marketing world-wide and the need for management to adopt an overall and integrated approacch. Certainly it was true that most basic research was carried out in the public sector and most applied research by the private sector. Nevertheless, in spite of financial constraints, the record of publicly-owned industries in the matter of risk-taking was not bad. The adoption of natural gas, and the cooperation between the public and private sectors to secure the development and manufacture of remarkably fine mining machinery, were good examples. At the railway research and development establishment in Derby, British Rail received good support from the Government, though this was less so for pilot and prototype projects. Concurring, the MINISTER OF STATE, DEPARTMENT OF INDUSTRY, said that his paper should in the present context have treated the nationalized industries as part of the commercial sector.

MR MURRAY cited the statement in paragraph 32 of the paper that it was not the Government's role to pick winners. But surely someone had to pick them? He took the CBI's point about profitability, and certainly profitability was a crucial factor, but so was the amount of resources the Government was willing and able to deploy in R&D. This took one back to the question of selectivity - for example, there was a choice between alleviating industry's energy costs and doing more R&D. How, accepting all the risks involved, did we identify winners, and then make the necessary resources available so that the economy had a prospect of taking off? A view of the shape of the future had to be taken, and then - since the process of spraying with a hosepipe was not open to us - choices had to be made.

In further discussion, the following points were among those advanced:

(i) the DIRECTOR GENERAL suggested that Government could best help in the R&D field by taking a selective approach, by improving the coordination of the diverse activities in the field, and by imaginative use of public purchasing;

(ii) MR CHAPPLE asked how it was possible to monitor the effectiveness of R&D expenditure and avoid duplication of effort. Was it possible to identify where R&D expenditure had paid off and where successful innovation had resulted from very modest expenditure?

(iii) MR SHANKS said that, contrary to common belief, product liability did not discourage innovation. Germany, for example, had strict liability for some time in the pharmaceutical sector with no apparent detrimental effects. Comparisons with what had occurred in the USA were misleading because of the very considerable amount of litigation there. SIR TERENCE BECKETT dissented. His experience was that world-wide legislation in this field had hampered product development and could be damaging to productivity. The more effort that had to be devoted to meeting Government requirements, the less was available for research and the development of new products.

Replying to the discussion, the MINISTER OF STATE, DEPARTMENT OF INDUSTRY, said that he accepted Mr Chapple's point about the importance of avoiding duplication of effort. On product liability, it was not always apparent whether legislation in other countries was having a detrimental effect on innovation, but it was clearly handicapping industry in the US. He did not consider it right to describe expenditure of £52m on research as puny; it should be remembered that this sum was quadrupled when industry's contributions were taken into account. He acknowledged that defence R&D was not wasted if it helped to expand the supply of skilled engineers. As to picking winners, we had not been good at it as a nation. Some time ago the bulk of national research effort was concentrated on three major projects - Concorde, the RB211 aero engine, and nuclear power. Of these, only one was now generating exports. We did have to try to pick winners, as Mr Murray had suggested, but we should not go for broke on two or three spectacular projects as we had done in the past. The CHANCELLOR OF THE EXCHEQUER said that Ministers shared the general concern about the trends described in the Department of Industry paper. They were themselves frequently involved in the detailed consideration of R&D projects.

THE COUNCIL:

(3) took note of NEDC(80)79

SECTORAL REPORT: IRON AND STEEL

4. DR ATTERTON, introducing NEDC(80)81, said that although the British steel industry was in decline, world steel production had grown steadily since the end of World War II and was expected to continue to rise by about 2-3 per cent or more a year until the end of the century. Third World production was estimated to increase by 133 per cent compared with 27 per cent for the developed world. However, it was likely that the current major steel-producing countries would continue to dominate the market while tending to specialise in quality steel. Several developing countries had already emerged as important steel producers, and others using modern plant and techniques might well wish to achieve a share of world export markets in the '80s. Many plants in Japan with a capacity of between 6-8 million tons could operate with exceptionally high productivity in excess of

1000 tons per man per year and have a break-even point around 65 per cent of capacity. He noted that one British company also operated at around 500 tons per man per year. Much American plant was technically obsolete and old but productivity was still higher than in Britain. US investment since 1960 had been significantly less than in Britain, Germany and Japan, but the industry was protected to a significant extent and had a large domestic market.

Contrasting the doubling of world steel production since 1960 with British performance, DR ATTERTON said that British steel output in 1979 was below that of 1960 and had declined further in 1980. There were several reasons. The first was the substantial fall in domestic demand, reflecting the decline in the output of steel-consuming industries. Second, partly since the British steel industry had failed to meet demand in 1973, many domestic steel consumers bought foreign steel, which assured them of better delivery time, in special cases of better quality, and of lower prices. Consequently in the 1970s import penetration had increased from just over 5 per cent to over 20 per cent. Third, indirect imports of steel in the form of cars and machine tools and other goods had exacerbated the reduction in home demand. Fourth, the recent strengthening of sterling had hampered the industry's export and import substitution performance. Price was the key determinant in purchasing: because of the strength of sterling, a sale which might have been profitable in 1978 was no longer so, whereas competitors could maintain prices in sterling and still improve profits. Fifth, iron and steel production was energy-intensive and energy costs were higher in Britain. For example, energy could amount to 20-25 per cent of manufacturing costs for electrically melted steel. High energy prices were an impediment to the British Steel Corporation and particularly to the private sector, all of whose steel was melted electrically. Finally, both the BSC and the private sector had invested heavily in new equipment; but despite this, and our favourable geography and the lowest labour costs within the

EEC, the decline in the home market had prevented the new capacity from being efficiently operated.

Turning to the work of the SWP, DR ATTERTON began by noting that teams representing the work force - including management - of two British steel plants had compared the latter's efficiency with that of comparable plants in Europe. Studies had covered a wide range of productivity factors and the reports had been well received by all within the works concerned. These studies would be extended to cover other works. An important by-product was the recognition of the need to abandon long-established demarcations. Secondly, because of the continuing concern of SWP members, the SWP had commissioned an independent investigation on energy pricing policies and prices paid by steel firms within the EEC. The investigation substantiated the views of both the BSC and BISPA and a report was released in December which deserved consideration and action by the Government. Thirdly, a comparable investigation was being made on state finance and aids to the European steel industry. Already it showed that indirect aids in the form of subsidies for variable costs, for example coking coal and transport, were higher in Continental Europe than in the UK. Such assistance affected commercial decisions such as pricing and should not be confused with funds received for investment where the BSC was the highest recipient within the EEC. Fourthly, import penetration was now as high as 67 per cent in special highly alloyed steels. The SWP, having investigated this in depth, strongly advocated that such steels should be brought within the Davignon plan. This had now occurred under Article 58. The firms producing these steels were rapidly rationalising and were down from 110 in 1960 to 16 in 1980.

As the SWP prepared its 1981 work programme, it would be evaluating the options open to the British steel industry. DR ATTERTON suggested that a policy of dramatic further closures aimed at bring capacity and demand into balance could lead to a virtually unworkable industry. It would mean accepting the current lack of competitiveness in productivity and, at the present exchange rate, cutting out product lines that made only marginal contributions to direct costs and virtually abandoning export markets. The alternative strategy would be to assume that both the public and private sectors could show a marked reduction in production costs by reducing levels of manning, increasing throughput by plant modernisation and having energy prices comparable to EEC competitors. This could then enable the UK to achieve an increased share of exports. But we would have to bring our production costs into line with the overseas competition and adopt an aggressive marketing stance. The latter would mean ensuring that the most able staff were directed into selling and product management functions; commercially directed consortia for major overseas contracts might be established; barter deals with certain developing countries might be necessary; research and development programmes should be directed to improve performance and individual work; and there should be more emphasis on quality improvement and customer support. Such policies might involve changing our attitude to existing understandings and in the short term could result in increased revenue losses for the BSC and other steel companies which adopted price-cutting to buy an increase in market share. However, an export drive was dependent on a reasonably strong domestic market and the continuance of the major British steel-consuming industries to produce as wide a range of metal products as hitherto. If not, it might be prudent to trim the steel industry to match the reduced demand.

The following points were made in the subsequent discussion.

(i) MR DUFFY said that he had been informed by many manufacturers that the main reason for not using British steel was its poor quality rather than its price. Union members, however, refuted this. MR EVANS added that he believed British tinplate could compete successfully with the foreign product. SIR TERENCE BECKETT said that steel users were concerned with quality, security of supply and price - in that order. Quoting the experience of Ford UK in the 1970s, he said that Dutch and German steel producers had succeeded in producing steel to Ford's quality specifications, but that the BSC had been unable to do so. When eventually they had made progress, BSC was bedevilled by stoppages, which harmed both quality and continuity of supply. Yet Ford would much prefer to buy British because the plants were nearer its plants and he was encouraged that the new BSC management were renewing the attack on the problem. He noted that BSC shop stewards had spoken to their counterparts at Ford and had learned about the issues involved at first hand. DR ATTERTON commented that sheet steel was often supplied at the lowest practicable quality and import penetration was high; in general the UK was competitive. In 1973 there had been very real problems, but quality had since improved dramatically. The MINISTER OF STATE, DEPARTMENT OF INDUSTRY, said that British Leyland now regarded sheet steel from the Llanwern plant as satisfactory.

(ii) MR WHITTALL asked whether any work had been undertaken on the amount of import substitution necessary if industry were to run at a viable level of production. DR ATTERTON said that the SWP was examining what opportunities might be exploited. The import penetration problem had to be seen in perspective; in France and Germany this was even higher - these countries imported cheap steel and concentrated production on the quality end of the market.

(iii) SIR RAYMOND PENNOCK asked when the industry would be competitive in terms of man-hours per ton; and MR EVANS suggested that plants were being closed not because of excessive manning problems but because of excess capacity due to lack of demand. DR ATTERTON answered that the UK averaged 130 tons per man year in 1979 but most competitors were double this. We were improving but there was a long way to go. Agreeing with Mr Evans, he said that Redcar's productivity was comparable with any European plant. It was unlikely that the economic upturn would have a major impact on the steel-consuming industries; we should concentrate on the quality end of the market and there would be no difficulty in meeting demand.

(iv) The SECRETARY OF STATE FOR EMPLOYMENT questioned whether there had been excessive new investment at Redcar and Ravenscraig which was incapable of producing competitive premium steels. DR ATTERTON said that the BSC had reduced the number of small plants scattered around the country in order to improve efficiency; one of the reasons for lack of competitiveness was the higher cost of fuel and he instanced the Hunterston gas line compared with the Emden gas contract for a direct reduction plant. MR DUFFY, noting that British steel workers had just agreed to a wage freeze for six months, said it would be a tragedy if they made this sacrifice only to see competitors reduce costs because of lower energy prices. The PARLIAMENTARY UNDER SECRETARY OF STATE FOR ENERGY said that his Department had received the industry's report and comments would be provided shortly. He felt bound to say that his Department had serious reservations about the report; for one thing, there had been no consultation with the electricity or gas industries. DR ATTERTON emphasised that they had used the best data available. There was no question of the industry wanting a subsidy; they merely wanted energy prices comparable to those of competitors in the EEC which enjoyed a 20-25 per cent differential. There were also other problems experienced by British industry, for example the treatment of social costs. If the industry were to survive, it should not have greater restrictions placed on it than its competitors.

(v) The SECRETARY OF STATE FOR EMPLOYMENT observed that, if sterling and energy costs were reduced, steel could be sold and exported more cheaply and the BSC's losses reduced. Had any calculation been made of the cost benefits of this approach? DR ATTERTON said he did not think lower energy costs were the sole answer. There was a danger that capacity for making special steels would have disappeared by 1982 or 1983.

(vi) The MINISTER OF STATE, DEPARTMENT OF INDUSTRY, pointed out that excess capacity for bulk steel was world-wide. Our economy would benefit to the greatest extent if we could increase our share of the home market in, for example, cars. The Government was actively pursuing with our competitors the question of unfair practices. He felt it was better not to follow bad examples but to set good ones to be followed by others. MR MURRAY doubted the value of just being virtuous. DR ATTERTON said that the industry did not want to adopt all the practices of its competitors but some of these ignored agreements drawn up within the EEC. If the UK were to adopt an aggressive marketing policy, it would be necessary to match competitors and possibly adopt the same approach to agreements as others apparently did. He had no doubt, for example, that some of the European competition was dumping steel.

(vii) SIR RICHARD O'BRIEN warmly welcomed the improvements in efficiency arising from a more flexible approach to manning.

(viii) SIR PETER PARKER said serious consideration should be given to paragraph 14 of the paper which referred to the financial difficulties of the private sector. SIR JEREMY MORSE confirmed from the bankers' viewpoint the weakness of the private steel companies. DR ATTERTON said that their problems were such that they might well have to write off or even cocoon plants, but there was doubt whether they had the financial strength to do this.

Summing up the discussion, the CHANCELLOR OF THE EXCHEQUER thanked Dr Atterton for his presentation and said it was clearly urgent to act on the paper and in particular to consider the question of energy prices.

THE COUNCIL:

(4) noted with approval NEDC(80)81 and the Chancellor of the Exchequer's summing up.

NEDO AIR CARGO COMMITTEE

5. The CHANCELLOR OF THE EXCHEQUER, referring to the Director General's paper, NEDC(80)80, said that the proposed NEDO Air Cargo Committee arose from one aspect of the work of the former International Freight Movement EDC. While some anxiety had been expressed about the projected recreation of the Committee, it would surely be acceptable provided progress could be reviewed in six months, as the Director General proposed.

THE COUNCIL:

(5) accepted the proposal to set up a NEDO Air Cargo Committee, the progress of which would be reviewed in mid-1981.

National Economic Development Office
Millbank Tower
Millbank
London SW1P 4QX

12 January 1981

ANNEX C

AGENDA ITEM 1

INDUSTRIAL TRENDS AND PROSPECTS - NEDC(81)6

BACKGROUND

The bulk of the Director General's memorandum is directed at sectoral questions. Drawing on an international comparison of the performance of sectors of the economy in the Annex it concludes that our slow growth is a general, across-the-board phenomenon but that compared to OECD competitors, British industry has been slower to adapt to changing patterns of world demand and to seize opportunities. The memorandum then lists a number of familiar external factors which will bear on sectors' prospects (eg energy prices, competition from developing countries) and, more interestingly, identifies (at table 2 of the Annex) activities which are seen as potential growth areas. The onus for responding to these opportunities is placed squarely on companies; Government has a contribution to make to the economic framework.

DISCUSSION

The paper makes a positive contribution in identifying potential growth areas - the outcome of some thoughtful discussions within the SWPs - and laying the prime responsibility for responding to these opportunities on companies. The basis of the selection looks sensible, with emphasis on new and specialised materials, equipment for securing and conserving energy, microelectronics and information technology.

The paper is more contentious in its analysis of our performance and in particular, in its verdict that British industry has been slower to adapt to changing patterns of world demand then

German industry. In the first place, these changing demand patterns are not documented (there is no data available on an industry basis which allows this to be done). Second, previous NEDO work has demonstrated that German and British industrial structures are very similar. Third, the comparison of the two countries' patterns of growth shown in Chart 6 of the annex does not suggest slower adaption in the UK. In the five sectors in which Germany expanded fastest between 1968 and 1977, we also grew rapidly. As a result of failures to produce efficiently we declined in some sectors where Germany expanded (eg transport equipment, shipbuilding, iron and steel). But on the other hand we performed better than Germany in professional and scientific instruments, beverages and pottery. Who is to say that the latter are the 'wrong' sectors to succeed in, or that world demand patterns do not favour their industries? It is fair to say that Germany has shifted labour out from the LDC-type industries (textiles, clothing and footwear) more rapidly than we did but one would expect that higher German labour costs would put more pressure on German industry to move out of these labour intensive sectors. Taken together there seems no evidence in the paper for arguing that the broad structure of our economy is adapting more slowly than Germany's. There are of course many other indications to suggest that within most industrial sectors we lag behind the Germans in terms of product quality and productivity.

The point will certainly be made by TUC representatives that the paper demonstrates the need for massive Government investment to ensure that we seize the opportunities in the potential growth areas identified in the paper and secure the future of what the TUC choose to refer to as 'core' industries. The evidence in the paper does not support this view. Although German levels of investment per employee (Chart 8) and rates of productivity growth in manufacturing were both roughly double the British levels between 1968 and 1977, there is only a weak correlation between relatively high investment per employee in the UK and relative strength in UK output growth, even when steel is left on one side. In the one manufacturing sector - steel - where we matched the Germans in investment per head we registered the largest percentage fall in output of any manufacturing sector and an absolute decline in productivity. The root problem in British manufacturing is not the level of investment but its low marginal productivity - (roughly half that of Germany's). This weakness will not be remedied by throwing money at it.

POINTS TO MAKE

If available to respond to the paper the Secretary of State may wish to:

1 Welcome the positive contribution the paper makes by identifying potential growth areas, mentioning that some of these already receive considerable Government encouragement (eg microelectronics and information technology);

2 question the proposition that the broad structure of the British economy adapts more slowly than the German economy; the main reason for differences in our growth patterns identified in this paper is not the failure of our new industries to respond but the failures of our steel, car and shipbuilding industries to maintain competitiveness;

3 anticipate the TUC's call for substantial public investment by underlining the observation in the annex that there is a weak link between investment and performance. The prime

objective must be to raise the productivity of new and past investment.

4 comment that the paper under-emphasises the role of profitability in enabling industry to become more adaptable, with the consequent implications for unit labour costs.

ICA/2

2 February 1981

RESTRICTED

ANNEX D

NEDC ITEM 2: OVERSEAS CAPITAL PROJECTS
Memorandum by the Director General (NEDC(81)7)
Memorandum by the Public Sector Corporation (NEDC(81)4)

The main paper is by the Director General ((81)7). This describes some apparent weaknesses of our civil project sector in the export markets, and contains suggestions for improvements. This sector is that for which the Department's Projects and Export Policy Division (PEP) has been set up to act as a focal point for Government to help UK firms to win a higher share of worthwhile business. PEP is advised by the Overseas Projects Board (OPB) under the Chairmanship of Mr Mayhew-Sanders (Chairman of John Brown). The OPB's main tasks are to liaise between the Government and industry on export project matters and to advise on the approach the UK should adopt to individual cases. It has never fully developed the latter role, but under Mr Mayhew-Sanders' chairmanship and with full Departmental encouragement it is now working out how to do so. The NEDC discussion could give a useful impetus to this.

2 It is difficult to be dogmatic about the reasons for our relatively poor performance in this sector compared to our main competitors (France, Japan, Germany and the United States among developed countries, and Korea and others from the newly industrialising countries). Nevertheless institutional questions, such as those addressed by NEDC(81)7, while important, are secondary to the basic questions affecting competitiveness such as price, quality and delivery. It is clear, however, that the single minded pursuit of projects by France and Japan often for reasons of resource diplomacy or industrial policy, for example, is something we find difficulty in emulating; nor can we match the scale of the largest American companies (Fluor & Bechtel) for the largest projects.

3 Although large civil export projects account directly for between 5 and 10% of overseas trade, they are normally highly visible; they provide a means of market entry both through the supply of spares and follow-on orders; they enable firms to develop and apply new technologies which will keep them in business for years to come. On the other hand the direct cost of supporting such projects is high as a result of officially supported interest rates for long-term export credits: the total cost of long-term supprot for all sectors including the civil project sector could be £500 million in 1980/81. Also, it is often necessary in order to win business in these highly competitive sectors, to find additional means of support (eg mixed credits) to counter the tactics and advantages or our competitors. The setting up of EX Committee ensures that this is done in an efficient and measured way.

4 Many of the points in NEDC(81)7 eg on assembling bids, marketing, financial strength etc are aimed primarily at the industrial and banking members of NEDC, but there are points for the Government, too, particularly in relation to national bids, government support generally and the role of the nationalised industries. NEDC(81)7 is critical of the fact that UK companies work often through ad hoc consortia which restrict their marketing strategies, and which can add to costs. While there is probably some truth in both these points, they fail to take account of the fact that individual projects, even within a single sector, vary enormously and require a flexible approach. If there was a greater degree of confidence between UK companies in each others abilities, ad hoc consortia need not add to the overall cost.

5 On the role of nationalised industries, which is dealt with in NEDC(81)4 as well as in NEDC(81)7, the most important function they can perform is to make their operating expertise available in support of export efforts. To a large extent they already do this (though the figures in NEDC(81)4 are misleading since they consist overwhelmingly of aircraft and ship exports); the figure of £300 million pa for consultancy work is more relevant (and very creditable). However, although the statutory positions of the individual nationalised industries vary, some feel that their ability to offer this service is too limited by statute. With one or two exceptions (the Water Council and the White Fish Authority - on both of which action is in hand or contemplated) we believe that the problem is more likely to be one of the will of the main boards to encourage this work, though there could be financial restrictions. The appropriate response generally is to encourage nationalised industries to support export efforts and, via NIOG, to ask those that feel that their powers are inadequate to take the question up with their parent Departments and the Department of Trade. There is a separate, sensitive issue here - the relationship between the private and public sector consultanties. The Government would NOT wish to give the impression that it favoured the latter at the expense of the former.

6 A number of other points could be raised on which the Secretary of State may be required to comment:

a ECGD support; the support the Government offers to exporters through ECGD is generally as good, if not better, and as flexible as that offered by our competitors. HMG strongly supports the Consensus on Export Credits, since our national interest is best served by preserving international discipline; an all out credit war will untimately benefit the countries with the longest pocket.

b aid programme; the Government's aim in the aid programme as stated by the Foreign Secretary on 14 February 1980 is to give greater weight to commercial industrial and political considerations alongside the basic developmental purpose. The Aid and Trade Provision, which is particularly helpful in serving commercial and industrial purposes was increased to £41m in the current financial year and will increase again in real terms next year. Because of the Government's desire to promote international discipline, in relation to credit terms, ATP is normally used to match the mixed credit offers of our competitors.

c Ministerial and Diplomatic support for exports; Ministers, including the Prime Minister, the Foreign Secretary, as well as Mr Nott (and the present Secretary of State), and other Ministers have been and are extremely active in supporting exporters through overseas visits etc. Overseas posts, as well as home Departments also devote great efforts to promoting our exporters' interests, giving full support wherever possible. Where there are rival UK firms involved, it can be difficult to give the whole hearted support from HMG required to match the efforts of the Governments of our competitors. (see 7(5) below).

7 The Prime Minister has been briefed to welcome the papers, to point out that they do not deal with the basic factors affecting competitiveness, and to hear the views of the authors of the industrialists and bankers present, before seeking the Secretary of State for Trade's comments. Subject to what has gone before, he might wish tomake the following observations.

(i) the project sector is highly competitive, highly visible and offers valuable opportunities to penetrate, and establish a long-term position, in markets, through follow-on orders and spares, but in terms of official support particularly of interest rates, it is expensive;

(ii) the Director General's paper identifies a number of ways in which the UK's approach differs from its competitors. The civil project sector, which includes such diverse areas as power generation, railway electrification, process plant, telecommunications, and irrigation and agricultural schemes is not susceptible to a monolithic approach. Each project, let alone each area, is sui generis, and a generalised approach to the problems can be misleading;

(iii) the Department's own Projects and Export Policy Division with the advice of the Overseas Projects Board was set up to provide a focus for the Government's efforts in support of firm's efforts to win project business overseas, and will readily co-operate with the enquiry the Director General is pursuing with Sir Archie Lamb. But there are no simple solutions;

(iv) the financing side of a project is of great importance, and the financing sector needs to be alert to the need to be able to offer as good a package as our competitors;

(v) the question of national bids is not easy to resolve. In an extremely competitive world, the UK must offer a thoroughly competitive bid if it is to stand any chance of success. For major multi-disciplinary projects, this may require a combination of what different firms have to offer. This may come about either by ad hoc consortia or by more permanent arrangements but the principal responsibility lies with industry to develop the capability of putting the best bid forward. The Overseas Projects Board is prepared to assist with this as a last resort here and also in situations where there is a clear requirement for HMG to be seen to be giving full support to a UK firm to match the efforts of foreign Governments;

(vi) the role of nationalised industries, as well as of private sector consultants, can be invaluable to our export effort as a whole in offering theri unique operating experience. If there are difficulties, statutory or otherwise, the industries should take them up with their parent Department and with PEP Division of the Department of Trade.

D.A.C.D.

PEP1
2 February 1981

ANNEX E

NEDC MEETING ON 4 FEBRUARY : DIESEL ENGINES SWP PRESENTATION

The Diesel Engines SWP, known until 1978 as the Industrial Engines SWP, contains representatives from most of the major manufacturers in this country, who belong to large, often multi-national groups, such as Massey-Ferguson (Perkins), Ford, BL, GM (Vauxhall), GEC, Hawker-Siddeley, Vickers (Rolls-Royce Motors) and Cummins, often with minority interests in diesel engines. The Chairman is Dr A Frankel, who is the Chairman of Stavely Industries. Dr Frankel, whose Doctorate is in Engineering, spent many years with AEI and later GEC in advanced mechanical engineering design and development and later in general management.

THE SWP's WORK TO DATE

The SWP has not achieved much to date. It has completed a good survey of future market trends and has lobbied the Government on various issues. It completed a pamphlet on productivity in 1978 but the trade union members of the SWP felt the document to be inappropriate as it confined itself to aspects of labour productivity and it was not distributed within the industry. As the NEDC paper comments, a new study on productivity has been started. Preliminary discussion in the SWP suggests that a consensus view acceptable to all will emerge, but it remains to be seen how the conclusions will be put to work at plant level.

POINTS TO MAKE

Dr Frankel's paper calls for changes in structure of the UK industry, improvement in competitiveness, and increased capital investment and expenditure on

R & D. These are certainly all required but not necessarily in the form suggested. Some points to make follow:

a Structure of the industry

Rationalisation and restructuring seems more likely to come about through an increase in joint ventures where the particular strengths of companies can be matched to market opportunities. This may call for inward investment, and the DOI is ready to discuss with interested parties the ways in which it can encourage such ventures. The recent announcement on the possibility of a Japanese car assembler building a large new factory in the UK points to the Government's interest in inward investment in this sector.

b Competitiveness

The Secretary of State may care to ask whether Dr Frankel has a quantitative measure of the progress made in improving the competitiveness of the industry as mentioned in paragraph 22 of his paper.

c Investment and R and D

The need for further Investment and increased R and D spending is undisputed. The lower rate of inflation which is resulting from the Government's policies will ease the financial problems of the industry. The DOI is already providing assistance towards capital investment and R and D in the diesel engine and engine components industry but the bulk of expenditure in each case must come from the industry itself. New proposals for assistance will be given full consideration by the Department of Industry, which remains responsive to good projects.

(Defensive Brief : The NEDC Paper criticises the rate of implementation of changes in the organisation of Government Funding of R and R into engines. Some of the proposals are being implemented and a full report will be made to the SWP shortly.)

d Public Sector Purchasing

Dr Frankel calls for action by the Government to support UK Original Equipment Manufacturers. The Secretary of State could point to the recent decision on further funding for BL and to the public sector purchasing initiative which is intended to pull through important new developments. One way in which this will be carried through is by demonstration projects which the Department of Industry is presently identifying.

DEPARTMENT OF INDUSTRY

JANUARY 1981

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

2 February 1981

T.P. Lankester, Esq.,
No.10, Downing Street

Dear Tim,

It seems likely that the TUC will exploit the NEDC meeting on Wednesday to make a determined attack on ~~our~~ the Government's policies and to get publicity for it. They will do so, presumably, under the item on industrial matters which is first on the agenda. We understand that they are likely to base their attack largely on their own economic review, which is being published today, and which was circulated in proof form last Friday as NEDC(81)8.

To a large extent, this is inevitable and the Chancellor does not think the Government need to be too concerned. I gather that Mr. Chandler, when he sees the Prime Minister this afternoon, may suggest that the Government should offer to meet the TUC to discuss their economic review. This could be a useful ploy, but it has its dangers - obviously it would [redacted] be undesirable for it to look like a Government initiative for a discussion with the TUC about economic policy. The Chancellor suggests, therefore, that if the TUC provide an opening, e.g. by saying that they would like to discuss their document with the Government or complain that they had no opportunity to do so, the Prime Minister should reply that the Chancellor would naturally be willing to discuss their Budget representations before framing his Budget, and on this basis would be prepared to arrange the earliest possible meeting with them.

Yours
John

A.J. WIGGINS

c. Mr Lankester

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Mr Burns
Mr Middleton
Mr Dixon
Mrs Gilmore
Mr Gordon
Mr Mortimer

NEDC MEETING 4TH FEBRUARY

Mr Chandler telephoned me today to say that he had a strong impression, from a talk with Mr David Lea, that the TUC will do their best at Wednesday's meeting to turn the discussion into one about economic policy generally. As you know Mr Chandler has resisted a proposal from Mr Murray that unemployment should be put on the agenda. But the TUC are just issuing their annual economic review (which is referred to on the agenda as relevant to the first item). They will naturally talk about the review. In short, instead of concentrating on industrial questions as the agenda would suggest, they will almost certainly use the occasion for an across-the-board attack on the Government.

2. Mr Chandler's advice was that the Prime Minister, from the Chair, should not try to resist them in doing this, but should let them blow off steam. I am sure this is right. But it will be very important to watch the Press handling afterwards. The TUC will presumably try to get reports indicating that they gave the Government hell, etc.

3. Mr Chandler says that one reason why he expects this kind of performance is that the TUC see this as their only opportunity to talk to the Government effectively about their economic review and to make their points to them in person before the Budget.

4. Mr Chandler is seeing the Prime Minister on Monday and will make these points to her himself. Would Mr Dixon also please ensure that they are covered in the briefing.

WSR.

W S RYRIE
30th January 1981

Econ Pol

29 January 1981

Thank you for your letter of 23 January.

Bernard Ingham and I, and possibly Clive Whitmore, will accompany the Prime Minister to the Council next Wednesday. I will let you know on Tuesday afternoon whether Clive will be coming.

I am afraid the Prime Minister will not be able to stay for lunch, and I doubt whether she will be able to stay for the pre-lunch drink either.

We look forward to seeing Geoffrey Chandler on Monday afternoon.

T. P. LANKESTER

P.G. Davies, Esq.

National Economic Development Office

Millbank Tower, Millbank, London SW1P 4QX
Direct line 01-211 4148 or 6549 Switchboard 01-211 3000

From the Secretary to the Council

T Lankester Esq
Private Secretary
10 Downing Street
London S W 1

23 January 1981

Dear Tim,

We look forward to seeing the Prime Minister on 4 February when she chairs Council. Perhaps you would be kind enough to let me know who will accompany her; whether she will join Council members for a pre-lunch drink and whether she will stay for lunch.

Yours ever,

Peter

P G Davies

Econ Pol

file

10 DOWNING STREET

From the Private Secretary

27 November 1980

NEDC

When the Prime Minister met the Chancellor last night, they discussed the question of whether Mr. Heseltine should become a member of the NEDC.

The Prime Minister asked whether it was really necessary to have six Ministers on the Council. The Chancellor said that, assuming Mr. Heseltine was appointed, it would be the normal aim for only five Ministers to attend Council meetings. On that basis, the Prime Minister agreed that Mr. Heseltine should be appointed.

I. P. LANKESTER

John Wiggins, Esq.,
HM Treasury.

GB

EK

file Econ Pol

10 DOWNING STREET

From the Private Secretary

24 November 1980

February NEDC: Agenda

The Prime Minister has read the Chancellor's minute of 21 November, and is content with the suggested Agenda for the February NEDC meeting which she is to chair.

T. P. LANKESTER

Peter Jenkins, Esq.,
HM Treasury

dd.

cc: B. Ingham

1

Prime Minister

This looks a reasonable agenda.

Content?

Yes

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

PRIME MINISTER

FEBRUARY NEDC: AGENDA

I wrote to you on 7 October about the agenda for the February meeting of the National Economic Development Council, which you will chair. It would be helpful if we could now firm up on it.

2. My minute suggested a number of possible items. We have given further thought to the matter since then, and it has also been discussed in the Co-ordinating Committee (involving the TUC and CBI) which prepared NEDC business. The following agenda is suggested:-

(i) Industrial trends and prospects (follow-up of previous macro-economic discussions).

(ii) Capital projects overseas.
(iii) Sectoral report: diesel engines.

3. The paper on industrial trends and prospects will include an analysis of past trends in UK industries, and examine factors - such as the threat of the newly-industrialising countries, technological developments, high energy prices, the availability of North Sea oil, etc. - which might make the future of these industries somewhat different from the past. It will make clear that there are opportunities as well as problems. The discussion on this item would be one of a series of discussions that we have been having in the Council on general macro-economic and industrial issues,

/such as

such as the use to be made of North Sea oil tax revenues, and the relationship between wage increases, inflation and unemployment. The aim of the NEDO in preparing a paper about industries at a more disaggregated level is to try to find a fresh approach to macro-economic questions and avoid what might be sterile discussion going over ground covered at recent meetings. The paper had originally been intended for January but the CBI and TUC took the view that its importance justified its postponement for your visit.

4. The NEDO paper on capital projects overseas would investigate why the UK fails to win its fair share of orders for large overseas capital projects. There will be a second paper from the nationalised industries representatives. John Nott would be the chief participant for the Government. The subject is important and interesting, as we have recognised in establishing EX Committee, under your Chairmanship, to consider among others related the problems in this area. John Nott has already put in a paper, and I will be doing so too, and I understand it is to have its first meeting fairly soon. I hope that the work of the Committee will lead to some useful conclusions which would be relevant to the NEDC meeting.

G.H.

(G.H.)

21 November 1980

Has seen

Econ Pol

PRIME MINISTER

Meeting with the Chancellor
9 am on Thursday 23 October

You will want to discuss the handling of public expenditure in Cabinet. The aim, I think, is to get a re-endorsement of the planning totals in the last Public Expenditure White Paper, but not to get involved in discussion of the Chief Secretary's detailed proposals. I have told the Chancellor that you will probably want to tell Cabinet yourself that the group of three consisting of himself, the Chief Secretary and the Home Secretary, will conduct bilaterals.

I enclose in this folder the brief which the Treasury have done for the Chancellor (though it might be best not to indicate that you have seen it since I have been given it on a personal basis).

The Chancellor also wants to discuss the Agenda for the NEDC meeting in February which you are to Chair. The possible alternatives are: a broad presentation from Terry Burns and then a discussion about jobs, prices, productivity and pay, or a discussion of productivity, competition and marketing. In either case, there would probably be a presentation - as there was last year - by one of the sector working party Chairmen.

At Flag A is a note from the Chancellor suggesting that Michael Heseltine should become a member of NEDC. You rejected this suggestion sometime ago, but the Chancellor has come back to the charge.

TL

22 October 1980

1

Prime Minister

Michael Heseltine is attending NEDC tomorrow to present his papers at Flag A. But the Chancellor would also like to announce that he will become a permanent member of the Council.

Content?

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

Has seen

PRIME MINISTER

We are due to have a word when we meet next Thursday about the Agenda for the February meeting of the NEDC which you are to chair. I should like then to raise again with you the possibility of adding Michael Heseltine to the Ministerial team on the Council.

Will discuss

2. There is no necessity to fill the one vacant Ministerial seat but I think there is quite a good case for including Michael. He is a regular attender at the meetings of both the NEDO Building and Civil Engineering EDCs and made a most useful contribution at a meeting I held on Wednesday with a small group of EDC/SWP Chairmen.

3. Michael is due to attend the November Council meeting to present papers on the work of his Department in relation to industry: so that would be a convenient time to add him to the Council, if you felt that was right.

4. There are, of course, other factors to consider - may we have a word about this at the same time as we discuss the Agenda for the February meeting, next Thursday.

Yes

(G.H.)
20th October 1980

Gen Pol.

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

15 October 1980

Tim Lankester Esq
Private Secretary
Prime Minister's Office
No.10 Downing Street
LONDON SW1

Cf pls note
TL.

Dear Tim,

Thank you for your letter of 13 October indicating that the Prime Minister would like to take the Chair at the February meeting of NEDC. The morning meeting on Thursday 23 ~~October~~ would be a suitable occasion for the Chancellor to have a word with the Prime Minister about this.

Yours ever,
Peter

P S JENKINS
Private Secretary

10 DOWNING STREET

OK - noted.
CP. 13/10.

CAROLINE

Please go firm for 4 February for NEDC - the other possible date, 7 January, can come out.

R

13 October 1980

File

DS9

13 October 1980

The Prime Minister has read the Chancellor's minute of 7 October about future meetings of the NEDC, and would like to take the Chair at the February meeting.

I suggest that the Chancellor should have a word with the Prime Minister about the possible agenda at once of their Thursday morning meetings. Will you please let me know when he would like to do this?

T. P. LANKESTER

Peter Jenkins, Esq.,
H.M. Treasury.

Prime Minister

I think we should go firm on February. And you can discuss the agenda with the Chancellor.

Agree?

TL

8/10

1

February

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

PRIME MINISTER

I was very pleased to hear that you would like to take the chair again at the National Economic Development Council in the near future, and I have been giving some thought to when would be the best time for you to come. I have consulted the other parties represented on the NEDC about this, and our feeling is that the best date would be either 7 January or 4 February. In view of the difficulty of preparing for an important Council meeting over the Christmas period, February would be the better of the two dates for us, but I know that the Council would be very happy for you to come in January if you would find this more convenient.

2. The agendas for the January and February meetings have not yet been fixed, and so it should be possible to construct one which you would feel worthwhile. If we wished to take a relatively low key line we could usefully discuss, for example, small firms, industrial reserach and development.

3. An alternative might be to invite, Terry Burns for example, to begin the proceedings with a broad presentation of economic problems and then to embark upon a pretty pointed discussion of central economic issues: jobs, prices, productivity and pay. Or we could try to devote most of the time to a discussion of productivity, competition and marketing - drawing on some of the studies that are available about the Japanese threat. Perhaps we could have an early word about this general choice?

4. Either way I think it would be useful for the agenda to include a presentation by a chairman of one of the Sector Working Parties, possibly on diesel engines.

5. If you would let me know which date you would prefer, I will make the necessary arrangements with NEDO: we can go firm on the agenda as soon as possible thereafter.

(G.H.)

7 October 1980

CONFIDENTIAL

Re
Econ Pol

10 DOWNING STREET

From the Private Secretary

30 June 1980

Committee on Finance for Industry

I mentioned to the Prime Minister that the Chancellor has it in mind to invite Mr. John Baring to become Chairman of the Committee on Finance for Industry in succession to Lord Roll. The Prime Minister is content.

T. P. LANKESTER

M.A. Hall, Esq., M.V.O.,
H.M. Treasury.

CONFIDENTIAL

6

PRIME MINISTER

Committee on Finance for Industry

The Committee on Finance for Industry operates under the auspices of N.E.D.C., and has been chaired for several years by Lord Roll. He has now resigned, and the Chancellor is proposing that Mr. John Baring should succeed him. Mr. Baring is keen to take this on, even though he would not be a full member of N.E.D.C. (because the Governor has taken Lord Roll's seat); and the Chancellor thinks he would do well.

Are you content? Yes MT

R.

27 June 1980

CONFIDENTIAL

Econ Pol.

Subject file Ind Pol - TUC - Pt 2

cc D/M bc Wolfson
CO Hoskyns
Ingham

10 DOWNING STREET

From the Private Secretary 3 June 1980

Relations with Trade Union Leaders

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

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

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

/ still cause great

CONFIDENTIAL

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

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

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

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

T. P. LANKESTER

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

CONFIDENTIAL

Distribution

Econ Pol

PS/Prime Minister
Chief Secretary
Financial Secretary
Sir Douglas Wass
Mr. Ryrie
Mr. Middleton
Mr. Dixon
Mr. Butt 2
Mrs. Heaton
Mr. Ridley

CONFIDENTIAL

NOTE OF A MEETING AT NO.11 DOWNING STREET: FRIDAY, 16TH MAY AT 5.45 P.M.

cc Mr. Duguid

Prime Minister
Worth reading.
TL 20/5

Present:

Chancellor of the Exchequer
Mr. Ryrie
Mr. Middleton

Sir John Hedley Greenborough
Sir Raymond Pennock

The Chancellor said that his impression was that the economic debate in NEDC definitely had more life in it than a year ago; Sir Raymond Pennock and Sir John Greenborough agreed, and Sir Raymond Pennock thought that the TUC probably thought so too. Sir John Greenborough said that during the period he had been able to observe NEDC discussions, there had been an increasing willingness to confront real issues. There were however undoubted difficulties. The size and configuration of NEDC meetings was an obstacle, and TUC leaders were undoubtedly feeling bruised, albeit often through their own fault. They had lost their authority to the shop stewards, and it was scarcely an exaggeration to say that they felt that the CBI were the only people left to talk to. Sir Raymond Pennock said that on entering office he faced a presentational problem. The CBI's backwoodsmen would object if he appeared conciliatory towards the TUC early in his term. He intended to try to force them to face industrial reality, rather than playing politics. He was at present committed to speaking further to David Basnett on alternative macro-economic policies. Anything the Government could put forward in this dialogue which touched on social as well as economic policy would make discussion more fruitful. One possibility might be David Lea's ideas on technology - e.g. more Government support for INMOS and new technological enterprises. The Chancellor said he too was looking for suitable subjects to introduce. He was personally attracted by the idea of an oil fund, but the massive difference in scale between the North Sea revenues and any possible fund was a serious difficulty. Sir John Greenborough said that David Basnett was opposed to the idea.

2. Sir Raymond Pennock said that the CBI had been pursuing a dialogue with the TUC for some time. Their discussions were certainly more than cosmetic. But the search for common ground was difficult. They had produced one joint paper for NEDC on education. And they had had a recent meeting on technology. But the TUC tended to approach any discussion as a negotiation.

3. Sir Raymond Pennock said he would be taking a strong public position on pay in the next round. The CBI had arranged two pay conferences. Too many Ministers were failing to get the message across, and then attacking employers who concluded high pay settlements to save themselves from strikes. Trade union leaders had to be persuaded that they were not helping to raise the standard of living of their members by pressing for excessive settlements, and the shop floor that it was illusory to think that settlements above the inflation rates were obtainable and compatible with the continued well-being of individual companies. The CBI had been disappointed at the failure of their campaign on pay in the run-up to the present pay round.

4. Sir Raymond asked the Chancellor what the Government proposed to do about Clegg and comparability generally. The principle was in his view unsound.

5. The Chancellor said that pay was of crucial importance. No final decisions had been taken on Clegg and comparability. It was essential to dethrone the RPI as the prime influence on pay settlements. He was encouraged by the number of settlements at below 15 per cent in the private sector, reported by the CBI. Prescriptive comparability must also be dethroned. There

was a powerful logic for abolishing all the comparability bodies. But he was not sure this was the most sensible approach.

6. Sir Raymond Pennock said that comparability was the one aspect of the Government's policies which was inconsistent with its market approach. The Chancellor agreed. He added that every possible means had to be used to break the link between the RPI and wages. He would welcome the CBI's own analysis of the pay problem. Public sector pay was not going as badly as all that. The total year on year money increases looked appalling; but settlements were much more modest. Sir John Greenborough said that if he had a criticism of the Government's economic policies, it was that the Government believed they were communiciating them to the public more effectively than they in fact were. The same message had to be hammered home over and over again.

7. The Chancellor said there two areas where the CBI could help. First of all, they could help fortify the nationalised industrial managements, who felt that they went into pay negotiations unarmed. They did not face the same financial pressures as private sector employers, and tended to run to the Government for support. Sir John Greenborough said that the CBI had regular meetings with the Nationalised Industries Chairmen's Group. The nationalised industries would be represented at the pay conferences, and he thought the CBI could certainly help. (He added that at his instance a nationalised industries representative had been included in the committee which would select Sir John Methven's successor.)

8. The Chancellor said the CBI could also help by using their influence with "pacemakers" e.g. Fords. Sir John Greenborough thought it was harder to define pacemakers when there was no Government incomes policy.

MAH.

(M.A. HALL)
20th May, 1980

Cabinet / Cabinet Committee Document

The following document, which was enclosed on this file, has 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.

Reference: CC (80) 9th Conclusions, Minute 6 (extract)

Date: 6 March 1980

Signed CHWayland Date 22 March 2011

PREM Records Team

Econ Pol.

cc Mr Ingham

NBPM

P 22/2

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

22 February, 1980

Dear Gordon

NATIONAL ECONOMIC DEVELOPMENT COUNCIL

Further to our earlier conversation about this, I am now writing formally to invite you to serve as a member of the National Economic Development Council. This would in the first instance be a two-year appointment, as is the normal practice.

As you will know from your previous experience of it, the Council is a consultative body with wide ranging terms of reference to consider ways of improving UK economic and industrial performance, competitive power and efficiency. It is also closely involved with the work of the tripartite sectoral committees (the Sector Working Parties and Economic Development Committees) which have similar terms of reference with regard to individual (mostly manufacturing) sectors of the economy. The Government value the Council as a forum where they can meet with representatives from both sides of industry and other interests to discuss these important issues. We believe that your own membership would strengthen the role of the Council, and that you are in a position to provide a valuable contribution to its deliberations. Len Murray and John Methven, whom I have consulted, warmly support this invitation.

The arrangement is that you would take the seat vacated by Eric Roll; this is one of four places on the Council generally regarded as being taken by "independents". The Council itself usually meets in the morning on the first Wednesday of every month. The next meeting will be on Wednesday, 5th March, when we shall be resuming a macro-economic discussion begun at the meeting last December. This would be a fitting agenda item for your first meeting, and I do hope that you will be able to attend.

/I propose to

The Rt. Hon. Gordon Richardson, MBE

I propose to announce your appointment in a speech about economic and industrial policy which I shall be making to the Engineering Employers Federation on Tuesday, 26th February. On the same day I would also, as a matter of courtesy, inform those Council members not already aware of the appointment. Finally, there may be press interest in the appointment and it will be necessary for our Press Offices to liaise with each other - though I suggest that the Treasury Press Office should take the lead in handling any enquiries.

(GEOFFREY HOWE)

IN CONFIDENCE

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

February, 1980

NEDC: SMALL FIRMS' REPRESENTATIVE

When we discussed the question of NEDC membership before Christmas, we agreed that we should try to find a place on the Council for the Governor of the Bank of England, and to consider the possibility of bringing in a representative of small firms. Len Murray and John Methven have both expressed warm approval for the proposal to appoint the Governor, and I have therefore written to Gordon Richardson formally inviting him to join the Council.

The implicit understanding is that Gordon Richardson will take the seat vacated by Eric Roll. This leaves us with the unresolved question of who should fill the place previously held by Sir Leslie Murphy. My main purpose in writing is to seek your views on this matter.

There are two main possibilities. The first would be a representative of small businesses. One such candidate is Mr. Brian Kingham of the Association of Independent Businesses, though there may be others. The second possibility would be to give the seat to Leslie Murphy's successor at NEB, Arthur Knight. You did not rule out this possibility when we discussed the matter before Christmas, and it is perhaps significant that the TUC also referred to it at the February meeting of the NEDC.

I should add that we have not, so far, raised the possibility of a small firms' representative with the CBI and there may be objections from them. This, together with possible objections from the TUC (especially in view of their apparent support for Arthur Knight) is something we should need to weigh in the balance in deciding how far to press the small firms proposal.

(GEOFFREY HOWE)

The Rt. Hon. Sir Keith Joseph, MP

Top Copy Filed
on Nat Ind: Steel
Pt 3

Prime Minister
Mr Murray's statement to the press - follows closely what he said.
I understand that Mr Chandler presented your line faithfully at his press conference.
TL 9/1.

NEDC

EXTRACT FROM A STATEMENT BY TUC GENERAL SECRETARY, LEN MURRAY
MADE TO THE NEDC - JANUARY 9 1980

The situation in the steel industry illustrates the importance of the points the TUC make in its report on Employment and Technology. The closures suffered by the industry largely result from the impact of new technology in the UK and elsewhere. There has been a remarkable response from the unions concerned over the years in accepting change and reduced employment. Now they are faced with new and draconic proposals. But the technological and structural problems facing the industry have been grossly intensified by unreasonable, narrow and short-sighted Government policies.

I am not concerned here with the merits of the current dispute. That is a matter for the BSC and the unions. But the parameters for negotiation have been determined by the Government, and the Government must accept responsibility. It is not necessary to spell out here the grave dangers that the steel dispute poses to industry and the whole economy. It was because of these frightening implications that the TUC took the initiative in establishing the trade union Coordinating Committee. The initiatives have all come from the trade union side, but the BSC response has been largely if not wholly conditioned by the Government's restrictive approach.

The trade union response involved making an unprecedented offer - to accept self-funded productivity arrangements, to set up machinery and procedures to negotiate local productivity schemes on a multi-union basis, to jointly review productivity locally and to monitor

agreements with
/Coordinating Committee involvement and TUC endorsement and assistance. This broke completely new ground, and it is a tragedy that the BSC were reluctant - or unable - to respond positively. Unless there is confidence on the part of employers and workers, new technology will not get off the ground. But above all the Government must shoulder its responsibilities and assist in the solution of problems. Instead, the Government is hindering the solution of the problems/in the steel industry and is not facing up to its own proper responsibilities in the management of the nation's affairs.

Phs notes from NSDD mtg on 9/1/80.

Change [illegible] [illegible]

Law of Patent [illegible]

Technology → Job

Change in the [illegible] of [illegible]

Historic lost to [illegible] [illegible]

Dartk. ① - Taken down [illegible] - new technology

Vol of [illegible] - doubled

② Training - in house.
[illegible] rate $\frac{1}{20}$ / $\frac{1}{30}$

Pay. to [illegible] - [illegible]

Kentu. → Unit costs competitiveness
small firms.

P. Office.
Defence
Universities.
N.O.T.

Mr Whitmore. W.F. CSM.

Moss Evans - Access to information..

Prerogatives
Employers opening their books.
Adequate redundancy payments.

Sir Alex-
Sir John
Mr Duffy

Sir Alex - Speed - Attitude.
Will to survive -
Cargo delivery

Lord → Strategy - discipline..

Mr Duffy - New commission.

John [illegible]. Coll. approach
- yes.
Consultation - involvement
Human problem..
Checklist - Unit labour costs.
- Productivity up.
- efficient use of new machinery.
Could not accept check-list - [illegible]
Of course [illegible] down - good guidelines
[illegible] [illegible]
Sir Richard - Not enough action on [illegible]
Local labour market [illegible].
90% placement - [illegible] - skills.
Sec. [illegible]
No [illegible]
[illegible] [illegible] - [illegible]

Old:

Approach

Modern tools — office equipment.

~~[illegible]~~ Leadership — appraisal → [illegible]

Stimulating awareness — Foremen, electrical engineering.

Skill shortages.

Broader view.

Jim Prior. II

- Takeup - slow.
- Italy.
- American Experience
  High standards of numeracy literacy.
- Job of tomorrow -

Sir John Greenborough — Greater degree of convergence in discussions.

- increasingly competitive internationally.
- commitment.

Mr. Chandler — High degree of general awareness.

- Practical take up sluggish by comparison with competitors

The Economy. I - Reap max. advantage from new technology.

- Visit to USA.

- Change by agreement.

(1) i.e. Growth — Chancellor

(2) Large scale public support — Keith

(3). Heavy investment - edn - training.

CBI - discuss bilaterally..

Long-run employment effects +ve.

Steel — - Impact of new technology.

- Closures.

- Has been the constructive response

- Narrow short-sighted party politics

- Management of [illegible] economy.

Econ Pol

PRIME MINISTER

NEDC AGENDA AND SUGGESTED HANDLING

Item 1: Technological Change, Industrial Adjustment and Employment (1½ hours)

(i) TUC papers (Flags A and B) on Employment and Technology to be introduced probably by Mr. Murray - if not by Mr. Basnett

(ii) Department of Employment paper on Microprocessor Technology and Employment Policy (Flag C) to be introduced by Mr. Prior

(iii) CBI paper on Manpower Implications of New Technology (Flag D) to be introduced by John Greenborough

(iv) NEDO paper on "Industrial Performance: Industrial Applications of Advanced Technologies - EDC/SWP Work in 1979" (Flag E) to be introduced by Mr. Chandler

(v) NEDO paper on "Industrial Performance: Manpower Issues - EDC/SWP Work in 1979" (Flag F) to be introduced by Mr. Chandler

You might then ask for comments on the papers from the TUC, CBI, and other non-Ministerial members. On past form, Frank Chapple can be expected to make an interesting contribution for the TUC; David Basnett, if he has not introduced their papers, will almost certainly want to speak; so will Moss Evans. For the CBI, John Methven will certainly comment. He has told me that he believes Len Murray will press the idea of technology agreements.

/These are

These are described on page 64 of the green report by the TUC. Methven is very concerned about this proposal - because there is no reference to bringing down unit labour costs, improving productivity, etc. He sees it as likely to be a block, rather than a stimulus, to change. If Murray does press the point, he will come down strongly against. I am sure he is right to oppose the idea, but I suggest it would be best if you and other Ministers refrained from joining this particular battle. Otherwise the temperature of the meeting may brew over. Also for the CBI, Ray Pennock and Alex Jarratt can be expected to contribute. Richard O'Brien, Chairman of the MSC, will want to comment on the manpower aspects.

When the non-Ministerial members have commented, I suggest you ask Ministers to comment on specific points which have been raised. These can be structured as follows:

- macroeconomic points: the Chancellor
- new technology and jobs and SWP work on manpower issues: Mr. Prior
- the role of Government in encouraging awareness of micro-technology, industrial applications and UK manufacture: Sir Keith Joseph
- the role of Government in relation to training, redundancy arrangements, social security: Mr. Prior
- SWP work on micro-electronic applications: Sir Keith Joseph.

Then you might sum up drawing on the points in paragraph 4 of the brief.

/Item 2:

Item 2: Sectoral Report: Process Plant Industry (30 minutes)

To be introduced by the Chairman of little NEDDY, Sir Cyril Pitts.

Sir Keith Joseph should then reply.

Then you should ask for any comments.

You can conclude by drawing attention to any particular points or follow up action for which the Council has shown support.

Item 3: Progress Report: Engineering Construction (15 minutes)

Mr. Prior will give an oral report.

You can then ask for any comments.

Item 4: Any Other Business

It is unlikely that any other points will be raised. You should seek confirmation from the TUC and CBI that their papers can be released to the Press after the meeting.

JL.

9 January 1980

cc: Mr. Ingham
Mr. Whitmore

PRIME MINISTER

BRIEFING MEETING WITH THE CHANCELLOR FOR NEDC

We have asked the Chancellor to come at 1130 tomorrow to go over the handling of the NEDC meeting. You have read the voluminous briefing, but there are one or two points I would like to mention:

(i) The brief says that it is likely that the steel issue will come up during the course of the discussion. I have spoken to the Treasury, Employment, and NEDO about this, and they all say that they think it unlikely that it will be raised. When there have been major disputes in the past, the trade union members have nearly always kept off them at NEDC meetings. Moreover, the TUC specifically requested that a report by the Chairman of the Iron and Steel SWP should be taken off the agenda. Nonetheless, we obviously cannot rule this out, and Solly Gross has provided a draft statement for you to make if it is raised. (Attached)

(ii) I think the trade union members will take the opportunity to attack the Government's macro-economic policies. Their own papers argue that new technology can only be adopted if the economy is expanding; and they look to Government fiscal policy to ensure that this happens. The answer to this, of course, is that

- there is already plenty of demand in the system (as evidenced by the increase in the volume of imported manufactures over the past year of about 12½%).

/ - any fiscal

- any fiscal stimulus will increase the money supply, add to interest rates and increase imports, and therefore it will at best only provide a short-lived expansion.

(iii) Item 1 on technological change, etc. covers five papers. The brief suggests that the first three papers should be introduced and then discussed; and that the Director-General of NEDO should then introduce his two papers - to be followed by a further general discussion. The Director-General has asked if you could avoid splitting the discussion into two. In other words, he would like to introduce his two papers immediately after John Greenborough introduces the CBI paper, and <u>then</u> there would be discussion of all the papers. I think this is better since all the papers link closely together.

(iv) Len Murray will be at the meeting - he has cancelled his holiday.

R.

Also in this folder is the Finniston Report - to be published tomorrow morning. Summary of recommendations at Flag A.

8 January 1980

It is for BSC and its unions to arrive at a negotiated pay settlement. I deeply regret the breakdown in discussions earlier this week particularly as the corporation were offering employees the opportunity to earn substantial increases through negotiated productivity schemes. This opportunity has not yet been properly explored.

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

Appeals for the Government to intervene are effectively asking for even more Government money to meet the demands of BSC workforce. The money to do this would have to be found from the taxpayer who has already provided £3.3 billion in the last four years - £60 for every man woman and child in this country - from other areas of public expenditure - schools or housing for example - or by adding to the inflationary spiral by printing money. All who suggest more Government finance for BSC should also suggest which section of the community should pay up.

I still hope that we can avoid the widespread damage which a prolonged dispute will cause to BSC and its customers; ~~but~~ that negotiations can be resumed and that an early settlement may yet be reached.

Well-established initiatives for consideration.

Cen 2

R

PRIME MINISTER
The revised briefs are in the folder below.
MJS 4/1

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

4th January 1980

Dear Nick,

[We still expect Len Murray to be absent on holiday]

NATIONAL ECONOMIC DEVELOPMENT COUNCIL: WEDNESDAY 9 JANUARY

I enclose a revised version of the Prime Minister's Brief for the January meeting. This has been approved by the Chancellor.

The Brief is essentially the same as the one I sent to you before Christmas. However, the Secretary of State's paper on Employment Trends has now been dropped from the agenda, and the NEDO paper about SWP work on new technologies has been thinned out. The revised Brief is therefore a little shorter. Other main changes to the Brief include fuller guidance about the Chairman's role (see opening section), additional "stage directions" about who should be called on to speak on the various items, and some reordering of the material to make it easier for the Prime Minister to handle.

The annexes on the Finniston and ACARD Report (referred to in paragraph 3) are unchanged, and you already have copies.

I am sending copies of this letter and enclosure to Ian Ellison, Ian Fair, Bill Burroughs and Stuart Hampson.

Yours ever,

Martin

M. A. HALL
(Private Secretary)

N. Sanders Esq.

NATIONAL ECONOMIC DEVELOPMENT COUNCIL: WEDNESDAY 9 JANUARY

CHAIRMAN'S BRIEF

THE COUNCIL: BACKGROUND

The Council was set up by Ministerial decision in 1962 with broad terms of reference to examine the economic performance of the nation, with particular concern to the plans for the future in both the private and public sectors of industry, and to consider what were the obstacles to quicker growth and what could be done to improve efficiency. Over the years, a wide range of economic and industrial issues have been considered, with the dominant theme being the need to improve the competitive performance of UK manufacturing industry.

The Council meets monthly, normally under the chairmanship of the Chancellor. There is broadly equal representation between Government, management (nominated by the CBI) and trade unions (nominated by the TUC), with additional seats filled largely on an ad hoc basis for representatives of various other interests. (A list of current members is attached). Previous Prime Ministers have taken the chair from time to time; the last occasion was in December 1978 when a main item for discussion was microelectronics.

The Council has no executive powers. Its role (and strength) is as a forum for exchanges between Government, management and trade unions in a non-bargaining situation. Whilst it provides an opportunity for the Government to explain its policies, its success, particularly in the light of current TUC sensitivities, depends on the Government demonstrating its willingness to listen, and respond constructively, to the views of the other members. The discussion is (and must be) genuinely two-way.

The tone of the meetings tends to be informal and loosely structured. The practice has been for the Chairman to concentrate on inviting contributions from others to the proceedings and on drawing out, in the summing up on each item, any areas of agreement and points which need to be followed up (with a report back to Council) by one or more of the parties. The Chairman normally leaves it to the responsible member of the Ministerial team to take the lead in responding for the Government on individual items of substance. The Prime Minister may gain something of the flavour of meetings by reading the minutes of the November Council - attached.

The meetings are held in private but the normal practice is for papers to be released to the press, if the Council agree, and for the Director General to hold a press conference immediately after the meeting at which he gives a strictly objective account of the proceedings. The Chairman's summing up of the discussion gives him useful guidance for this.

This meeting will take place against the background of the current dispute in the steel industry. It is likely that this issue will come up during the course of the discussion, and the TUC may use the Prime Minister's presence to press the Government to intervene in the dispute. (Sir Charles Villiers is a member of the Council). Up-to-date briefing will be provided just before the meeting and the Secretary of State for Industry will be able to report on the current situation if necessary. The Prime Minister will want to stress that the NEDC is not an appropriate forum for detailed discussion about the dispute, which is a matter for management and trade unions in the industry. An important objective for the meeting as a whole will be to demonstrate that, despite the dispute, the Council is capable of continuing to discuss major economic and industrial issues in a constructive way.

AGENDA

	Suggested Timing
- Technological Change, Industrial Adjustment and Employment	$1\frac{1}{2}$ hours
- Sectoral Report from the Chairman of the Sir Cyril Pitts Process Plant SWP	30 minutes
- Progress Report (oral) by the Secretary of State for Employment on the engineering construction industry	15 minutes

Sir Cyril Pitts, Chairman of the Process Plant SWP, will join the meeting for the second item.

INTRODUCTORY REMARKS

(1) The Prime Minister will wish to say how pleased she is to have the opportunity to participate in a Council meeting, particularly one devoted to such an important clutch of issues as employment, new technology and industrial change. The Government believes that the Council can make an important contribution to public understanding of economic and industrial issues; and that it can help to strengthen the resolve at

company and union level to take the action which is necessary to improve industrial performance. She looks forward to hearing the discussion.

ITEM 1: TECHNOLOGICAL CHANGE, INDUSTRIAL ADJUSTMENT AND EMPLOYMENT

OBJECTIVES AND HANDLING

1. These are big issues, but so closely interrelated that it is right they should be taken together.

2. The Government's aim in the discussion will be to underline, and to build on, the considerable amount of common ground which exists among all the parties on these issues eg that:

i. new technology will not inevitably lead to higher unemployment overall;

ii. failure to adapt to new technology will reduce our competitiveness and cost us dear in jobs and living standards;

iii. training and other aids to labour mobility are important to the rapid adjustment of new technology;

iv. there must be full and effective consultation between management and workforce about technological change.

There is also apparent willingness by the TUC and CBI to get together to promote new technology and the Government will wish to encourage this. There are a number of specific proposals in the papers for further work on a range of issues relating to skill shortages, training and inefficiencies in the labour market and the aim should be to ensure that these proposals are pursued and reported to the Council at a later stage. Finally, there will be an opportunity to examine how effective EDCs and SWPs have been in tackling manpower and technology issues.

3. There are six papers for this item. This is an unusually large number and, in the time available, it will be difficult to do justice to them all*. The discussion might conveniently be structured in two parts. First (allowing, say, 1 hour) would focus

*Two further documents which will have a bearing on the discussion, but which are not being tabled, are the Finniston Report, and an ACARD Report on Technological Changes. Supplementary briefing is at Annex A and B.

on the issues from an economy-wide viewpoint, and would be based on the papers from the TUC, the Secretary of State for Employment and the CBI. They should be invited to introduce their memoranda briefly in this order, and the discussion should then be thrown open. To judge by past experience it will not be easy to impose a structure on the discussion but the main groups of issues which need to be covered are

<u>The macroeconomic context</u>
- response to TUC points (see paragraph 9 below)
Chancellor to lead

<u>New Technology and jobs</u>
-evidence that new technology is not a threat to overall employment (Secretary of State's paper covering the Sleigh Report)
- sources of new jobs - services and firms
Secretary of State for Employment to lead

<u>Facilitating industrial change</u>
i. role of management and unions
New technology agreements and sharing the benefits of technology (see paragraph 9 below)
Encourage CBI and TUC to make the running in this

ii. the role of Government
- encouraging awareness, industrial applications (and UK manufacture)
Secretary of State for Industry to lead
- training, redundancy arrangements, social security
Secretary of State for Employment to lead.

The second part of the discussion would then focus on problems and progress at industry level. The Prime Minister should invite the Director General to introduce his two reports on the work being done by Sector Working Parties on manpower and technology issues, and then invite contributions from the other parties*. The Secretaries of State for Employment and Industry will be ready to reply to the manpower and technology memoranda respectively.

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*Sir Richard O'Brien, Chairman MSC, should be invited to comment on the manpower paper (see paragraphs 15 and 24 below).

S.W.P. [illegible] ① Accept need for new tech.
TUC [illegible] ② Collaborative approach
[illegible] ③ [illegible] Employment implications.

SUMMING UP

4. In her concluding remarks on this item as a whole, the Prime Minister might draw on the following points, many of which are likely to be made during the course of the discussion:

Identify [illegible].

- this has been a useful exchange. None of us can be certain about the eventual impact of new technology on jobs, but a number of key points do emerge;

(1) - we need a sense of perspective. Historically, new technology has created new employment opportunities, and we are all agreed that there is no reason to believe that microelectronics will inevitably lead to a loss of jobs overall;

(2) - there will be a greater risk to jobs and future prosperity if we fail to keep pace with our overseas competitors in adapting to and applying the new technology. There is now a greater general awareness about microelectronics, but we must accelerate specific applications. This is primarily the responsibility of management and the message to them is "get on with it - fast";

- the Government has stressed that increased productivity and faster adaptation of new technology are essential preconditions for sustained non-inflationary growth. The CBI share this view. The TUC put more emphasis on demand-led growth, but also accept the need for British industry to compete in world trade on the basis of productivity growth, skill and technology;

- the immediate economic outlook is poor, but the adoption of new technology offers us a way of breaking into new markets and creating jobs against the general trend;

- all parties endorse the need for full and effective consultation between management and workforce about the implications of new technology. The CBI and TUC are invited to consider together practical proposals for improving consultation arrangements at company and plant level, and to report back to the Council. The Government will help by publishing examples of good employer practice.

(3) - training, overcoming skill shortages, and job mobility are of crucial importance to speeding up the process of adjustment. The CBI accept that management has a primary responsibility for planning their future manpower

requirements, and for training and retraining people to meet those needs. The Government accept that education policy and the services of the MSC also have an important part to play in assisting this process. But the trade unions must also co-operate, for example, by accepting the need for flexibility in the traditional system of apprenticeship, and by increasing their willingness to accept workers who have received training and Government skill centres;

4

- small firms clearly have an important role in providing much needed innovation, and in job generation. This is an issue to which the Council will wish to return at a later date;

- [we have agreed that] more work needs to be done on measures to improve the efficiency of the labour market, including further examination of the training and retraining needs in preparing people for work and changes during the course of their working life;

- many of the SWPs have shown that they have been effective in tackling manpower and technology issues. The aim now must be for the weak performers to emulate the best. Manpower and technology issues should be a priority item in their continuing programme of work.

THE PAPERS

The TUC Memoranda - Report on US Visit - NEDC(80)6 and Employment and Technology (previously circulated)

Summary

5. The first document reports the main conclusions for the UK microelectronics industry which members of the TUC Economic Committee drew from a recent visit to America to study the economic and social consequence of the microelectronics revolution in the US. The report acknowledges the differences in economic and social conditions between the two countries but suggests that there are some lessons to be learned.

6. The Report draws attention to the importance of public purchasing on defence and the space programme as the main engine of growth for the UK microelectronics manufacturing industry in the early days. It also points out that the structure of the hardware and components industry has changed, with a relative decline in the importance of small firms, and increasing dominance by large corporations having sufficient resources to finance the much larger levels of investment, and R and D, which are now required. A

third feature noted is the increasing worldwide dominance by the US (and Japan) in the production of semi-conductors, andthe probable emergence of a large Western European trade deficit in semi-conductors unless there is a rapid build up in the European industry.

7. Against this background, the TUC argue that it is imperative for the UK to establish its own microelectronics industry, and that this must involve a high degree of public support both in the manufacture of components and in accelerating the search for specific applications for products and processes.

8. The second - more substantive - document is a report by the TUC General Council to the 1979 TUC Congress. It was first tabled at NEDC for the November meeting, in the context of a discussion about productivity. It is a lengthy document, but there is a useful summary - with main conclusions - in Chapter 9 (see also paragraph below).

Line to take

9. There is much in these two documents that can be welcomed as a useful contribution to the debate on technological change eg

- recognition by the TUC that technological change is a challenge and an opportunity, and that rapid adaptation is essential if the UK is to improve productivity, compete successfully in world trade, and achieve economic growth;

- rejection of the view that the advent of microelectronics must inevitably be associated with a particular level of unemployment;

- acknowledgement of the need to rationalise industries in some cases;

- recognition that technological change has implications for trade union organisation (ie the problems of multi-unionism and the need to strengthen company-wide union structures) and that there will need to be more flexibility about who does what.

9. There are numerous detailed proposals in the TUC papers. Two main points, however, are proposals (addressed primarily to management) for improved conditions and sharing the benefits of new technology, and proposals (addressed to Government) about macro-economic policies. These proposals are dealt with below:

new technology agreements/sharing the benefits

The TUC propose that these agreements should be negotiated at company and plant level, but in the context of an agreed national framework agreement, involving the Government, the TUC and the CBI. They would cover a whole range of issues including provision of information, agreed plans on employment and output and retraining. . The aim of the agreements would also be to ensure an "equitable" distribution of the benefits of new technology, and this is linked by the TUC to their campaign for a 35 hour week, work sharing, the elimination of systematic overtime, and a change in shift patterns with a reduction in unsociable hours.

Line to take

a. the Government (and the CBI) endorse the basic principle that no new technology which has major effects on the work force should be introduced unilaterally. But the form that consultation takes, and the issues covered, is a matter for individual companies and there is probably little scope for a national framework agreement, involving the Government, of the sort advocated by the TUC.

b. nevertheless, there may be items in the TUC checklist of issues to be covered by these Agreements on which it would be possible for the TUC and the CBI to work out practical joint proposals, and they should be invited to consider this and to report back.

Government economic and industrial policies

The TUC papers lay considerable stress on the role of Government economic and social policies which, it is argued, are crucial to securing the cooperation of working people in adapting to the new technology. Specific points are:

i. technological development must be set in a national context for economic growth. Employment should be expanded in the services sector, with the public sector in the lead, in order to raise the level of effective demand.

Line to take

Sustainable growth is not in the gift of the Government. Attempts in 1974 and again in 1978 to reflate the economy both led to rapid inflation and higher imports. Curbing inflation, and improving the supply side of the economy are essential pre-conditions for non-inflationary growth. A stronger economy can and should support better public services. But we must be sure that growth is taking place in the private sector before we can have growth in the public sector.

ii. Public support for the UK microelectronics industry - both in manufacturing the "chip" and in its application

Line to take

The Government is already providing assistance to the microelectronics industry under the Microelectronics Industry Support Scheme, and the Micro Processor Applications Support Project, and the Government has indicated that the NEB will have a continuing role in high technology. But the Government believes that there must be the maximum possible private sector participation in the development and expansion of the UK microelectronics industry.

INMOS PROJECT: BACKGROUND

Sir Keith Joseph will be ready to take the lead in responding to any points raised. Inmos was set up under the last administration with the aim of establishing a UK capacity in the production of high volume "standard" chips. Inmos's business plan calls for funding of £50m from the NEB. NEB are contractually committed to any initial tranche of £25m (of which £10m has so far been spent) but there is no commitment to the second £25m.

The Board of INMOS have recently announced their intention of locating their first factory in Bristol and have asked the NEB to provide the second £25m tranche. The Government will be considering this proposal and the NEB's recommendation shortly.

The TUC may ask the Government to insist that INMOS locate their plant in a development area rather than Bristol. The Secretary of State for Industry will say that the location of the plant will be one of the factors which the Government will be considering.

iii. A continuing commitment to the work of the Sector Working Parties to identify and remove constraints at sector level, including the monitoring and containment of import penetration.

Line to take

The Government has already endorsed continuation of work by those SWPs which are making progress in improving performance in their sectors, and will continue to support SWPs where they are doing an effective job of work. On import penetration, the Government has made it clear that it does not rule out temporary and selective import controls where special circumstances warrant such action. But this is not a lasting solution; we must instead improve our competitiveness and one way to do this is by incorporating new technology in new processes and in creating new higher value-added products.

Microprocessor Technology and Employment Policies: Note by the Secretary of State - NEDC(80)1

10. This Note draws on the findings of a major report by the Department of Employment's Manpower Study Group "The Manpower Implications of Microelectronics Technology" published by HMSO. Key themes in the Report are:

- in manufacturing industry, overall growth and demand for products will be a more significant determinant in employment trends than technological innovation;

- the application of new technology will be gradual;

- in the services sector, there may be a loss of less skilled job opportunities;

- a massive public training programme is probably not the best way to make British industry more innovative;

- workers will need to learn new skills and work methods.

11. The Secretary of State, in his note, expresses agreement with the Report's findings, and invites the Council to do likewise. He then goes on to outline the contribution to facilitating adjustment being made by the Government's industrial, education and employment policies. The note emphasises that management has a responsibility to speed up the search for specific applications of the new technology; that there must be genuine consultation about the implications of technological change between management and work force; that the benefits of new technology must be earned, and be genuine, before they can be spent; and that an equitable distribution of the benefits must include an adequate return to investors.

The CBI Paper - NEDC(80)7

Summary

12. This paper covers much the same ground as the Secretary of State's memorandum, and reaches many of the same conclusions. The CBI argue that the most important factor influencing future employment will be our ability to compete effectively in home and overseas markets. This in turn will depend on improving our productivity record, and the rapid adaptation of new technology in products and processes will be an essential part of this process. Considerable stress is given to the need for a more efficient labour market if existing problems of skill and locational mismatches are not to be exacerbated. The paper also acknowledges that companies themselves have the primary responsibility for planning ahead to satisfy their future manpower and skill requirements, and in providing much needed improvements in the existing training and retraining programmes. The paper ends on a constructive note by calling for a coordinated programme of work (paragraph 15), and with a number of specific recommendations for action addressed to employers (paragraph 16).

Line to take

13. There is little in this paper from which Ministers would wish to dissent. As regards macroeconomic policy, it is particularly helpful that the CBI underline the importance of reducing the rate of inflation, and of maintaining a level of aggregate demand in the economy that is compatible with price stability.

14. On the proposed programme of work, there is probably not much to be done on items 1 and 2 in the way of specific action. Item 1 (scale and nature of the potential unemployment problem) is one issue for consideration in the present discussion - a general theme of which is that though there is unavoidable uncertainty about the employment implications of new technology, the prospect for jobs overall will be improved the faster industry itself is able to adapt the new technology. The second item (improving productivity) is already a constant and recurring issue for Council discussion and in the work of the EDC/SWPs.

15. Item 3 (efficiency of the labour market) and item 6 (training, retraining and education) are interrelated. They are also similar to the areas for further work suggested by the SWPs (see paragraph 24 below). Sir Richard O'Brien could be invited to take the lead in pursuing these points, and report back to Council.

16. Item 4 (cost and employment implications of early retirement) and Item 6 (reduction in working time) are also closely related, though the motivation behind the first of this is not entirely clear. It may be that the CBI wish simply to convince the trade unions that early retirement, like shorter working time, carries the danger that it will raise unit labour costs; and also that it does not necessarily lead to a fall in unemployment (eg early retirement for skilled people does little to help unemployed unskilled people). On the other hand, this could be seen as an attempt to push the cost of industrial adjustment on to the taxpayer - something which the Government would wish strongly to resist. The CBI should therefore be invited to expand on this proposal.

17. It would also be appropriate to invite the CBI to table their document "Jobs: Facing the Future" when it is published.

WORK ON THE SECTOR WORKING PARTIES ON MANPOWER AND TECHNOLOGY ISSUES

18. The two papers for this item (NEDC(80)3 and 5 are part of a series of reports to the Council covering particular aspects of the SWP work programme. (There has, for example, also been a report to the Council about SWP work on productivity, and there will be reports on other aspects of SWP work at later meetings).

Manpower Issues - NEDC(80) ~~3~~ 5   (This item is being taken after the next one). T.

Summary

19. This paper describes the main areas being covered by EDC/SWPs in their current work on manpower problems, and highlights the more important conclusions which are emerging. Two main themes are widespread concern about present and prospective skill shortages, especially engineering and computer skills, and the need for better utilisation of manpower.

20. There is general support for the view that industry itself must accept prime responsibility for recruitment and training, and that companies must improve their manpower planning. But EDC/SWPs also see an important role for Government, particularly in encouraging geographical mobility. Whilst some EDC/SWPs have tried to tackle the question of improved manpower utilisation, progress has been slow and uneven with generally poor reception at company/plant level to EDC/SWP recommendations. This is largely due to differences in approach between trade union and management representatives. Trade unionists tend to see improvements in income and job security, or harmonisation of status, as the quid pro quo in any discussion about improved manpower utilisation and flexibility, whilst management stress higher productivity as the essential precondition for market strength and any undertaking on job security.

21. On training and related issues, the committees report considerable regional and industrial variations in the usefulness and acceptability of Skill Centre trainees, reflecting differences in local employment prospects and in management or union attitudes to skill traditions.

Line to Take

22. The Secretary of State for Employment will take the lead for the Government on this paper.

23. It is evident that some EDC/SWPs have been tackling effectively the various manpower problems, and this is welcome. Other SWPs, however, have tended to duck sensitive manpower issues, and the Council needs to consider how to induce the majority of SWPs to follow the example of the best. It might help if the Director General were to write to all SWP Chairmen asking them to pay particular attention to manpower work; and it will be important to ensure that prominence is given to manpower issues in the SWPs Steering Brief for 1980.

24. On the recommendation [paragraph 2 of the Paper] for further work on alleviation of skill shortages and encouragement of geographical mobility, the Chairman of the MSC shouldbe asked to comment. A report on these matters could be useful to SWPs, and might also be used to cover part of the CBI's proposed programme of work [see paragraph 15 above].

25. Mr Duffy and Mr Whittall could be asked to report progress in the proposed discussions between the Confederation of Shipbuilding and Engineering Unions and the Engineering Employer Federation about security, status, and effective utilisation of skilled engineering craftsmen [see paragraph 3 of the paper]. Agreement on these issues at national level would do much to reinforce the efforts of SWPs and other interested bodies to stimulate discussion and action at company/plant level.

Technology Issues - NEDC(80)~~5~~ 3

Summary

26. This paper summarises the current work of the EDC/SWPs on the application of the advanced technologies, especially microelectronics and draws out a number of specific recommendations for action, many of which are addressed to Government.

27. The EDC/SWP experience underlines the point noted in other papers that the target of improved awareness of microprocessor technology has been largely achieved, and that the need now is for progress (in all sectors) in finding specific applications. Many EDC/SWPs have themselves been actively trying to assist this process. A number of specific barriers inhibiting the more rapid take-up of advanced technology have been identified. On the demand side, these include constraints on capital and R and D funding because of poor profitability and the high risks involved. Inhibiting factors on the supply side are a lack of UK sourced hardware and software, alleged constraints on the supply of venture capital to high technology firms, a lack of understanding between suppliers of plant and equipmentand suppliers of information technologies about user needs, and severe shortage of skilled personnel.

Line to take

28. The Secretary of State for Industry will take thelead for theGovernment in responding to this item. The main points are:

a. there is evidence here of solid and useful work by many SWPs. This is welcome, and the work should continue as a matter of priority. There are a number of specific suggestions for the SWPs' future work programme, and these should be pursued in the context of 1980 Steering Brief for SWPs;

b. clearly, it will be important to ensure that activity to promote technology is properly co-ordinated and directed. As far as the tripartite machinery is concerned, there are at present seven SWPs and one EDC in the electronics area as a whole. The review of SWPs which the Director General is presently undertaking may show that there is some scope for rationalising the interrelationship between these committees, and thereby help to improve their overall effectiveness.

And, on recommendations addressed to Government:

c. the Government is sympathetic to the idea that its "awareness programmes" should now be developed in certain key sectors.

d. the Government is concerned that its purchasing activities, within the long established framework of securing best value for money and in accordance with our international obligations, should where possible be used to support the development of new, especially high technology, products, and specify commercially relevant standards of quality and design to improve industrial competitiveness. Other public sector bodies could reasonably be encouraged to think in similar terms.

e. the Government is fully conscious of the need for effective coordination of public spending on R and D in order to meet long term technological and commercial objectives of industrial sectors. This is the function of the Advisory Board for the Research Councils and the DoI Research and Development Requirements Boards.

ITEM II: REPORT TO COUNCIL FROM THE PROCESS PLANT EDC

Objectives and handling

29. Each month the Chairman of an EDC or SWP presents a report on the work of his committee to the NEDC. This practice has been very successful. It gives a boost to the committees; it injects a very practical element into Council business; and the Council, as well as being informed about the situation in particular industries, is usually able, because of the wealth of experience among Council members, to make constructive comments on how the committees are tackling their remit.

30. The procedure for this item is for the Chairman to make his report, for the appropriate Secretary of State - Sir Keith Joseph on this occasion - to reply and then to throw the discussion open. No decisions or conclusions are called for on this item, but it is open to the Prime Minister, in concluding the discussion and thanking the Chairman for his report, to draw attention to any particular points which have been made or to recommend follow-up action where the Council has shown support for this.

The Process Plant Industry

31. The process plant industry produces the industrial installations, plant and equipment required by the energy, hydro-carbon, chemical and petro-chemical, metalurgical, food and other process industries. In the near future demand is expected to shrink appreciably, and international competition to intensify. The industry is divided between contractors and suppliers. The UK has by far the largest concentration of contractors (24) in the world, outside the USA. Some British suppliers and ancilliaries - particularly of instruments, pumps and valves - remain internationally competitive, but this is much less true of fabricators, ie manufacturers of vessels, fractionating columns, retorts, tanks etc. There is a multitude of medium sized and small firms with a wide variety of expertise, but few companies at the heavy end where concern about international competitiveness is greatest.

Work of the EDC

32. The EDC benefits from having amongst its members trade-unionists, clients (BP, Laportes, BTC, CEGB, etc), process plant contractors and manufacturers. The clients and contractors are able to tell the manufacturers the extent to which they do, or do not, match up to foreign competition.

33. During the first 2½ years of its life the EDCs most useful work has been two substantial studies by sub groups: one was by customer industries, expressing their views on suppliers in this industry, and the other on competitiveness, examining constraints on improved performance by manufacturers. The two sub groups identified a number of common faults requiring remedial action by manufacturers. The principal task now is to communicate the need for such improvements to individual companies. In one or two instances there are signs that the EDC's analysis has, due to companies' membership of the committee, led to the first signs of change: two companies are embarking on major investment projects for both of which selected financial assistance is being provided.

34. The EDC's previous work is being carried forward into a second phase, and the membership has been strengthened for this purpose. They are expected to benefit greatly from the appointment of Sir Cyril Pitts as their new Chairman. He has many years of senior experience in ICI and is at present a non-executivedirector of Northern Engineering Industries. He is widely known and respected in this industry and is an eloquent, tactful, persuasive and determined Chairman.

The Report (NEDC(80)4)

35. Paragraph 4 of the paper suggests that there will be an up-turn in demand in the late 1980s and 1990s and that whether UK companies are able to take advantage of this depends on strategic decisions to be made now and in the near future. But the recent decline in the UK share of world process plant exports over the last nine years is not brought out: between 1970-72 and 1975-77 this dropped by about one-third. This compares with a fall of 6% for the FRG and 15% for Italy; and an increase for France of 8%, for Belgium of 12% and of Japan of 50%.

36. Paragraphs 5-12 set out seven major threats to the industry's survival, including competition from developing countries and faster technological advance by competitors. Paragraphs 13-19 describe some of the ways in which theEDC is seeking to improve performance in the industry. There is evidence of a good deal of practical action, eg

i. a detailed comparison of plant performance in the UK and overseas;

ii. consideration of how the industry's R and D can be orientated more towards future needs of the market;

iii. an analysis of why some customer industries bought foreign plant;

iv. a mission to India in 1978 to assess the market for process plant and subsequent action to capture a share of it. The possibility of a federated marketing company is being actively explored. Orders have started to flow.

ITEM III: ENGINEERING CONSTRUCTION: PROGRESS REPORT BY THE SECRETARY OF STATE FOR EMPLOYMENT

Background Note

37. This industry builds major plants for the chemical and fuel industries and similar plants on a smaller scale. Delays on such work in the UK are notorious and do considerable harm to our prospects of getting international companies to invest inthe UK. This has significant economic and employment consequences; for example, the pace and scope for the nuclear energy programme could be affected.

38. Since a report to NEDC in 1970 it has been agreed by all parties that the conclusion of a single National Agreement governing pay and working conditions could make a considerable contibution to improving performance. The variety and fragmentation of collective agreements means that grievances, leapfrogging and problems of inter-pretation easily develop. This conclusion was reinforced by a report of a Working Party of the Engineering Construction EDC in 1976. In January 1977 NEDC invited the then Secretary of State for Employment to take the lead in progressing remedial action. Employment Secretaries have made regular progress reports to Council, the latest by Mr Prior in June 1979.

39. It has been difficult to reach a National Agreement because of the complexity of sites and the number of parties involved - two employers' associations (the Engineering Employers Federation and the Oil and Chemical Plant Constructors Association), a mixture of unions and the clients (eg oil companies, CEGB, BSC) for whom the projects are undertaken. However, over the last year determination has grown to overcome the obstacles, and we are getting closer to the time when pay will become the crucial issue.

40. A working party composed of the two employers' associations, the main unions and an independent chairman has produced a draft National Agreement on pay, conditions, grievance procedures etc. It has also drawn up the constitution for a National Joint Council to monitor and police the agreement and to promote improved performance. The target date for implementation is March 1980.

41. On the basis of the first draft theSecretary of State for Employment met (on 20 November) representatives of unions, employers' associations and clients. All were keen to conclude an agreement, but the clients, in particular, pointed out a number of problems which needed to be resolved before they, as ultimate paymasters, could accept the new arrangement. These were discussed further at a meeting between the Secretary of State and the working party on 10 December. The most serious are:-

i. the scope of the agreement, in particular how its terms would apply to repair and maintenance work;

ii. auditing, scrutinising and controlling second tier payments;

iii. the coverage of minority groups of employees eg laggers and electricians, whose pay and conditions are largely outside the scope of present industry agreements.

42. These issues and pay are currently being pursued by the Working Party and its Chairman will be reporting to Mr Prior the day before the Council meeting so that his report will be up-to-date. The TUC and CBI are fully behind the industry's efforts and have welcomed Ministerial assistance.

43. [The Working Party was at one stage suggesting that the Government should employ various levers at its disposal (eg public purchasing, industrial assistance) to encourage employers to abide by the proposed National Agreement. This was rejected by Ministers as being unacceptable, and the idea now seems to have been dropped by the Working Party.]

OTHER BUSINESS

44. It is normal practice for NEDC papers to be released to the press after the meeting. There are no objections to releasing the Secretary of State's Paper, or those from the Director General. The Prime Minister should seek confirmation from the TUC and CBI that their papers can also be released.

45. The next meeting of the Council is on Wednesday 6 February, at 10 am.

IP Division
HM Treasury
4 January 1980

TL(OR) to see
- subject to final
confirmation
in present circs!
MS

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

2 January, 1980

Dear Tim,

JANUARY N.E.D.C:
MR. LIONEL MURRAY

The Prime Minister may like to see the enclosed letter which Mr. Murray sent to the Chancellor apologising for his inability to come to the meeting of NEDC on 9th January.

I am copying this letter to Ian Ellison, Stuart Hampson, Ian Fair and Bill Burroughs.

Yrs ever,
MH

M. A. HALL

T. P. Lankester, Esq.,

TRADES UNION CONGRESS

CONGRESS HOUSE · GREAT RUSSELL STREET · LONDON WC1B 3LS
Telephone 01-636 4030 *Telegrams* TRADUNIC·LONDON WC1

✓ Copy to PM

YOUR REFERENCE
OUR REFERENCE
DEPARTMENT

15 December.

Dear Chancellor,

Although the NEDOffice has been informed, I thought that I should let you know how sorry I am that I shall not be at the meeting of the NEDC on 9th January, particularly as the Prime Minister is in the Chair. The reason is that I shall be abroad at that time taking a holiday which my wife and I have long planned: to which year it relates I really don't know.

Yours sincerely,
Lionel Murray

Overtaken – revised brief sent 4.1.80

Prime ~~Minister~~

Christmas reading! I haven't had a chance to read these papers myself. Shall we reduce the number of papers to be taken (as suggested at x)?

TL 21/12

2

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

21 December 1979

Dear Tim,

You asked us to provide the Prime Minister before Christmas with the papers and briefing for the meeting of the NEDC on 9th January, at which she is taking the chair.

... I enclose the agenda, a set of papers and a brief.
... Several of the papers have been received only in the last
... day or so and the steering brief should be regarded therefore as provisional. We intend to let the Prime Minister have a revised Chairman's brief in the more usual style, after the Christmas break.

The Chancellor has expressed some concern about the large number of papers for item 1 on "Technological change, industrial adjustment and employment." This proliferation is partly because the CBI decided rather late in the day to put in a paper and because the TUC have contributed a second one. We suggest that the Prime Minister need not concern herself with the detail of these papers which are summarised in the brief. But if she shares the Chancellor's doubts about the effectiveness of quite so many papers for one meeting we could probably reduce the number of government and NEDC papers. But I am afraid we should need to know her views on this by the end of next week if NEDC are to circulate the papers to Council members on 2nd January as is customary.

x

I am sending copies of this letter to the Private Secretaries to the Secretaries of State for Employment, Energy, Industry and Trade.

Yours ever,

Tony Battishill

A. M. W. BATTISHILL
Private Secretary

T. P. Lankester, Esq.,

NATIONAL ECONOMIC DEVELOPMENT COUNCIL: WEDNESDAY 9 JANUARY

CHAIRMAN'S BRIEF

THE COUNCIL: BACKGROUND

The Council was set up by Ministerial decision in 1962 with broad terms of reference to examine the economic performance of the nation, with particular concern to the plans for the future in both the private and public sectors of industry, and to consider what were the obstacles to quicker growth and what could be done to improve efficiency. Over the years, a wide range of economic and industrial issues have been considered, with the dominant theme being the need to improve the competitive performance of UK manufacturing industry.

The Council meets monthly, normally under the chairmanship of the Chancellor. There is broadly equal representation between Government, management (nominated by the CBI) and trade unions (nominated by the TUC), with additional seats filled largely on an ad hoc basis for representatives of various other interests. (A list of current members is attached). The previous Prime Minister, Mr Callaghan, also took the chair from time to time; the last occasion was in December 1978 when a main item for discussion was microelectronics.

The Council has no executive powers. Its strength is as a forum for open exchanges between Government, management and trade unions, in a non bargaining situation. The tone of the meetings tends to be informal and loosely structured. This places the onus on the Chairman to structure the discussion around specific themes, where this is possible, and in summing up to pull the threads together and to identify areas of agreement and disagreement and points which need to be followed up (with a report back to the Council) by one or other of the parties.

The meetings are held in private but the normal practice is for papers to be released to thepress, if the Council agree, and for the Director General to hold a press conference immediately after the Council at which he gives a strictly objective account of the proceedings. The Chairman's summing up of the discussion gives him useful guidance for this.

AGENDA

	Suggested Timing
- Technological Change, industrial adjustment and employment	1½ hours
- Sectoral Report from the Chairman of the Process Plant SWP	30 minutes
- Progress Report (oral) by the Secretary of State for Employment on the engineering construction industry	15 minutes

Sir Cyril Pitts, Chairman of the Process Plant SWP, will join the meeting for the second item.

INTRODUCTORY REMARKS

The Prime Minister will wish to say how pleased she is to have the opportunity to participate in a Council meeting, particularly one devoted to such an important clutch of issues as employment, new technology and industrial change. The Government believes that the Council can make an important contribution to public understanding of economic and industrial issues; and that it can help to strengthen the resolve at company and union level to take the action which is necessary to improve industrial performance. She looks forward to hearing the discussion.

ITEM 1: TECHNOLOGICAL CHANGE, INDUSTRIAL ADJUSTMENT AND EMPLOYMENT

Objectives and Handling

1. These are big issues, but so closely interrelated that it is right they should be taken together.

2. The Government's aim in the discussion will be to underline, and to build on, the considerable amount of common ground which exists among all the parties on these issues - eg that new technology will not inevitably lead to higher unemployment overall; that failure to adapt to new technology will reduce our competitiveness and cost us dear in jobs and living standards; on the importance of training and other aids to labour mobility to the rapid adjustment of new technology; and that there must be full and effective consultation between management and workforce about technological change. There is also an apparent willingness by the TUC and CBI to get together in some way to promote new technology and the Government will wish to encourage both parties. There are also a number of specific proposals in the various papers for further work to be undertaken, covering a range of issues relatingto skill shortages, training and inefficiencies in the labour market. The aim will be to ensure that these specific proposals are pursued, with an opportunity to come back to the Council at a later stage for further discussion. Finally, there will be an opportunity to examine how effective EDCs and SWPs have been in tackling manpower and technology issues, and to consider whether they can be asked to intensify their work.

3. There are seven papers for this item. This is an unusually large number and, in the time available, it will be difficult to do justice to them all.* The discussion might conveniently be structured in two parts. First (allowing, say, 1 hour) would focus on the issues from an economy-wide viewpoint, and would be based on the CBI and TUC papers, and those from the Secretary of State. Each of the parties would, in the order shown in the agenda notice, be invited to introduce their memoranda briefly and suggest the main points for discussion. Though it may prove difficult to adhere to in practice, the following is one possible structure for the subsequent discussion:

a. The macroeconomic context
(response to TUC points (see paragraph below)

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* Two further documents which have a bearing in today's discussion, but which are not being tabled, are the Finniston Report, and an ACARD Report on Technological Changes. Supplementary briefing is at Annex A & B.

b. technology and jobs

evidence that new technology is not a threat to overall employment (Secretary of State's paper covering the Sleigh Report). Sources of new jobs - services and new firms.

c. facilitating change

i. role of management and unions

new technology agreements and sharing the benefits oftechnology (see paragraph 19 below)

ii. the role of Government

encouraging awareness, industrial applications (and UK manufacture) Secretary of State for Industry to lead

- training, redundancy arrangements, social security Secretary of State for Employment to lead

The second part of the discussion would then focus on problems and progress at industry level, as revealed in the two Reports from the Director General about the work being done by the Sector Working Parties on manpower and technology issues.

Employment Trends: Note by the Secretary of State - NEDC(80)2

4. This provides a useful account for employment trends past and present, and puts the probable impact of technological change on employment into the right longer term perspective. The main features of the longer term trends are summarised in paragraph 2 of the Note. The appendices discuss future labour supply, sources of new employment and the role of small firms in job generation. Although there has been considerable flexibility in the labour market in the last 20 years in response to changes in industrial structure, there is some evidence to suggest that the pace of change since 1973 has slowed and that interregional movement of employment has declined. In the short term, increased unemployment seems inevitable, but the rapid adoption of new technology offers an opportunity of avoiding this in the longer term. The Council has accepted that similar arguments apply to all methods of improving productivity and competitiveness.

5. This paper originated from an interest in sources of new jobs. Discussion might focus on this theme, and could be quite brief. Particular points for discussion include:

a. the consequences of the apparent projected widening of the gap between labour force and jobs. This is due to a considerable extent to the increase in married women (most of whom take part time jobs) entering the labour force. Ministers will not wish to underplay the problem but can legitimately refer to the great uncertainties attaching to projections of labour supply and demand.

b. is the economy getting less and not more adaptive to change, and what can be done to reverse this?

c. Small and new firms

Agreement would be useful that new and small firms in thriving industries will be a major source of jobs; of course that must not be simply at the expense of jobs in large firms. The Government is committed to do all that it can to stimulate the birth rate of new firms in such industries, and to remove barriers to the expansion of successful small firms (within the constraints on our expenditure and financial policy) - concentrating in particular on sources of finance, advice and premises. A vital ingredient is a change in climate throughout Britain, and especially amongst those in a position to help small firms - unions, banks and other financial institutions, large firms, local authorities, etc.

d. Inner cities

Measures to reverse the decline of employment in inner cities must concentrate on indigeneous economic survival. The Government is looking at ways - including some radical ones - to assist. Much can be done by local self-help, in coperation with public sector - as in the "local enterprise agencies" which are springing up.

Micro Processor Technology and Employment Policies: Note by the Secretary of State - NEDC(80)1.

6. This Note draws on the findings of a major report by the Department of Employment's Manpower Study Group "The Manpower Implications of microelectronics Technology" published by HMSO.

Key themes in the report are:

- in manufacturing industry, overall growth and demand for products will be a more significant determinant in employment trends than technological innovation.

- the application of new technology will be gradual;

- in the service sector, there may be a loss of less skilled job opportunities;

- a massive public training programme is probably not the best way to make British industry more innovative;

- workers will need to learn new skills and work methods.'

7. The Secretary of State, in his note, expresses agreement with the Report's findings, and invites the Council to do likewise. He then goes on to outline the contribution to facilitating adjustment being made by the Government's industrial, education and employment policies. The note also emphasises that management has a responsibility to speed up the search for specific applications of the new technology; that there must be genuine consultation about the implications of technological change between management and work force; that the benefits of new technology must be earned, and be genuine, before they can be spent; and that an equitable distribution of the benefits must include an adequate return to investors.

The CBI Paper - NEDC(80)7.

8. This paper covers much the same ground as in the Secretary of State's memoranda, and reaches many of the same conclusions. The CBI argue that the most important factor influencing future employment will be our ability to compete effectively in home and overseas markets. This in turn will depend on improving our productivity record, and the rapid adaptation of new technology in products and processes will be an essential part of this process. Considerable stress is given to theneed for a more efficient labour market if existing problems of skill and locational mismatches are not to be exacerbated. The paper also acknowledges that companies themselves have the primary responsibility for planning ahead to satisfy their future manpower and skill requirements, and in providing much needed improvements in the existing training and retraining programmes The paper ends on a constructive note by calling for a coordinated programme of work (paragraph 15), and with a number of specific recommendations for action addressed to employers (paragraph 16).

9. There is little in this paper from which Ministers would wish to dissent. As regards macroeconomic policy, it is particularly helpful that the CBI underline the importance of reducing the rate of inflation, and of maintaining a level of aggregate demand in the economy that is compatible with price stability. (This contrasts with the TUC approach, see below, which lays great stress on parallel action by Government to promote economic expansion).

10. On the proposed programme of work, there is probably not much to be done on items 1 and 2 in the way of specific action. Item 1 (scale and nature of the potential unemployment problem) is one issue for consideration in the present discussion - a general theme of which is that though there is unavoidable uncertainty about the employment implications of new technology, the prospect for jobs overall will be improved the faster industry itself is able to adapt the new technology. On the second item (improving productivity) this is already a constant and recurring issue for Council discussion; and in the work of the EDC/SWPs.

11. Item 3 (efficiency of the labour market) and item 5 (training, retraining and education) are interrelated. They are also similar to the areas for further work suggested by the SWPs (see paragraph below). Mr O'Brien of the MSC could be invited to take the lead in pursuing these points, and report back to Council.

12. Item 4 (cost and employment implications of early retirement) and Item 6 (reduction in working time) are also closely related, though the motivation behind the first of this is not entirely clearly. It may be that the CBI wish simply to convince

the trade unions that early retirement, like shorter working time, carries the danger that it will raise unit labour costs; and also that it does not necessarily lead to a fall in unemployment (eg early retirement for skilled people does little to help unemployed unskilled people). On the other hand, this could be seen as an attempt to push the cost of industrial adjustment on to the taxpayer - something which the Government would wish strongly to resist. The CBI should therefore be invited to expand on this proposal.

13. It would also be appropriate to invite the CBI to table their document "Jobs: Facing the Future" when it is published.

The TUC Memoranda

- Report on US Visit - NEDC(80)6
- Report: Employment and Technology - published

14. The first document provides a brief report of the main conclusions for the UK microelectronics industry which members of TUC Economic Committee draw from a recent visit to America to study the economic and social consequence of the microelectronics revolution in the US. The report acknowledges the differences in economic and social conditions between the two countries which make it unrealistic to expect that we could simply replicate the US experience, but it goes on to suggest that there are some lessons to be learned.

15. The Report draws attention to the importance of public purchasing - US defence budget; space programme - as the main engine of growth for the US microelectronics manufacturing industry in the early days. It also points out that the structure of the hardware and components industry has changed, with a relative decline in the importance of small firms, and increasing dominance by large corporations having sufficient resources to financethe much larger levels of investment, and R and D, which are now required. A third feature noted is the increasing worldwide dominance by the US (and Japan) in the production of semi-conductors, and the probable emergence of a large Western European trade deficit in semi-conductors unless there is a rapid build up in the European industry.

16. Against this background, the TUC argue that it is imperative for the UK to establish its own microelectronics industry, and that this must involve a high degree of public support both in the manufacture of components and in accelerating the search for specific applications for products and processes.

17. The second - more substantive - document is a report by the TUC General Council to the 1979 TUC Congress. It was first tabled at NEDC for the November meeting, in the context of a discussion about productivity. It is a lengthy document, but there is a useful summary - with main conclusions - in Chapter 9.

18. There is much in these two documents that can be welcomed as a useful contribution to the debate on technological change. Specific, and positive, points which Ministers will wish to note and to welcomeinclude:

- recognition by the TUC that technological change is a challenge and an opportunity, and that rapid adaptation is essential if the UK is to improve productivity, compete successfully in world trade, and achieve economic growth;

- rejection of the view that the advent of microelectronics must inevitably be associated with a particular level of unemployment;

- acknowledgement of the need to rationalise industries in some cases;

- recognition that technological change has implications for trade union organisation structure itself. Customary demarcation lines between groups of workers will be swept away and, in the process of rationalisation, trade unions have a responsibility to avoid conflict about who organises whom, and who does what.

19. There are numerous detailed proposals in the TUC papers. Two main points, however, are proposals (addressed primarily to management) for improved consultation and sharing the benefits of new technology, and proposals (addressed to Government) about macro-economic policies. These proposals are dealt with below;

a. new technology agreements/sharing the benefits.

The TUC propose that these agreements should, where appropriate, be negotiated at company and plant level, but in the context of an agreed national framework agreement, involving the Government, the TUC and the CBI. The agreements would build on existing status quo andmutuality clauses, but would go far beyond this to cover a whole range of related issues including (i) provision of information, (ii) agreed plans on employment and output (including guarantees of no redudancy or, where this is impossible, improved redudancy payments; provision for natural wastage, redeployment and relocation; and agreed plan between management and work force for an expansion in output so as to maximise alternative employment opportunities), (iii) retraining; and (iv) agreed procedures about the way in which new technology could/should be used to measure work performance. These agreements would also be directly concerned with ensuring an "equitable" distribution of the benefits of new technology, and this is linked by the TUC to their campaign for a 35hour week, work sharing, the elimination of systematic overtime, and a change in shift patterns with a reduction in unsociable hours.

20. Ministers will wish to note, and draw on , as appropriate, the following points:

a. the Secretary of State for Employment, in his Note, endorses the basic principles that no new technology which has major effects on the work force should be introduced unilaterally. The CBI also, in theirpaper, acknowledge the importance of consultation. But the exact form that consultation takes, and the issues covered, is essentially a matter forindividual companies and there is probably little scope for a national framework agreement, involving the Government, of the sort advocated by the TUC.

b. one positive aspect of the proposed New Technology Agreements, however, is the implicit recognition of the intractable problem of multi unionism at plant and company level. The TUC accept the need to create a strengthened company-wide trade union structure. It is widely held that multi unionism has encouraged fragmented bargaining and this has contributed to the UK's relatively poor economic performance. Company wide inter union arrangements are potentially the most practical way of overcoming these harmful effects, and Ministers will wish to support this particular feature.

c. there may also be other items in the TUC checklistof issues to be covered by these Agreements on which it would be possible for the TUC and the CBI to work out practical joint proposals, and they should be invited to consider this and to report back. The Secretary of State for Employment has also undertaken to monitor and publicise cases where new technology has been introduced successfully as a result of consultation and cooperation between management and work force.

d. there is no dispute about the general principle that the benefits of new technology should be distributed equitably. The Secretary of State for Employment and the CBI, however, have underlined that there must be an explicit recognition that this also means ensuring an adequate return to investors.

e. Whilst job sharing or reduction in working hours is one potential way of using the benefits of new technology, the TUC papers are silent about the need to ensure that where benefits are taken in this form they cannot also be taken in higher earnings; there is also a need to ensure that this form of sharing the benefits does not simply lead to a rise in unit labour costs. The CBI underline these points in their paper.

f. the CBI draw attention to the need for a greater recognition of the role which trade unions themselves have to play in facilitating retraining - eg modification to the traditional apprenticeship systems, and acceptance of "dilutees". Ministers will wish to endorse this.

(b) Government economic and industrial policies

21. The TUC papers lay considerable stress on the role of Government economic and social policies which, it is argued, are crucial to securing the cooperation of working people in adapting to the new technology. The TUC argue that Government economic policies as presently pursued will not by themselves be sufficient for the progress needed to stimulate technological change, and they will no doubt reiterate this view during the course of the discussion. The more specific points are:

i. technological development must be set in a national context for economic growth. Employment should be expanded in the services sector, with the public sector in the lead, in order to raise the level of effective demand.

Line to take

The Government recognises its responsibility to provide support through training facilities and social services to ease the process of industrial adjustments. But, sustained growth is not the gift of Government alone. Attempts in 1974 and again in 1978 to reflate the economy both led to rapid inflation. Over-riding priority must be given to curbing inflation, and to improving the supply side of the economy. Increased productivity and faster adaptation of new technologies are essential pre-conditions for non-inflationary growth. A stronger economy can and should support better public services. The aim must be to make the economy grow stronger, and more able to win a larger share of the world's jobs and incomes. But we must be sure that growth is taking place in the private sector before we can have growth in the public sector.

ii. Public support for the UK microelectronics industry - both in manufacturing the "chip" and in its application

Line to take

The Government is already providing assistance to the microelectronics industry under the Microelectronics Industry Support Scheme, and the Micro Processor Applications Support Project, and the Government has indicated that the NEB will have a continuing role in high technology. But the Government's policy is also to release resources from the public sector to stimulate private sector growth, and it believes that there must be the maximum possible private sector participation in the development and expansion of the UK microelectronics industry.

/INMOS PROJECT: BACKGROUND

Sir Keith Joseph will be ready to take the lead in responding to any points raised. Inmos was set up under the last administration with the aim of establishing a UK capacity in the production of high volume "standard" chips. Inmos's business plan calls for funding of £50m from the NEB. NEB are contractually committed to an initial tranche of £25m (of which £10m has so far been spent) but there is no commitment to the second £25m.

The NEB are currently considering proposals for the production phase of the project, which would involve the second £25m tranche. The next step will be for NEB to approach Sir Keith Joseph with their recommendations./

iii. A continuing commitment to the work of the Sector Working Parties to identify and remove constraints at sector level, including the monitoring and containment of import penetration

Line to take

The Government has already endorsed continuation of work by those SWPs which are making progress in improving performance in their sectors, and will continue to support SWPs where they are doing an effective job of work. There will be an opportunity to assess SWPs effectiveness in tackling manpower and technology issues when we come to the Director General's memoranda. On import penetration, the Government has made it clear that it does not rule out temporary and selective import controls where special circumstances warrant such action. But this is not a lasting solution; we must instead improve our competitiveness and one way to do this is by incorporation new technology in new processes and in creating new higher value-added products.

WORK OFTHE SECTOR WORKING PARTIES ON MANPOWER AND TECHNOLOGY ISSUES

22. The two papers for this item (NEDC (80) 3 and 5) are part of a series of reports to the Council covering a particular aspect of the SWP work programme. (There has for example, also been a report to Council about SWP work on productivity, and there will be reports on other aspects of SWP work at later meetings).

Manpower Issues - NEDC(80)3

23. This paper outlines the work of EDCs/SWPs, drawing on Committee reports, including end-year reports, surveys, international comparisons and case studies, and NEDC's contributions.

24. The main themese are skill shortages and manpower utilisation. Many sectors reported shortages especially in engineering and computer skills. While it is accepted that industry has prime responsibility for recruitment and training, Government has a role - especially in encouraging geographical mobility. The paper recommends that the MSC should be asked to report on:-

i. what additional facilities, including training and retraining, are required to enable workpeople to cope with changes inherent in technological advance and assist unemployed workers to acquire skills;

ii. which ways, including financial inducements, the geographical mobility of workers could be encouraged.

25. Employment prospects have a significant impact on the atmosphere in which consultations/negotiations take place on manpower utilisation problems. Other relevant topics include flexible use of manpower, improvements in pay, job security, status, career prospects, working hours and productivity. The paper recommends that:-

i. sectors should redouble their efforts to stimulate action at company level, emphasising the interrelations between employment security, manpower utilisation and competitiveness in the market;

ii. increased impetus should be given to the discussion between the Confederation of Shipbuilding and Engineering Unions, and the Engineering Employers Federation, about security, status and effective utilisation of skilled engineering craftsmen.

26. Sectors have also been looking in detail at:

- factors affecting attitudes to employment and change;
- training and related issues;
- action on manpower issues at company level;
- employment prospects (from which it is impossible to aggregate and draw conclusions about economy-wide employment prospects).

Comment

27. The Secretary of State for Employment will take the lead for the Government on this issue.

28. Several SWPs/EDCs have produced worthwhile work on various manpower problems. For example, the Chemicals EDC and Rubber SWP have analysed ways to improve productivity in their industries, and have provided checklists for action by management and unions. The Plastics Processing SWP's report on improving manpower utilization has been well received by the industry. The Clothing EDC has analysed and recommended ways of improving recruitment and retention of labour in its industry. A question mark remains, however, overthe ability of SWPs toget their industries to consider and act upon their findings. (This applies to the work of the SWPs generally, and is a question which the Council will be considering later in the year).

29. Many SWPs, however, have done little useful work on manpower problems. The question for Councilto consider is how to induce the majority of SWPs to follow the example of the best. The main obstacle to SWPmanpower work is the sensitivity of the problems. An extreme example is the Building EDC, where the unions have just refjused to discuss the issue of skill shortages in the EDC. However, not allduck sensitive problems; the Iron and Steel SWP has done solid work on productivity which does not shrink from adversely comparing British with Continental/manning levels and practices.

30. Ministers have made it clear that Government support for continuance of individual SWPs is conditional on the committees in question facing up to all of the sensitive issues facing their sector.(Following a recent review of the 60 odd committees, 17 are at present on "probabtion" for six months). Ministers could take this opportunity to stress this point and to say that the onus is on the SWPs themselves to demonstrate convincingly that they are capable of doing an effective job. Further possibilities are:

- Individual Council members to use their influence with SWP members;
- a letter to SWP Chairmen from the Director General asking them, in the light of today's discussion, to pay particular attention to manpower work;
- prominence to be given to manpower work in the SWPs' Steering Brief for 1980.

31. On the recommendations in paragraph 24 above, the Chairman of the MSC could be asked to comment. A report on these matters could be useful to SWPs, and could cover part of the CBI's proposed programme of work, and the recommendation can be accepted.

32. The recommendations in paragraph 25 can also be accepted. That of (ii) arises from the July 1979 meeting of the Council, where a NEDO paper on skill shortages was discussed. Council agreed that the CSEU and EEF should consider scope for easing of skill shortages through better utilisation of manpower, use of upgrading training and skill centre trainees, and better security and status of craftsmen. These discussions were delayed by the engineering strike, but are now being reactivated by NEDO.

<u>Technology Issues - NEDC(80)5</u>

33. This paper, which will be introduced by the Director General, summarises the current work of the EDC/SWPs on the application of the advanced technologies, especially micro-electronics and draws out a number of specific recommendations for action, many of which are addressed to Government.

34. The EDC/SWP experience underlines the point noted in other papers that the target of improved awareness of micro-process of technology has been largely achieved, and that <u>the need now is for progress (in all sectors) in finding specific applications</u>. Many EDC/SWPs have themselves been actively trying to assist this process by stimulating awareness of possible applications in the potential user sectors; by improving supply of

information technolgies in the supplier sectors; and by bringing together suppliers of information technology, manufacturing plant makers, and users to identify opportunities for UK sourcing in specific sectors. A number of other specific barriers inhibiting the more rapid take-up of advanced technology have been identified. On the demand side, these include constraints on capital and R & D funding because of poor profitability and the high risks involved, and the slow take-up of new technologies in certain key sectors. Inhibiting factors on the supply side are a lack of UK sourced hardware and software, constraints on the supply of venture capital to high technology firms, a lack of understanding between suppliers of plant and equipment and suppliers of information technologies about user needs, and severe shortage of skilled personnel.

Comment

35. The Secretary of State for Industry will take the lead for the Government in responding to this item. The main points are:

(a) there is evidence here of solid and useful work by many SWPs. This is welcome, and the work should continue as a matter of priority. There are a number of specific suggestions for the SWPs' future work programme, and these should be pursued in the context of 1980 Steering Brief for SWPs;

(b) clearly, it will be important to ensure that activity to promote technology is properly co-ordinated and directed. As far as the tripartite machinery is concerned, there are at present seven SWPs and one EDC in the electronics area as a whole. A general review of SWPs which the Director General is presently undertaking may show that there is some scope for rationalising the inter-relationship between these committees, and thereby help to improve their overall effectiveness.

36. And, on recommendations addressed to Government:

(a) the Government "awareness programmes" should now be developed in certain key sectors.

Comment

This is a timely recommendation and is in line with the Department's own thinking.

(b) Government should develop procurement policies and regulations which help to develop innovative products, which encourage commercially relevant standards of quality and design.

Comment

The Government is indeed concerned that its purchasing activities, within the long established framework of securing most value for money and in accordance with our international obligations, should where possible be used to encourage industry to innovate, and to improve industrial competitiveness. Other public sector bodies could reasonably be encouraged to think in similar terms.

(c) Public spending on R & D should be co-ordinated in order to meet long term technological and commercial ibjectives of industrial sectors.

Comment

The Government is fully conscious of the need for effective co-ordination. This is the function of bodies such as ACARD, the Advisory Board for the Research Councils, and the DOI Research and Development Requirements Boards.

SUMMING UP

37. In her concluding remarks on this item as a whole, the Prime Minister might draw on the following:

- this has been a useful exchange. None of us can be certain about the eventual impact of new technology on jobs, but a number of key points do emerge;
- we need a sense of perspective. Historically, new technology has created new employment opportunities, and we are all agreed that there is no reason to believe that microelectronics will inevitably lead to a loss of jobs overall;
- there will be a greater risk to jobs and future prosperity if we fail to keep pace with our overseas competitors in adapting to and applying the new technology. There is now a greater general awareness about microelectronics, but we must accelerate the search for specific applications in creating more efficient production processes, and in creating new, better and higher value-added products. This is primarily the responsibility of management in all sectors of the economy, and the message to them is "get on with it - fast";
- whilst there will be job losses in some sectors there will be gains in others. Management, trade unions and Government each have a part to play in assisting and not obstructing the necessary process of change and adjustment.
- the Government has stressed that increased productivity and faster adaptation of new technology are essential preconditions for sustained non-inflationary growth. The CBI share this view. The TUC put more emphasis on demand-led growth, but also accept the need for British industry to compete in world trade on the basis of productivity growth, skill and technology.

- the immediate economic outlook is poor, but the adoption of new technology offers us a way of breaking into new markets and creating jobs against the general trend.
- all parties endorse the need for full and effective consultation between management and workforce about the implications of new technology. The CBI and TUC are invited to consider together practical proposals for improving consultation arrangements at company and plant level, and to report back to the Council. The Government will help by publicising examples of good employer practice.
- training, overcoming skill shortages, and job mobility are of crucial importance to speeding up the process of adjustment. The CBI accept that management has a primary responsibility for planning their future manpower requirements, and for training and retraining people to meet those needs. The Government accept that education policy and the services of the MSC also have an important part to play in assisting this process. But the trade unions must also co-operate, for example, by accepting the need for flexibility in the traditional system of apprenticeship, and by increasing their willingness to accept workers who have received training at Government skill centres.
- small firms clearly have an important role in providing much needed innovation, and in job generation. This is an issue to which the Council will wish to return at a later date.
- [we have agreed that] more work needs to be done on measures to improve the efficiency of the labour market, including further examination of the training and retraining needs in preparing people for work and changes during the course of their working life.
- many of the SWPs have shown that they have been effective in tackling manpower and technology issues. The aim now must be for the weak performers to emulate the best. Manpower and technology issues should be a priority item in their continuing programmes of work.

38. In conclusion, the Prime Minister may wish to say that she has found the discussion interesting and constructive [and that she hopes to take the chair again from time to time in the future.]

ITEM II: REPORT TO COUNCIL FROM THE PROCESS PLANT EDC

39. The process plant industry produces the industrial installations and the plant and equipment contained in them required by the energy, hydro-carbon, chemical and petro chemical, metallurgical, food and other major process industries. It is essentially an international industry and the UK market is no more than a small part of the whole.

40. In recent years demand for such installations in developed countries has slackened - so many of their needs being very nearly fully met - but demand in other parts of the world has continued to grow. This has been particularly strong in the Middle East, but even there is now beginning to level off. In the near future as the full effect of the recession is felt total demand per annum is expected to shrink appreciably, and thus greater severity in international competition will follow.

41. In the UK the main parts of the industry - the contractors and the suppliers - are in different states of health. There are some 24 process plant contractors in the UK, mostly in or near London: six of them are indigenous and the others come very largely from the USA. Outside the USA this is by far the largest concentration of such contractors in the world, drawn, we suspect, by London's attractiveness as a financial and communications centre. The contractors' presence here allows British companies access to very large amounts of international business provided that they are sufficiently competitive to win it: the contractors' highly expert procurement departments, usually controlled for larger purchases by their clients, make their purchasing decisions strictly on commercial criteria.

42. Some British suppliers - particularly those of ancillaries such as instrumentation, pumps, and valves continue to succeed in the pursuit of international business: but this is much less true of fabricators. Many of the manufacturers are fabricators - that is, making up vessels, fractionating columns, retorts, tanks, etc, from shaped and welded metal. There is a multitude of medium-sized and small firms with a wide variety of expertise, but few companies at the heavy end: capability to work steel over four inches thick is the identification of a "heavy fabricator".

43. Heavy and medium/heavy fabricators, depending on how the definition is drawn, number between thirteen and twenty two, and concern about the standard of competitiveness is greatest in this part of the industry.

44. A small number of such companies remain efficient and determined to secure business - and they do. But others, suffering from inadequate investment over many years, indifferent performance by management and engineers, inflexible labour, and low productivity have a real need to make many improvements. One of the principal tasks of the EDC in the immediate future is to communicate the need for such improvements individually to companies. Remedial action can be taken only within those companies. In one or two instances we think it likely that the analysis already carried out within the EDC has, through companies' membership on the Committee, led to the first signs of change beginning to appear in companies: two companies are embarking on major investment projects for both of which selective financial assistance is being provided.

Work of the EDC

45. The EDC has just had its first meeting under its new Chairman, in the second phase of its life.

46. The Committee benefits very much from having amongst its members trade unionists, clients (BP, Laportes, BGC, CEGB, etc), process plant contractors and manufacturers (fabricators). Since clients and contractors are purchases, and fabricators are suppliers, the latter are left in little doubt about the extent to which they do, or do not, match up against competition from other countries in an essentially international industry.

47. During the first phase of the EDC's life, extending over the last two and a half years, the most useful work has been two substantial studies by Sub Groups: one was by Customer Industries, expressing their views on suppliers in this country, and the other on Competitiveness, examining constraints that fabricators experience in striving for competitiveness. The analysis of the two Sub Groups, although on different areas, found common ground in identifying a variety of changes that British fabricator companies needed to make.

48. Work from the first phase is being carried forward and further developed in the second, the membership having been strengthened for this purpose.

49. The EDC is expected to benefit greatly from the appointment of its new Chairman, Sir Cyril Pitts. He had many years of senior experience in ICI, particularly in India. At very short notice he led an EDC fertilizer mission to that country in 1978

and his personal performance contributed greatly to the success of that mission. He is widely known and respected in this industry and in the Chair he is elequent, tactful, persuasive and determined. He is at present a non-executive Director of Northern Engineering Industries.

The Paper

50. In paragraph 4 of the paper, the need is brought out for retaining the industry through to the late 1980s when a major up turn in demand - probably larger in new technology - is expected. But the recent decline in the UK share of world process plant exports over the last nine years is not brought out: for the three years 1970-72, the UK's mean share was 9.03%: for the years 1975-77 this had dropped to 6.06%: the reduction was therefore approximately one third. Against that, the FRG's share had dropped by 6% and that of Italy by 15%; while that of France had increased by 8%, that of Belgium by 12% and that of Japan by 50%.

51. Threats from developing countries, or increasingly high technology capacity in other countries, are set out in paragraphs 6, 7 and 8. Our diminishing share of world trade and these threats point clearly to the paramount need for achieving greater competitiveness in the British industry. Sir Cyril Pitts, in his note, draws particular attention to

- Management activities (see paragraph 14)

- Greater and more consistent allocation of resources to R&D, and pursuit of application of high technology.

- Enhancing the industry's marketing performance (see paragraph 13 and 19)

52. The continuing activity of the EDC is therefore seen as particularly important if firms in the industry are to be persuaded to recognise and come to grips with their weaknesses in competitiveness.

Comment

53. The Secretary of State for Industry will take the lead for the Government in responding to this item. Following meetings with senior representatives of the industry he is sharply aware of the need to persuade companies

to see the need for greater competitiveness and to put in hand necessary measures for achieving it. He is aware of the EDC's intentions in communicating with the fabricator companies and in pursuing much closer contact between purchasers and suppliers in the industry.

ITEM 3: ENGINEERING CONSTRUCTION: PROGRESS REPORT BY SECRETARY OF STATE

Background Note

54. This industry builds major plants for the chemical and fuel industries and similar plants on a smaller scale. Delays on such work in the UK are notorious and do considerable harm to our prospects of getting international companies to invest in the UK. This has significant economic and employment consequences; for example, the pace and scope for the nuclear energy programme could be affected.

55. Since a report to NEDC in 1970 it has been agreed by all parties that the conclusions of a single National Agreement governing pay and working conditions could make a considerable contribution to improving performance. The variety and fragmentation of collective agreements means that grievances, leapfrogging and problems of interpretation easily develop. This conclusion was reinforced by a report of a Working Party of the Engineering Construction EDC in 1976. In January 1977 NEDC invited the then Secretary of State for Employment to take the lead in progressing remedial action. Employment Secretaries have made regular progress reports to Council, the latest by Mr. Prior in June 1979.

56. It has been difficult to reach a National Agreement because of the complexity of sites and the number of parties involved - two employers' associations (the Engineering Employers Federation and the Oil and Chemical Plant Constructors Association), a mixture of unions and the clients (e.g. oil companies, CEGB, BSC) for whom the projects are undertaken. However, over the last year determination has grown to overcome the obstacles, and we are getting closer to the time when pay will become the crucial issue.

57. A working party composed of the two employers' associations, the main unions and an independent chairman has produced a draft National Agreement on pay, conditions, grievance procedures etc. It has also drawn up the constitution for a National Joint Council to monitor and police the agreement and to promote improved performance. The target date for implementation is March 1980.

58. On the basis of the first draft the Secretary of State for Employment met (on 20th November) representatives of unions, employers' associations and clients. All were keen to conclude an agreement, but the clients, in particular, pointed out a number of problems which needed to be resolved before they, as ultimate paymasters, could accept the new arrangement. These were discussed further at a meeting between the Secretary of State and the working party on 10th December. The most serious are:-

(i) the scope of the agreement, in particular how its terms would apply to repair and maintenance work;

(ii) auditing, scrutinising and controlling second tier payments;

(iii) the coverage of minority groups of employees e.g. laggers and electricians, whose pay and conditions are largely outside the scope of present industry agreements.

59. These issues and pay are currently being pursued by the Working Party and its Chairman will be reporting to Mr. Prior the day before the Council meeting so that his report will be up-to-date. The TUC and CBI are fully behind the industry's efforts and have welcomed Ministerial assistance.

60. /The Working Party was at one stage suggesting that the Government should employ various levers at its disposal (e.g. public purchasing, industrial assistance) to encourage employers to abide by the proposed National Agreement. This was rejected by Ministers as being unacceptable, and the idea now seems to have been dropped by the Working Party./

IP Division
H M Treasury
21 December 1979

ANNEX A

THE ACARD REPORT ON TECHNOLOGICAL CHANGES: Threats and Opportunities for the United Kingdom

Background

1 This report by the Advisory Council on Applied Research and Development is scheduled to be published on 7 January - 2 days before the NEDC meeting. The Prime Minister received the report in November and gave permission for its publication.

2 The area covered by this report is not new; technological change has been comprehensively discussed in many fora in the recent past. Many of the recommendations contained in the report are familiar and a large proportion are directed towards Government. ACARD have included very little on what individual companies can do to help themselves. Despite the many references to Government, ACARD has surprisingly omitted any reference to the various existing DoI schemes designed to promote technological change (such as the MAP - Microprocessor Applications Project, and MISP - Microelectronics Industry Support Programme which amongst other things have produced a ten-fold increase in number of short-term specialised training placed for those engaged in the industry)

Points to Note

3 Involvement of NEDC: Although the time between publication of the report and the NEDC meeting is only short, members of the NEDC are likely to be attracted to the recommendation contained in paragraph 6.5 of the ACARD report. This suggests that the development of technology strategies should form an integral part of EDC/SWP studies, and that in this work the sectoral committees should pay particular attention to the interface between individual

sectors and the potential industries that might be created by a combination of technologies from different sectors. However, the Steering brief issued by NEDC to SWPs early in 1979 invited the committees to give particular consideration to the scope for improving competitiveness in their industries through both improved productivity and technological developments including microelectronics.

4 The NEDO paper, Industrial Performance: Industrial Applications of Advanced Technologies summarises EDC/SWP work in these fields during 1979. Many committees are already engaged in detailed work on advanced technologies, including maker/user groups and other cross-sectoral activities. This ACARD recommendation is therefore retrospective.

5 The ACARD recommendations directed towards the Government would in certain cases require an increase in public expenditure. If pressed on individual points, the Prime Minister could say that the Government will make a considered response at a later date.

6 Points to Make

The Prime Minister may wish to say that:

(a) the Government welcomes the ACARD report as a further contribution to the discussion;

(b) the Government will make a considered response to the report at a later date;

(c) the NEDC may wish to come back to the ACARD report during any subsequent discussions on advanced technologies that may take place.

ANNEX B

TECHNOLOGICAL CHANGE : THE FINNISTON REPORT

The Committee of Inquiry into the Engineering Profession, chaired by Sir Monty Finniston, which has just completed its work and whose report "Engineering our Future" is due to be published on the date of this NEDC meeting, has been examining issues of direct relevance to the subject of technological change.

2. Finniston reaches the same conclusion as do ACARD in their latest report on technological change: that the UK has no option but to expand the rate and effectiveness of technological innovation and to match the productivity and product quality of our major overseas competitors if our manufacturing decline is to be reversed. Finniston takes the line that weaknesses in the "engineering dimension" at both national and company level are at the root of the UK's poor manufacturing performance. The "engineering dimension" concerns the system for translating engineering expertise into the production and marketing of competitive products through efficient production processes, a system in which the contribution of engineers is crucial. The Finniston Report makes various recommendations for strengthening the UK's engineering capability by raising the effectiveness of the contribution of the current stock of engineers and by improving the future supply.

3. The Prime Minister should indicate that the Government sees the input made by engineers as an increasingly important factor if the UK is to seize the opportunities presented by technological change; and that with the publication of the Finniston Report it proposes to give priority to considering how a strengthened engineering capability can be achieved. The Finniston Report is due to be discussed at a future NEDC meeting. The response of industry and the parties to NEDC to the recommendations in the Report will be crucial to Britain's ability to take advantage of new opportunities.

IP3

14 December 1979

PART 1 ends:-

S/S Industry to S/S Emp 18/12/79.

PART 2. begins:-

NEDC (80) 7 : 19/12/79