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E(80) 44th Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at  
10 Downing Street on  
TUESDAY 16 DECEMBER 1980 at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP  
Prime Minister

The Rt Hon William Whitelaw MP  
Secretary of State for the  
Home Department  
(Item 1)

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP  
Secretary of State for Industry

The Rt Hon Lord Soames  
Lord President of the Council

The Rt Hon James Prior MP  
Secretary of State for Employment

The Rt Hon Michael Heseltine MP  
Secretary of State for the Environment  
(Item 1)

The Rt Hon David Howell MP  
Secretary of State for Energy

The Rt Hon John Biffen MP  
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Lord Hailsham  
Lord Chancellor

The Rt Hon Francis Pym MP  
Secretary of State for Defence  
(Item 1)

The Rt Hon Patrick Jenkin MP  
Secretary of State for Social  
Services

The Rt Hon Norman St John-Stevs MP  
Chancellor of the Duchy of Lancaster  
(Item 1)

The Rt Hon Angus Maude MP  
Paymaster General

The Rt Hon Sir Michael Havers QC MP  
Attorney General  
(Items 2 and 3)

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The Rt Hon Lord MacKay of Clashfern QC  
Lord Advocate  
(Items 2 and 3)

Mr Norman Tebbit MP  
Parliamentary Under-Secretary  
of State, Department of Trade  
(Item 3)

Earl of Mansfield  
Minister of State, Scottish Office  
(Item 2)

Mr J R Ibbs  
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong  
Mr P Le Cheminant  
Mr D J L Moore (Items 2 and 3)  
Mr W Moyes (Item 1)

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1. PAY REVIEW BODIES

The Committee considered a note by the Chancellor of the Exchequer (E(80) 146) on the options open to the Government for action in the current pay round in respect of the reports of the three Pay Review Bodies (Top Salaries (TSRB), Doctors and Dentists (DDRB) and Armed Forces (AFPRB)) which were due to be delivered to the Government in the Spring.

THE CHANCELLOR OF THE EXCHEQUER said that he was currently considering possible changes in the longer term in the machinery used to determine pay in the public sector, but was not yet ready to make proposals. Meanwhile, the Government had suspended Pay Research for the Civil Service but had decided to allow the Review Bodies to continue their work. There was a danger that the reports of the Review Bodies could well point to increases in pay substantially above the 6 per cent pay factor in the cash limits already announced for local authorities and the universities and the likely pay factor for the Civil Service and the National Health Service. This could be embarrassing, and he sought the views of his colleagues on the ways in which the danger might be limited or averted. One option would be to suspend the operation of the Review Bodies for the present year. An alternative would be to revise their terms of reference so as to ensure that their reports took full account of general financial and economic considerations. Another course would be to seek to persuade them to continue their reports this year recommending a suitable distribution of overall sums of money which the Government would indicate to them. Finally the Government could press the case for moderation on the Review Bodies, in evidence and otherwise, but let them report in the normal way and decide its attitude to the implementation of the reports when those were available. The considerations affecting each option were set out in the report by officials annexed to his paper.

In discussion the following were the main points made -

- a. The TSRB had already indicated their willingness to advise the Government on the next distribution of a given sum of money for their groups. They were likely however also to insist on making known their view on the level of salaries which should attach to the posts covered by their recommendations.

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b. It was becoming increasingly difficult to recruit candidates of the right calibre to the judiciary, and there was a good case for inviting the TSRB to consider them separately from the other groups within its remit. The abolition or suspension of the TSRB would also cause grave difficulties for the Government in deciding on how any salary increase should be distributed within the judiciary.

c. Informal soundings taken by the Department of Health and Social Security suggested that the DDRB would probably take account of the economic situation in formulating its recommendations. It was therefore possible that the outcome of their review would be broadly acceptable to the Government. Moreover, there were indications that the doctors themselves did not expect to receive pay increases this year significantly different from those awarded to the rest of the National Health Service. There was, therefore, no case either for suspending the DDRB or for revising its terms of reference. It would, however, be important for the Government to put in strong evidence on the economic situation, and it might also be sensible for the Secretary of State for Social Services to reinforce this by giving oral evidence to the Review Body.

d. The best course would probably be for the Government to approach the Chairmen of the various Review Bodies to seek to persuade them of the overriding need to take full account of the country's economic circumstances in formulating their recommendations. This could then be followed up by a letter to the Chairmen, which might be published, setting out the Government's views in greater detail. It would also be essential for the Government to submit strong evidence to the Review Bodies. If, despite this, the final recommendations were still unacceptably high it was, of course, open to the Government to override them.

e. Although the aim should be to persuade the Review Bodies to recommend pay increases broadly in line with those awarded to other groups in the public sector, it would also be important to preserve reasonable differentials if sufficiently able candidates were to continue to be recruited to top positions. Awards greater than 6 per cent in aggregate for the groups covered by the Review Bodies should not be ruled out where these could be accommodated within cash limits set at acceptable levels.

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f. The Government's evidence to the AFPRB, which was almost ready for submission, would stress the need for the lowest possible pay settlement consistent with the Government's commitments to the Armed Forces. It was not, however, clear how far the evidence had been cleared with other Departments and steps should be taken to ensure that there was proper interdepartmental consultation before the evidence was released to the AFPRB. In its final form it was important that the evidence should stress the security of employment enjoyed by members of the Armed Forces and the need to take account of the current high levels of unemployment, including among managerial grades, in the Armed Forces' civilian counterparts.

g. The proposal that, for this year, the civilian counterparts of members of the Armed Forces should be regarded as primarily in the public sector was not acceptable; not only would it constitute a change in the AFPRB's working methods to which they were unlikely to agree, but it would not necessarily produce an outcome more nearly consistent with the Government's policies on pay factors for cash limits. The Government was committed to implementing the awards of the AFPRB but every effort should be made to persuade the Review Body that its recommendations should not be significantly out of line with pay awards for other groups in the public sector.

h. The Home Secretary had powers which would enable him to cut back on the awards on police pay which would result from the application of the present formula. It would, however, be very difficult for him to go further in this direction than to match any award made to the Armed Forces.

THE PRIME MINISTER, summing up the discussion, said that the Committee was agreed that the three Pay Review Bodies should not be suspended for the present pay round nor should their terms of reference be altered. The Government should, instead, seek to persuade them to take full account of the country's economic circumstances and to ensure that their recommendations were as compatible as possible with the Government's policies on pay factors for cash limits. Ministers should in the first instance speak to the Chairmen of the three Pay Review Bodies to enlist their

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co-operation. This approach should be followed up by letters to them - which could subsequently be published - setting out the Government's view in greater detail. The Committee would wish to consider very carefully, in due course, the terms of such letters. The Government should also submit strong written evidence to each of the Pay Review Bodies and the relevant Ministers should make arrangements for this to be cleared interdepartmentally first. The question whether this written evidence might be supplemented by oral evidence - and if so by whom - could be considered at a later date, but the Committee inclined to the view that oral evidence on these aspects should not be offered by the departmental Ministers concerned. In view of the special position of the judiciary it was for consideration whether the TSRB should be invited to consider them separately from the other groups within their terms of reference. If, in the event, the Pay Review Bodies' recommendations were still too high, it was always open to the Government to override them, except in the case of the Armed Forces where the Government was already firmly committed to implementation.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Secretary of State for Defence to ensure that his Department's written evidence to the Armed Forces Pay Review Body was agreed with the Chancellor of the Exchequer, the Lord President and the Secretary of State for Social Services.
3. Agreed that the Chairmen of the Review Bodies should be approached by Ministers to seek to persuade them of the need to ensure that their recommendations took full account of the present economic climate.
4. Agreed that this approach should be followed by letters, which might subsequently be published, setting out the Government's views in greater detail.
5. Agreed that the Government should submit firm written evidence to each of the Review Bodies, and invited the Ministers concerned to arrange for this evidence to be cleared interdepartmentally before being submitted.

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2. BRITISH NATIONAL OIL CORPORATION: TIMING OF CLYDE OILFIELD DEVELOPMENT  
Previous Reference: E(80) 33rd Meeting, Item 3.

The Committee considered memoranda by the Secretary of State for Energy (E(80) 142) and by the Central Policy Review Staff (CPRS) (E(80) 149) on the timing of the development of the Clyde Oilfield.

THE SECRETARY OF STATE FOR ENERGY recalled that, at their meeting on 15 September the Committee had invited him to arrange for the deferral of the development of the Clyde field by five years unless detailed examination of that prospect convinced him that the Committee should reconsider the question. He was now so convinced and he recommended delay by two years so that the first oil would be produced in 1987 rather than 1990. The public expenditure cost of delay by two years would be the same as for five years, because the British National Oil Corporation (BNOC) would be prepared to undertake additional sales of oil for advance payment in each year to offset the cost. A platform order for the Clyde oilfield would boost the offshore supplies industry, and Scottish employment, at a time when they had no other firm orders for platforms and they were uncertain over the prospects for orders for exploration rigs. The Chairman of BNOC and of Shell had made strong representations to him against deferral by five years. It would lead to dispersal of BNOC's key project management teams; and Government intervention to require deferral could affect the prospects for the Revenue Bond scheme and the future ability of BNOC to form partnerships for North Sea exploration and development. A delay of two years might mean that some oil surplus to our requirements was produced in 1987, but this was by no means certain, and the bulk of Clyde production would be in the 1990s when production overall was falling and we would be net importers. The investment would be highly profitable and in the light of this, and of the other arguments which he had put forward, he invited the Committee to agree that BNOC should be told that development would be deferred by two years rather than five.

MR IBBS said that there were counter arguments in favour of a five year delay. Because oil prices were expected to rise by a higher rate than the development costs of the field, deferral carried with it a likely substantial economic gain. It followed that early development was an expensive way of providing employment. Deferral would be opposed by BNOC but, in common with other

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industries, they should recognise the need on occasions to sacrifice short term gains for longer term objectives - in this case the Government's depletion policy. If further forward oil sales were a possibility these could be made irrespective of a decision on the development of the Clyde field. The danger was that, pending decisions on production cut-backs, a decision to go ahead with development of the Clyde oil field after two years rather than five could raise doubts over whether the Government's depletion policy would be implemented effectively.

In discussion the following points were made -

- a. Experience showed that oil production in the North Sea turned out to be less than had been estimated, and it could well be that development of the Clyde field after two years would not lead to production surplus to our needs. In these circumstances it was better to pursue depletion policy by production cuts, if necessary, rather than development delays. Decisions on such production cut-backs could be taken later.
- b. At a time when the Government was introducing changes in the tax arrangements for North Sea oil, and had yet to secure BNO's agreement to the proposed next round of advance oil payments, it would be a mistake to risk forfeiting the Corporation's co-operation by insisting on a five-year deferral.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that the development of the Clyde oilfield should be deferred by two years rather than five years. This was on the understanding that, if necessary, production cuts would have to be implemented elsewhere to keep production in line with the Government's North Sea Oil depletion policy and to avoid surpluses.

The Committee -

- 1. Agreed that development of the Clyde Oil Field should be deferred by two years, on the understanding that the British National Oil Corporation would undertake sales of oil for advance payment so that the effect on the Public Sector Borrowing Requirement of a two year delay would be the same as for a five year delay.
- 2. Took note that it would be necessary to consider in due course the effect of cut-backs in the production of North Sea oil in the context of the Government's depletion policy.

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3. GREEN PAPER ON TRADE UNION IMMUNITIES

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THE COMMITTEE considered a memorandum by the Secretary of State for Employment (E(80) 148) to which was attached a draft of a Green Paper on Trade Union Immunities.

THE SECRETARY OF STATE FOR EMPLOYMENT said that the draft had been revised to take account of colleagues' suggestions; and, in particular the introductory chapter had been amended to emphasise the failings of our industrial relations system and the need for reform. In presenting the issues it was important that the treatment of the possibilities for changes in the law should be reasonably balanced. What was now needed was a genuine debate on an informed basis, and the Government should not provoke the trade unions and others by implying that its mind was already made up on particular issues. It was now too late to publish the Green Paper by the end of this year, as had been intended, but he invited the Committee to agree that it should be published as soon as possible in January. The closing date for comments would be 30 June 1981 and this was the shortest period that would be acceptable to the Confederation of British Industries.

In discussion the Secretary of State for Employment agreed to consider revisions of the draft to take account of the following points -

- a. Chapter 3A: Immunity for Trade Union Funds  
Paragraph 26, on the case for putting union funds at risk, should be strengthened to balance the counter-arguments in the chapter, and in particular paragraph 17. Reference might be made to the practice in other countries. Paragraph 34 should be amended to refer to the possibility that, as well as suing for damages, employers might bring injunctions requiring unions to control or terminate industrial action.
- b. Chapter 3B: Immunity for Secondary Industrial Action  
The present draft gave too much prominence to the arguments for trade union solidarity. Weight should also be given to the need to protect those not involved in a dispute against damaging selective action; and the possibility of taking measures to protect innocent third parties should be left open. The present paragraph 8 did not go far enough in this direction.

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c. Chapter 3D: Definition of a Trade Dispute.

It was agreed that the Green Paper should not announce or appear to foreshadow a firm commitment to legislate to prevent the blacking of international shipping in British ports when there was no dispute involving the crews of those ships past or present. On the other hand, following the dispute over the Nawala, it was necessary for the Green Paper to make clear that this was an issue which the Government had under review and on which it would welcome views. To meet this point it was agreed that the draft should incorporate the text attached to the letter of 12 December from the Secretary of State for Trade to the Secretary of State for Employment, with the opening of the relevant paragraph amended to read on the following lines: "The question is whether the operation of the present definition of trade dispute is satisfactory in relation to international shipping for the reasons set out in paragraphs 30-31 above, and whether consideration should be given to making such changes in the law as are needed to protect ships in British ports from industrial action in cases where there is and has been no dispute to which members of the crew are a party .....

d. Chapter 3F: Secret Ballots

This section concentrated too much on the relevance of ballots in respect of industrial action and too little on the case for secret ballots for trade union elections. The chapter should be amended to take account of this and to pick up the reference to postal ballots in paragraph 20 of the introductory chapter. In doing so care should be taken not to lose the support of the unions by leading them to believe that the Government were contemplating legislation to make secret ballots for elections mandatory.

e. Chapter 3G: Closed Shop and Union Membership Issues

While care should be taken not to provoke a row with the unions more emphasis should be given to the right of a person not to belong to a trade union. Insofar as their circumstances were relevant to practise in the United Kingdom, reference might be made to the arrangements in other countries. Paragraphs 1-4 of this section should be revised to bring the arguments on either side into better balance and the first sentence of the present paragraph 3 should be transferred to the end of paragraph 2.

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f. Chapter 5: Conclusion

Paragraphs 3 and 5 were too dismissive of the possibility of legislative changes. This would be seen as inconsistent with the Government's aim of bringing about a fundamental change in the balance of industrial power. Whether legislation was in fact needed would turn in part on how unions and individuals were currently acting, but there should be no doubt that the Government were prepared to propose legislative changes if necessary. The conclusions should be revised to take account of these points and perhaps strengthened by picking up some of the points in the introductory paragraph.

THE PRIME MINISTER, summing up the discussion, said that subject to revision of the draft to take account of the points made in discussion and to clearance of the revised text, the Committee agreed that the Secretary of State for Employment should publish the Green Paper as soon as possible in January with a view to a consultative period terminating on 30 June 1981.

The Committee -

Invited the Secretary of State for Employment -

- i. To circulate amendments to the draft attached to E(80) 148 to take account of the points made in discussion.
- ii. Subject to clearance of those amendments, to publish the Green Paper on Trade Union Immunities in January.

Cabinet Office  
18 December 1980

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