

Ref A01159

PRIME MINISTERThe Steel Strike

## BACKGROUND

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

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

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

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

## HANDLING

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

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

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

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

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

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



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

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

CONCLUSIONS

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

i. The Sirs/Smith letter.

ii. An approach to the CBI on picketing.

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

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

ROBERT ARMSTRONG

16 January 1980



16 JAN 1980



GOVERNMENT OF CANADA  
LE GOUVERNEMENT DU CANADA

PART I

MACHINERY FOR PROMOTING THE IMPROVEMENT OF  
INDUSTRIAL RELATIONS

*Advisory, Conciliation and Arbitration Service, etc.*

Advisory,  
Conciliation  
and  
Arbitration  
Service.

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

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

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

Conciliation.

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

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

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

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

Arbitration.

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

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

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

PART I

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

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

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

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

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

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

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

The Steel Strike

Draft Speaking Note

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

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

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

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

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

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

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

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



CONFIDENTIAL

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

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

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