Prime Minister
See also John Hoskyns' brief in this folder.
TL
3/12

CONFIDENTIAL

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PRIME MINISTER

Miners' Pay

(E(79) 73 and minutes of 26 and 27 November from the Secretary of State for Energy to the Prime Minister)

BACKGROUND

The Secretary of State for Energy reported on 26th November on coal stocks, and on 27th November on the state of play in the coal industry's wage negotiations. You asked (Mr. Lankester's letter of 28th November) for this to be placed on the agenda at this meeting. You also asked for a report from the Civil Contingencies Unit (CCU). This has been circulated as E(79) 73. The Secretary of State is speaking to Sir Derek Ezra today, following the NCB Board meeting. He will either report orally or circulate a separate letter following that talk. (Contrary to earlier hopes the result of the miners' ballot may not now be available before the meeting of E, though the NCB's current belief is that the result is likely to be 'marginal').

He will report orally - results are not yet in.
TL
3/12

2. The Government's line so far has been that it has set a cash limit ('external financing limit') for the NCB, and that it is for the Board to decide what increases it can afford within that. Any extra cost is to be met from prices, and the consequences for jobs in the longer term must be accepted. Sir Derek Ezra took steps to publicise the policy and the consequences of an excessive settlement last week. The cash limit is enough to accommodate the offer which the NCB has already made - of about 20 per cent on basic rates - provided coal prices rise in line with inflation. It is not enough to accommodate any increases beyond that. If the NCB conceded the miners' modified claim for 25 per cent, the consequence would be an extra $2\frac{1}{2}$ per cent on coal prices, which would in turn mean an extra 1 per cent on electricity prices. There would be no immediate impact on jobs in the coal industry, but in the longer term, as Sir Derek Ezra has said in public, the marginal bits of the electricity and steel markets would both be at risk. In fact, given the likely movement of oil prices,

the CEGB are unlikely to go back on their commitment to take 70-75 million tons of NCB coal a year though they might try to import a little more. The loss of the steel market is much more likely, because BSC is already anxious to import extra coking coal, on cost as well as quality grounds. A further increase in United Kingdom coal prices would increase the incentive for them to look overseas for supplies.

3. The effects of various kinds of industrial action are set out in the CCU paper. This has been prepared by CCU at official level, and the Home Secretary is not committed to it. He is unlikely to challenge the analysis but is thought to be reluctant to assume the job of 'Supremo' in what he still regards essentially an 'Energy' problem. The consequences of prolonged action are inevitably very grim.

4. There are two distinct elements in the discussion: the consequences of industrial action; and the attitude which the Government should adopt to the pay negotiations. It would make sense to separate them.

HANDLING

Consequences of industrial action

5. The CCU report deals with this at length. You might invite the Secretary of State for Energy to speak first and then seek contributions from the Home Secretary, the Secretary of State for Employment, the Secretary of State for Industry and any other Ministers who wish to speak. You might also ask Sir Kenneth Berrill for his views.

6. There are really five different issues:

(i) The likelihood of strike action. Everything turns on the outcome of the ballot. If the Executive gets less than the 55 per cent vote needed to authorise industrial action, then subsequent negotiations should be relatively easy and industrial action (other than local action) can be discounted. If they get more than 55 per cent, the outcome will depend on the reactions of, and the balance of forces within, the Executive. Mr. Gormley and Mr. Scargill are due to leave for the United States on 8th December. Decisions are therefore likely at the Executive meeting on 6th December. The Department of Employment view (which we believe Mr. Prior shares) is that, given a supportive vote in the ballot, a significant improvement in the NCB's present offer will be needed in order to avert industrial action. Even if the Executive postpone a decision until after Christmas, there is a risk of sporadic local action before then. The effect of that would, of course, be to limit endurance.

(ii) Endurance. The CCU paper sets out the position. A go-slow with a threat of a full strike later is almost as serious as an out-and-out strike because it steadily erodes the coal stock position.

(iii) Remedial measures. Again, the report makes clear that there are very few steps which can be taken to reduce the damage done by a strike. The options are, as they were in 1974, to start rationing electricity as soon as serious industrial action (including a systematic go-slow) begins, or to sit out a strike for a week or two, and be then left with shorter endurance if there is no settlement.

(iv) Side effects. Colleagues may be particularly concerned about the interaction between a possible coal strike and other problems. Any major interruption of world oil supplies is unlikely to coincide with a coal strike. There is enough oil still in transit to keep us going, together with North Sea supplies, for some time. If a coal strike led to a restriction of electricity supplies, and this coincided with either a health service or a water industry strike, there could be problems. We are told that the health service auxiliary generators could be kept going even without the manual workers. We think the same is true within the water industry. An oil tanker drivers' strike coinciding with a coal strike could, however, further limit endurance; and might also restrict supplies to auxiliary generators. There is not much that could be done about this.

(v) Political aspects. The motivation of some members of the Executive may be suspect. You may wish to ask the Home Secretary for a view on this. But a majority of the Executive, including many moderates, voted for rejection of the 20 per cent offer. If trouble does start, appeals to public opinion will cut little ice with them.

7. At this point you might take stock. In essence there is little further the Government can do at this stage to prepare for the worst. CCU might however be invited to keep the problem under continuing review and to report to Ministers as necessary.

The Government response

8. The Coal Board's negotiating options are listed in Mr. Howell's minute of 27th November. Taking these in order:

(a) To stand firm on 20 per cent: it is apparently the part-time members who wanted to stand firm. The full-time professionals, like Ezra, were, we are told by the Department of Employment, prepared to improve their offer. But the Department of Energy say that Ezra, who dominates the Board, is taking a tough line in talks with their Secretary of State.

(b) To settle with the NUM, without frills, on the basis of the 25 per cent increase which the NUM Executive said earlier they would accept (or at a higher figure if the NUM raise their bid).

(c) To settle with the NUM on the basis of a lower figure than 25 per cent coupled with either

(i) improved incentives. Experience of previous incentives schemes has of course been very disappointing;

(ii) an indexation scheme. While this is, technically, a matter within the NCB's management competence, it is perhaps the least satisfactory to the Government, in terms of its wider repercussions.

9. The Government, for its part, has two options:

(a) To leave the whole thing to the NCB. This option is available just so long as the NCB does not look to the Government for extra money to finance a settlement. The moment they did this, the ball would be firmly in the Government's court. It is for Mr. Howell to ensure that no such request is made and he might be reminded that this should be his prime objective.

(b) To nudge the NCB in a preferred direction. For the reasons given above, the Government may want to head the NCB away from an 'indexation' agreement. It is unlikely that the Committee will want to guide the NCB among the other options - bearing in mind that the more guidance given the more the Government risks being saddled with the negotiations and their consequences.

10. Whatever the settlement, Treasury Ministers are likely to argue that the Coal Board and Government should together make the consequences very clear immediately. This means announcing both the coal price increase and the consequent electricity price increase - and in both cases the announcement will need to give the total increase, not just the increment for a settlement above 20 per cent (to do otherwise would sanctify 20 per cent as "acceptable" and mislead the public about the actual price increases likely next year). At the same time both the coal and electricity industries will be reluctant to announce their future price increases without a parallel announcement of the likely size of next year's gas price increase. It will be for consideration therefore whether the Secretary of State should (securing the agreement of the BGC on the way) stand prepared to announce all three increases - coal, electricity and gas - simultaneously, as soon as a miners' settlement is reached and its consequences appraised.

CONCLUSIONS

11. Three conclusions are needed:-

(i) To note the report of the Civil Contingencies Unit and to ask them to keep the situation under review and report to Ministers as necessary.

(ii) To confirm that no further Government money will be made available to the NCB in 1980-81 to finance the coal miners' pay settlement and to ask the Secretary of State for Energy to ensure that no request for such money is made by the NCB.

(iii) To agree that, as soon as a settlement is reached, the consequences for coal and electricity prices should be made plain in the form of a foreshadowing of the gross increases in coal and electricity prices needed next spring; and to decide whether next spring's gas price increases should be foreshadowed at the same time.

RtA

(Robert Armstrong)

3rd December, 1979