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Treasury Chambers, Parliament Street, SW1P 3AG
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30th January 1980

Dear Ian,

I attach the briefing for Ministers meeting with the TUC Nationalised Industries Committee on Thursday, 31st January at 2. 45 p.m. It has been prepared here with contributions from officials in the Departments of Industry, Energy and Employment. The marginalia are the Chancellor's.

I am copying this letter with enclosure to Ian Fair, Bill Burroughs, George Craig, to the Private Secretary to Mr. John Moore (who will be coming to the briefing meeting this afternoon), and to Tim Lankester and David Wright for information.

Yours ever,

MAH

(M.A. HALL)

Ian Ellison, Esq.,
Private Secretary to
Sir Keith Joseph

STEERING BRIEF FOR MINISTERS' MEETING WITH MR MURRAY & THE TUC NATIONALISED NATIONALISED INDUSTRIES COMMITTEE AT 2.45 p.m. ON 31 JANUARY

1. The origins of the meeting lie in the Welsh TUC's reactions to BSC's plans for reducing output and manning in South Wales and to the threat from imported coking-coal to Welsh pits. The Department of Employment's note at Annex A explains the situation and concludes that although anything approaching "a general strike" is certainly not foreseeable, a risk of disruptive strike action remains. If this happens, it might have a wider geographical coverage than the South Wales day-of-action on 28 January.

2. Mr Murray's letter of 23 January to the Chancellor and the attached statement of 10 January on steel closures suggests that the subjects set out in para 3 below will be raised. In paras 8 & 9 of the statement the TUC Steel Committee urges that discussions should be started either with the Government or BSC with the:

> "objective of maintaining Port Talbot and Llanwern as integrated works, and . . . Consett on a similar basis".

The statement goes on to say that this, together with coking-coal imports, constitutes "a continuing agenda" to be pursued "at TUC level", in view of:

> "serious industrial consequences if a TUC General Council did not consider the talk led to any reasonable accommodation".

3. The list of subjects probably includes:

a) general nationalised industry policy and financial problems;

b) financial basis of BSC's operations (including comments on the financing of similar industries in other ECSC countries);

c) steel closures and de-manning;

d) employment consequences and remedies;

e) coking-coal imports and subsidies for South Wales coal from the Community or the Government.

It is suggested below that you should touch on (a) in your opening remarks. Mr Murray and his colleagues are likely to raise (b) to (d). The following paragraphs cover some salient points on these subjects and refer to fuller briefs in the Annexes listed/ at end of steering brief. No concessions of substance are recommended, though Ministers could be forthcoming on remedial measures (para 16 below).

The TUC Nationalised Industries' Committee

4. The Chairman is Mr Frank Chapple and the other members are listed at the end of Annex A. As the Committee covers highly profitable industries like gas, where pay negotiations are currently going on, it would be preferable to avoid suggesting that the size of pay increases should reflect the profit/loss position of each industry. This should not be difficult, as your letter to Mr Murray has already ruled out discussion of the steel pay dispute. Another subject best avoided is any comparison of the time-scale for reaching break-even for the steel industry (1980/81) and the coal industry (1983/84). The Committee is likely to argue that the Government's cuts in finance for the nationalised industries, particularly as expressed in cash limits, damage output, investment and employment, raise prices, and add to imports (e.g. coking coal), and play an undesirable part in pay negotiations. Like the Chairmen they think the Government is giving excessive importance to the objective of reducing the PSBR.

5. The TUC Nationalised Industries' Committee has occasional meetings with the Nationalised Industries' Chairmen's Group. If Ministers reject the proposals of the Nationalised Industries' Committee but do not want them to go away entirely empty-handed, we suggest that Ministers should consider offering to have meetings with the Committee from time to time just as they do with the Chairmen's Group. There would of course be no question of the Government accepting any obligation to consult the Committee before taking decisions on nationalised industry policy but some agreement on future meetings would be at least a positive point to give the Press at the end of this meeting.

OPENING REMARKS

6. You might open by saying:

a) You have been glad to accept the TUC's request for this discussion which will ensure that Ministers and the TUC Nationalised Industries' Committee are fully aware of each other's views.

b) You hope we can start from the common ground that nationalised industries ought to be efficient, competitive and profitable and not protected from the pressures which bite on the private sector if they are to make the best contribution to the national economy.

c) As Chancellor you are inevitably concerned with the total finance provided to the industries, though you recognise the important distinction between their borrowing for profitable investment and subsidies to meet losses. (This picks up a point on which the TUC Nationalised Industries' Committee and the Chairmen both feel very strongly.)*

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d) The Government is anxious to remove or reduce subsidies (over £1 billion in 1979/80 including British Rail and £600 million excluding BR). The problems of the loss-making industries are as bad and deep-seated as they are because they have not been tackled firmly in the past. Progress towards eliminating these subsidies would of course mean less pressure on other and more desirable forms of public expenditure, whether on social services or on investment finance for the nationalised industries. Annex B contains figures on total external finance for the nationalised industries in recent years and their total losses and gives examples of other and preferable things that the money now spent on subsidies could buy.

6A. The examples given are for broad illustrative purposes only, necessarily being based on broad-brush assumptions rather than detailed economic analysis of alternative situations in which the industries would not have turned in losses. In particular it is hard to be precise about what alternative tax policies might have been followed in such circumstances.

7. You could then invite Mr Chapple or Mr Murray to open for the TUC.

*both bodies have rejected Mr Adam Butler's speech on 14 December in which he argued that the sum of the external financing of the nationalised industries (excluding the Exchequer inflow from gas) was £300 million or the equivalent of sixpence on standard rate of income tax.

FINANCIAL BASIS OF BSC's OPERATIONS (& SIMILAR INDUSTRIES ELSEWHERE IN ECSC)

8. This subject will mostly be for Sir Keith Joseph to deal with. Among points which Ministers will want to get across are the following:

a) It is not true that BSC is anywhere near making a profit before interest.

b) BSC has invested more than any European competitor in recent years. Its capital charges per tonne (depreciation plus interest) in 1978 were well below those of its European competitors. On interest alone (per tonne) it was near the middle of the range. Since April 1978 its interest burden has fallen and BSC has been entirely financed by "soft PDC" - more than £1½ billion of it - on which no dividend is paid. [It is effectively "free money" though that is not our public posture vis-à-vis the Commission or the USA.]

c) Some European companies are either in profit or reducing their losses. BSC's losses are not improving.

d) BSC's prices are higher than its competitors' and its loss per man is about £1,800 a year.

Annex C illustrates points (a) to (c).

9. [It is true that some European companies benefit from grants or subsidised loans directly and also indirectly from subsidies to railways and domestic coking-coal (down to import prices). It is extremely difficult to obtain hard and comparable facts and officials do not have a comprehensive table of comparisons. Their strong impression is, however, that European subsidies qualify the comparisons made above in degree but do not reverse them. NEDO have started work on a full comparison which will in due course be available on the usual tripartite basis. Some facts on coal subsidies are in Annex G.]

BSC's CLOSURES & DE-MANNING PROPOSALS

10. BSC's intended cutbacks in capacity and manning are not the result of any EEC directive but of its need to eliminate operating losses in the face of low demand and uncompetitive costs. The Commission is encouraging the restructuring of the Community steel industry so as to bring its capacity more in line with expected demand and to improve its ability to face international comparison, but has made no specific proposals to the UK, although it would no doubt question State aids to the industry if they were not accompanied by measures to restore viability.

cf. EEC

11. BSC's statement about reductions in capacity last December made it clear that its proposals were not a short-term reaction but based on its view of market prospects and the Corporation's viability in the medium term.

12. Its proposals are described in Annex D. Now that closure of the heavy-ends at Corby and Shotton have been agreed, the main proposals are for South Wales, Consett and Scunthorpe. /CONFIDENTIAL: Ministers have told Mr Sirs that they are prepared to back disposal of Consett to the private sector, but BSC do not know about this and DOI think this point cannot be used on this occasion./

Points to Make

13. Ministers will no doubt acknowledge the severity of the unemployment effect of BSC's proposals and the need for remedial action (para 16 below). But they can emphasise that the BSC Board's decision announced on 18 January - see back of Annex D - to concentrate further consultation and discussion on a "slim-line option" at both works in South Wales was in line with union preferences - not closing either Port Talbot or Llanwern but keeping "both . . . as integrated works" as the Steel Committee ask in their paper of 10 January. If this option were adopted, it would add to the spare capacity already available to the Corporation elsewhere (3 million tonnes of liquid steel), though demand that BSC can meet profitably does not at present seem likely to exceed 15 million tonnes.

14. Ministers will not, however, want to intervene in the discussions about closures and de-manning which were going on before the strike between BSC and the unions (let alone agree to tripartite discussions or to a two-year postponement as the Welsh TUC propose). If pressed on the question of timing, Ministers could say that this would no doubt be covered in the discussions with BSC but they will want to stress the need for these discussions to be resumed quickly if the slim-line option, as opposed to complete closure of one or other of the plants, is to have a chance of remaining commercially viable.

15. If the TUC ask for further discussions with Government of the closures or de-manning proposals, and seem to attach great importance to this, Ministers might agree to a further meeting and exchange of views after the strike is over and talks which BSC and the unions have re-started. [BSC want the slim-line proposals to be the basis of the lump-sum payments in South Wales.]

EMPLOYMENT CONSEQUENCES & REMEDIAL MEASURES

16. A working party of officials is conducting an urgent review of possible remedial measures in Consett, Scunthorpe, Llanwern and Port Talbot. This will take another week or two to complete, but it is already clear that any package of measures will be on broadly similar lines to those for Corby and Shotton (see Statements of 7 & 13 November last at Annex E). This round of closures or de-manning raises a new problem - are the English areas being as fairly treated as South Wales (for which Mr Edwards is likely to make a substantial bid for additional funds)? The position of Consett is particularly difficult, because it already has the top Special Development Area status and no upgrading of regional status is available. The position on Community finance for remedial measures is described in Annex F.

Line to Take. Remedial measures are primarily for Sir Keith Joseph. Points for Ministers to make are:

a) The Government are examining urgently a package of remedial measures on the lines of those already announced for Corby and Shotton.

b) A major element in such a package is likely to be some upgrading of assisted area status where this is feasible.

c) A programme of Government advance factory building in all 4 areas is also being examined.

IMPORTS OF COKING COAL

17. Detailed briefs by the Departments of Industry and Energy are in Annex G and the TUC note (right at the back of Mr Murray's letter of 23 January) summarises the situation.

18. It is the Government's policy that BSC's purchases of coking coal should be made on commercial grounds. On average the NCB's coking coal costs are about £8 a tonne more than imports and BSC argue that because of lower quality the real cost to them of NCB coking coal is double this amount. (The highest average costs of production are in South Wales and their coal unlike other NCB coking coal is not of suitable quality for diversion to the electricity market.) BSC has raised its imports of coking coal at a time when its total requirements are falling from about 10 million tonnes last year to about 9 million tonnes or less this year as a result of reduced iron and steel-making (not of reduced capacity).

19. Negotiations are now going on between the BSC and the NCB over the price of about 2 million tonnes of coking coal which would otherwise be displaced by imports. The Department of Energy Ministers have agreed that within the finance being provided under the financial strategy for the Coal Board recently approved by Ministers there should be a grant for coking coal. But the Coal Board claim that it will cost them some £33 million to reach an arrangement satisfactory to the two Boards, that they can only find £15 million of this within their financial provision and that they need a further £18 million either from the ECSC or from the Government. The former is not likely to be a runner and the latter would be in conflict with Ministers' financial strategy for coal. [CONFIDENTIAL: BSC say that they need to agree contracts for imports for this year by the end of next month.]

Points to Make

20. a) It is common ground that BSC's own problems and finances should not be made worse by the uncompetitiveness of NCB's coking coal in terms of quality and price. Geology is of course partly to blame but as a country we must face up to it that uncompetitive activities must either be made competitive or stopped. We need to break the habit of trying to solve such problems by relying on public expenditure - other people's money - rather than facing reality.

b) It is true that Germany and other countries in the ECSC provide very large subsidies for coking coal. But it is just not possible for this industry to match every subsidy provided by countries that are overall more competitive and consequently richer than us.

c) In the Government's view an approach to ECSC for subsidies to coking coal would be most unlikely to succeed and if it did the UK would probably be a net loser financially; such a scheme would be extended to Germany and Belgium and the cost would fall on member Governments. Such an outcome would undermine our attempts to reduce the great inequity of the size of the UK's net contribution to the Community budget and to move towards a better balance of receipts and contributions.

How much?

d) The Government has shown its commitment to the coal industry and provided large sums of finance. A financial strategy has been agreed by Ministers and the industry. Department of Energy Ministers have accepted that coking coal subsidies should be provided within that total. It is now up to the NCB to reach agreement with BSC out of the finance already provided by Government or available from the market for coal which is so much stronger than the market for steel.

e) There are several reasons for the fall in demand for NCB coking coal. BSC's proposed closures are not the only reason. There is the problem of quality and price; too often the geology is not working in our favour. It would therefore be misleading to ascribe all the job problems in the coking coal pits, whether in South Wales or elsewhere, to BSC's proposed closures.

Conclusion of the Meeting & the Press

21. On the basis of this brief Ministers and the TUC might agree on:

a) Both sides had a useful chance to put across their points of view on some major industrial and economic questions. (Each side will no doubt amplify their line to the Press.)

b) This improved understanding but did not produce any "agreements" except on the need for remedial measures (see para 16 above) where major closures or de-manning are planned In the Government's view many of the issues discussed are for the nationalised industries and the unions to resolve. But this is not true of remedial measures and Ministers will be bringing forward positive proposals.

And perhaps:

c) Ministers and the Committee will reflect on what has been said and in future there will be further exchanges of view from time to time, just as there are exchanges between the Government and the Nationalised Industry Chairmen.

ANNEXES

A South Wales Strike Threat (D/E)

B External Financing and Losses of the Nationalised Industries and Alternative Uses of the Money for Losses (Treasury)

C Finances of BSC and other Steel Companies (attached, mainly DOI)

D BSC Closure and De-Manning Proposals (DOI)

E Statements on Corby and Shotton (Hansard)

F EEC Help with Remedial Action (DOI note)

G Coking-Coal (DOI and D/En material)