Copied to Master set.

CONFIDENTIAL

cc Wolfson Hoskyns Ingham

RECORD OF A MEETING HELD AT 10 DOWNING STREET ON MONDAY 21 JANUARY 1980 AT 1415 HOURS

Present

Prime Minister
Secretary of State for Industry
Secretary of State for Employment,
Mr. S. Gross, Department of Industry
Mr. C.A. Whitmore
Mr. David Wolfson
Mr. B. Ingham
Mr. T.P. Lankester

Sir Charles Villiers
Mr. R. Scholey
Mr. C. Beauman

* * * * * * * * *

After welcoming Sir Charles Villiers and his colleagues, the Prime Minister reported on her meeting with Mr. Sirs and Mr. Hector Smith earlier that day. In presenting their case, they had emphasised four points. First, they felt that steel workers had been singled out amongst other public sector workers for a tough settlement. The local authority manuals and the nurses, for example, had been offered more money without any productivity strings. Second, the unions had proposed multi-union productivity bargaining, but this had been rejected by BSC. Third, they alleged that there was serious over-manning amongst maintenance workers and middle management, and that if this were discounted, it would be found that productivity compared reasonably with steel plants abroad. Fourth, they felt that it would take at least six months to reach agreement on productivity deals at local level, rather than the three months which BSC were insisting on.

Sir Charles Villiers then outlined the financial background to BSC's offer. The external financing limit of £450 million might seem large, but seen against BSC's requirements for investment and redundancy payments, it was not. The Corporation was now planning to spend £250 million on investment in 1980/81 (compared with £335 million envisaged earlier), and £297 million on redundancy payments and £20 million to attract new industries. The redundancy money would cover some 52,000

/redundancies

redundancies. These would mostly come from the closure programme. But 12,000 jobs would be lost from improved manning at the steel works which would continue to operate. Although the Corporation would have about £70 million from its depreciation provision, there would still be a cash shortfall - and all the more so since, as a result of the strike, prospects of breaking even were now worse than they had been. Given the £450 million limit, BSC would have to consider three options: cutting back on working capital, cutting back on investment, and disposals. All this underlined the importance of achieving a self-financing pay settlement. The Corporation was pursuing the same basic policy as it had done since 1977; but the situation had now become all the more urgent, and that was why they were saying the unions could not have "something for nothing". The unions' reaction to BSC's latest offer was, in his view, quite unjustified. Mr. Sirs had said that the proposed central agreement was festooned with conditions; but in fact it was very similar to the agreement which had been signed in January 1976. As regards the proposed local productivity schemes, these were already to a large extent worked out; and therefore it was unreasonable to say these could not be negotiated within 3 months.

Mr. Scholey described the main elements in BSC's latest offer. First, they were offering 8 per cent on the basis of a productivity agreement to be negotiated centrally. This would include a commitment to restructure and slim the workforce. The latest draft which they had prepared included a figure of 12,000 for general redundancies; but they would be prepared to withdraw this figure if necessary. They were also looking for a new commitment to the January 1976 agreement, and a commitment on the part of the various unions that there should be a more effective dialogue at national level between operatives and craftsmen. More generally, the proposed agreement was intended to be workable at local level: too often in the past, national agreements on productivity had broken down when it had come to their implementation. Second,

BSC

BSC were offering 4 per cent as soon as the unions signed local productivity agreements - with a lead-in payment for the first 13 weeks. Third, they were offering a 39 hour week starting January 1982. Commenting on the strike itself, Mr. Scholey said that his own impression was that the strikers - particularly in South Wales - had little stomach for a drawn out strike. As for the points which Mr. Sirs had made to the Prime Minister, Mr. Scholey said that it was indicative that, while he had offered multi-union bargaining, he had only brought along one other union representative. It would make it easier to reach a settlement if Mr. Sirs would rise above his own narrow objectives, and take some responsibility for the other unions in the dispute - particularly the craftsmen.

In reply to a question from Mr. Prior about productivity, Mr. Scholey said that BSC's basic problem was that there was too much capacity and not enough loading - with the result that unit costs were too high. Hence, the need to cut back liquid steel capacity. <u>Sir Charles Villiers</u> added that BSC's steel was already more expensive than its main competitors abroad. It was absolutely vital therefore to reduce unit costs. <u>Mr. Scholey</u> commented that motivating the employees at local level was crucial. In the 1960s it had been fashionable to remove incentive payments, and BSC were now paying for this. Mr. Sirs was right in saying that BSC was over-managed. But there were too many managers precisely because the workforce did not have sufficient incentives to produce efficiently without supervision.

<u>Sir Charles Villiers</u> said that there were four possible areas of movement on their last offer. First, they could reintroduce the 2 per cent for consolidation as part of the centrally negotiated 8 per cent. Second, they would be prepared to go to 13 per cent on the guaranteed minimum. Third, there was some room for flexibility on the central agreement - for example, as Mr. Scholey had said earlier, the figure for redundancies could be taken out. Fourth,

/they would

they would be prepared, if necessary, to extend the lead-in payment on the local productivity deals to six months. He felt that these elements of flexibility ought to be able to provide the basis of a settlement. Mr. Scholey, who had a good relationship with Mr. Sirs, would do his very best to convince him that the offer - with one or more of the modifications mentioned - was reasonable. If he failed, BSC would have to "stick it out".

Sir Charles went on to say that BSC's top management were determined to stick to their general strategy on closures, breaking even, etc. They did not want the Government to offer the Corporation more money: if they were to do so, this would undermine BSC's negotiating position. Mr. Prior said that while their objectives were fine he doubted whether they could be achieved on the timescale envisaged. It had to be recognised that, if BSC pushed too hard and this resulted in a long strike, the nation as a whole would suffer. Sir Charles responded that BSC was so far on target as regards redundancies. Mr. Prior, however, pointed out that the ~~proposed~~ closure programme was now accelerating, and it was more exposed that it had been.

The Prime Minister said that she was concerned that Mr. Scholey should put over to Mr. Sirs as effectively as possible the various elements on which BSC were prepared to negotiate. It was important that his private talk with Mr. Sirs should lead on to a resumption of formal negotiations. She was also concerned that progress should be made with the craftsmen, who, she understood, had been on the verge of settling when the negotiations with ISTC broke down.

Mr. Scholey said that he would certainly take great care in explaining to Mr. Sirs the various elements in the package. He would of course have to explore what the unions' position now was. If in the event Mr. Sirs still rejected the concept of self-funding he would have to spell out the alternatives - for example, the

/option of

option of disposals which would have implications for BSC's workers' earnings in the future. His basic objective would be to keep the talks going. On the question of craftsmen, it was necessary to first reach agreement with ISTC - who were the lead union in the negotiations. Once agreement with the ISTC had been reached, there should not be much difficulty in settling with the craftsmen.

Mr. Prior said that he was glad to hear that the Corporation thought it important to avoid another breakdown. If the strike went on much beyond this week, there would be growing pressure from steel consumers - and this would all too likely in the end lead to a more expensive settlement. Sir Charles Villiers said that the effect of the strike should not be exaggerated; picketing so far appeared to be fairly limited. But he agreed that it was important that the Scholey/Sirs meeting should lead to a resumption of negotiations. He added that both sides were continuing to have discussions with ACAS, and this provided useful cover for the Sirs/Scholey meeting.

In conclusion, the Prime Minister said that she was grateful to have had Sir Charles' and Mr. Scholey's views. The discussion had reinforced her view that the Government should not intervene in the negotiations. There could be no question of the Government providing any extra money over and above the £450 million. Nor would the Government tell BSC how the £450 million should be spent, except that it was not available to fund losses. The key objective must be for the two sides to get together again as soon as possible. Sir Keith Joseph and Mr. Prior would brief the press on these lines after the meeting. Sir Charles Villiers said that he would brief the press to the effect that they had explained their position, and that they too wanted to see a resumption of negotiations. He would also mention that talks with ACAS were continuing, and he would emphasise once again that the steel workers were being offered a minimum of 12 per cent with more on top if they were able to achieve additional productivity improvements.

The meeting finished at 1535 hours.

21 January 1980