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NOTE OF A MEETING WITH A SPECIAL DELEGATION FROM THE NATIONALISED  
INDUSTRIES COMMITTEE OF THE TRADES UNION CONGRESS: HM TREASURY:  
2.45 P.M., THURSDAY, 31ST JANUARY, 1980

Present:

|  |                            |
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| Chancellor of the Exchequer                          | Rt. Hon. Lionel Murray OBE |
| Secretary of State for Industry                      | Mr. Frank Chapple          |
| Secretary of State for Employment                    | Mr. Moss Evans             |
| Secretary of State for Wales                         | Mr. David Basnett          |
| Parliamentary Under Secretary of<br>State for Energy | Mr. Hector Smith           |
| Mr. Ryrie  | Mr. Bill Sirs              |
| Mr. Monck  | Mr. Joe Gormley            |
| Mr. P.G. Davies                                      | Mr. David Lea              |
| Mr. Wiggins  | Mr. Bill Callaghan         |
| Mr. M.A. Hall  | Mr. D. Delay               |
| Mr. P. Ridley - Department of<br>Industry            | Mr. D. Thomas              |
| Mrs. J. Cohen - Department of<br>Industry            | Mr. B. Barber              |
| Mr. G. Craig - PS/Secretary of<br>State for Wales    |                            |
| Mr. D. West ) Department of                          |                            |
| Mr. D. Smith ) Employment                            |                            |

The Chancellor of the Exchequer welcomed the TUC, and introduced his colleagues. He invited Mr. Chapple to expand on Mr. Murray's letter of 23rd January.

2. Mr. Chapple thanked Ministers for the speed of their response to the TUC's request for a meeting. Mr. Murray had enclosed with his letter two unanimous statements by the General Council, one on steel closures and run-down, the other on coking coal. The delegation had sought a meeting because of the urgency of these issues. They were central to the economy as a whole. The TUC shared the concern of the Nationalised Industries Chairmen that the financial objectives being set for the nationalised industries were in fact deepening the recession. The external financing



limit for the British Steel Corporation had been reduced from £700 million in 1979-80 to £450 million in 1980-81. The Government was directly responsible for the social and industrial consequences of this sharp cut. No other Government in Europe was trying to turn round its steel industry so fast. The Germans in particular were subsidising steel to the tune of hundreds of millions of pounds per year. The ECSC permitted subsidies to domestic European coking coal industries. European Governments were trying to protect their industries against the recession and protect their home market against imports. Steel would be a vital industry in the 1980s.

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mistake.

3. BSC had announced their closure proposals and their timing through press notices. There had been no consultation with the unions concerned. The operative dates in the case of Llanwern and Port Talbot were as early as March. This unilateral action was entirely against the co-operative spirit which had been built up over the years between management and unions in the steel industry. Wales would be hard hit, but other areas of the country were affected too. The challenge faced by the Government was on the scale of problems in the 1920s. The Government must be prepared to oil the wheels. In doing so, it must take advantage of everything the EEC had to offer. The TUC shared the Government's view on the absurdity of the Common Agricultural Policy and our disproportionate contribution to the EEC Budget. Why then was the Government not maximising its receipts from available funds? Emphasising that the TUC regarded this meeting as a vital one, Mr. Chapple invited Mr. Murray to develop the argument further.

4. Mr. Murray laid stress on the gravity of the situation. There was a growing sense of outrage, frustration and resentment in the union movement. South Wales was the most conspicuous example. The TUC had had only partial success in restraining their Welsh colleagues' militancy. But the sense of deep wrong was not confined to Wales. The TUC and the Government shared a responsibility to cool things down. Otherwise there was a



risk that things would get out of control, with unpredictable consequences. This worried the TUC. They could not be confident of maintaining order and discipline.

5. He felt a growing sense of apprehension at the extent and speed of the steel closures. The effects would be widely felt. The Government acknowledged their responsibility to take account of the economic and social implications of such a rapid rundown programme, and the unions must have a proper opportunity of responding against that background, to the BSC's proposals. Mr. Murray appealed to Ministers to take seriously the TUC's concern. The mood of outrage in South Wales, could easily spread. An orderly means had to be found of dealing with the consequences of the present problems in the coal and steel industries. Time was of the essence.

6. The Chancellor of the Exchequer said that the speed of the Government's response underlined their own concern over the steel industry and for South Wales. The gravity of the problem had been heightened by past failures to tackle these problems soon enough. As regards financial targets for nationalised industries, there was no escape from setting targets in either the private or public sector. Achieving those targets depended on maintaining competitiveness. He readily accepted the distinction between providing external finance for productive investment, and subsidising losses. But targets were still needed.

7. The Chancellor accepted that the Government had a responsibility to help people to cope with the consequences of economic change.

8. As far as the EEC was concerned, to the best of his knowledge the UK had applied for all the help which was available from existing facilities. For the most part, however, the position was that under ECSC rules Member States were themselves allowed to provide subsidies, i.e. aid from the Community took the form of a permissive regime on subsidies.



9. The right level of productive capacity was a matter for discussion between the BSC management and the unions concerned. It clearly depended on the level of demand for British steel. This was not a decision for the Government. Mr. Chapple asked why the British Government was not prepared to protect the domestic industry up to our own potential consumption or the permitted ECSC limit (21 million tonnes per year). Sir Keith Joseph said that also though world demand had risen during 1979, UK demand had fallen. There had been import penetration because of problems over the quality, price, and reliable delivery of British steel. The result was a falling market for the British industry. BSC's plant was modern. Once the present problems were overcome, he envisaged an exciting and profitable future for the industry, based on high pay and high output. Unless we put our house in order now, we would eventually have to face our competitors with an even smaller industry. We could not escape the fact that they were accelerating away from us.

10. Mr. Chapple said he did not accept the Secretary of State's assessment of BSC's competitiveness. This unhelpful comparison derived from the way in which BSC allocated its costs. Mr. Prior said that steel users liked to have an alternative source to the BSC. There was a need to examine scope for more second sourcing from British producers. No-one wanted 4-5 million tonnes of steel imports if this could be avoided. Mr. Moss Evans wondered why second sources were required if demand was so low.

11. Mr. Sims argued that if productive capacity were reduced to 15 million tonnes per annum we should be unable to supply our own demand. 20.2 million tonnes (in 1977) was the lowest ever total British production. The taxpayer was funding new investment, not subsidising steel workers. The ISTC had given full co-operation to streamlining the industry over the years. Investment had been massive. He could not accept that steel was imported on grounds of quality. He had himself seen very poor steel plate on the docks. We had four excellent plate mills, all on short time and all ready to deliver



promptly. The fact was that imports were gaining a hold because of price advantage. Other countries provided trading subsidies - on coking coal, on other fuel, and on transport. BSC's competitors could sell more cheaply because of these subsidies. The Corporation should not have to carry investment costs on its balance sheet. British labour costs were the lowest in the world.

12. The Corporation's plant was new. Wages had fallen from 33 per cent to 28 per cent of production costs, the manning of productive processes was low compared with our competitors, and hitherto the industry had been free of labour disputes. (He was greatly distressed at his involvement in the present one.)

13. At present the BSC was operating at 73 per cent of a capacity which could supply 104 per cent of national needs. Germany, at 66 per cent, of a capacity which covered domestic demand by 136 per cent. Yet the Germans were not, as we were, closing down effective plants. Previous Governments had laid the foundations for an efficient British steel industry. But time was needed for the investment to come good. Not all the new investments had been successful.

14. The Chancellor said he did not for one moment doubt the earnestness of the TUC's representations. But looking at industry as a whole, it was vital to lower interest rates. This in turn meant reducing the PSBR. £4½ billion had gone into the steel industry over the 4-5 years, including public dividend capital, on which interest was not paid. The £600 million combined deficit of the coal and steel industries was worth something like £1 per week on the retirement pension or on child benefit. It was not in the Government's power to control the size of the UK market. Mr. Sirs disagreed. By giving operating subsidies Governments could influence markets. Of the £450 million external financing limit in 1980-81, £287 was earmarked for closures. Why not on operating subsidies instead, to hold up our home market?



15. Mr. Gormley said that in 1960s the coal industry had faced a similar challenge. It had emerged successfully. The speed of restructuring was a crucial factor. The steel closure programme was being conducted with "indecent haste". The coal industry had been able to rundown successfully because of job opportunities elsewhere. Now there were no alternative jobs. There must be consultation with the unions over the speed of closures.

16. Mr. Murray agreed that we must face the facts, but we must face all of them. New international competitors and the worldwide recession were clearly having an adverse effect on the steel industry. The Government faced a problem. He accepted that resources were limited. But the Government had to make judgements, and must take account of the social and political consequences of such a rapid closure programme. Why for instance was the BSC required to break even by 1980-81, a more ambitious target than was set for any of the steel industries in Europe? Sir Keith Joseph said that the BSC board had originally said they would break even in 1979-80, and Mr. Varley had concurred in this target. The Germans and Dutch industries had moved from loss to breakeven or profit over the last two years.

17. Mr. Basnett noted that the Government accepted the need for consultation over the present problems, and its role in "lubricating" the painful transition. The Government must also ensure that the unions were properly consulted about the timescale. There are also other things the Government could do. They should, for example, take full advantage of EEC rules in subsidising coking coal. They should look carefully at the availability of existing EEC aids. The cost of BSC's capital was a problem susceptible to solution by the Government. He accepted that targets were necessary. But they need not be inflexible. No private company would adopt such a rigid target as nationalised industries were obliged to accept. Redundancies in steel would have repercussions throughout industry, and on all trade unionists. 10 per cent of coal workers, 20 per cent of boiler makers, 3 per cent of mechanical engineering workers, and 10 per cent of rail freight



depended on steel. Failure by the Government to act would store up problems for the Government.

18. The Chancellor said that parallels with other countries were misleading. Germany was very much richer than the UK and hence had more resources to alleviate recession. He repeated that the Government was claiming to the maximum on all available EEC funds. And he still felt that discussion on the timing of closures should be between the BSC management and unions. The Government was happy to discuss the underlying facts with the TUC, since there appeared to be some disagreement e.g. on productivity. Mr. Sirs commented that the previous Conservative Government and the Labour Government had been involved. No Government could escape some degree of involvement. The Chancellor, referring to the remedial measures taken over Shotton, said he accepted the Government's responsibility in this area; but the Government was not concerned with decisions over e.g. price and quality.

19. Mr. Gornley again appealed to the Government to "put the brake on" and Mr. Chapple again urged Ministers to take seriously the TUC's warnings about the social consequences in South Wales of the closure programme. Sir Keith Joseph noted that the BSC had in fact discussed the three South Wales options with the unions. They had acted on the unions' choice, i.e. to keep both Port Talbot and Llanwern operating at reduced capacity. Mr. Sirs said there had nevertheless been no consultation at national level. Mr. Evans noted that the three options had respectively entailed 15,000, 13,000 and 11,000 lost jobs. The local unions had naturally chosen the option which would destroy fewest jobs. Any of the options would have a devastating effect on South Wales. The social and political consequences of BSC's plans had to be faced up to. Time was needed to discuss possible alternatives. Alternative employment and retraining were needed. It was no help at all to rush. It was not only the trade unions who were worried about the impending chaos. The Government must not take a purely economic view. People, jobs, and the environment were equally important.



20. The Secretary of State for Wales noted that the problems were now more serious because of earlier Government interference. He had himself argued with colleagues many of the points put by the TUC today. But would delay help? The central issue was future production levels, not the timing of closures. The Chancellor denied taking a narrowly economic view. The human implications were of obvious relevance. There clearly was room for sensible talks to take place about the future structure of the industry and about remedial measures. But he too did not see how delay could help.

21. Sir Keith Joseph noted that some 18 months ago five-and-a-half thousand jobs were lost at East Moors and Ebbw Vale. Now there were less than one-and-a-half thousand unemployed. This was far from ideal; but it showed that much could be achieved. Mr. Murray thought the figures gave little cause for satisfaction.

22. Mr. Hector Smith said that the BSC had lost many orders through systematic denigration of the workforce by management. Only 10 years ago there had been talk of reducing capacity to 38 million tonnes per annum by 1980. Now we were talking about 15 million tonnes. His faith in British steel and British steel workers was untarnished. The Government should "remove the incompetent managers" of BSC. And they should stop imports of coking coal. South Wales produced the best in the world. Mr. Chapple agreed. He noted that the EEC permitted subsidies to coking coal. If Germany was richer than we were, there was all the more reason for us to be subsidising our coal and steel industries. Had we put enough pressure on the EEC to do more for our coking coal industry? And was the Government prepared to give a £18 million subsidy to enable the NCB to sell coking coal to the BSC at an economic price?

23. The Parliamentary Under Secretary of State for Energy said that at the last tripartite meeting on the coal industry the Government had agreed to retain a very large investment programme in the coal industry as a whole. They had also agreed to





a coking coal grant, and the increase in oil prices should now give NCB enough room to subsidise coking coal. The way was open to the NCB to provide this subsidy from their own resources, if they considered it commercially advantageous. He did not think the Government should be expected to provide further funds to the NCB. Mr. Gormley defended the NCB's refusal to use its own funds for the purpose. This would be eating the "seedcorn". It would be tragic to lose the South Wales pits which produced coking coal. We should be quite unable to respond to any upturn in world demand.

24. Mr. Prior suggested that Mr. Gormley was concerting pressure on the Government along with Sir Derek Ezra to extract the £18 million. Sir Derek was well aware that he could not in any case close the South Wales pits. He suggested that the TUC speak jointly to Sir Charles Villiers and Sir Derek Ezra.

25. Mr. Murray pressed Ministers on whether the Government was doing everything it could within ECSC rules to help the coking coal industry. He then put four questions to the Government:-

(i) was the Government prepared to consider urgently how time could be bought to ease the social and economic consequences of the closures programme?

(ii) Was the Government prepared to foster genuine consultations between the BSC and the TUC on closures?

(iii) Was the Government prepared to join the TUC in a rapid exercise to identify possible sources of EEC funds?

(iv) Would the Government consider what might be done on coking coal, including "banging the heads together of Sir Charles Villiers and Sir Derek Ezra".



26. Mr. Chapple said the TUC needed to make a statement to the trade union movement in order to keep control of the situation.

27. The Chancellor said this had been a useful exchange, and both sides had a better understanding of each other's points of view. They had a common appreciation of the economic, social and political aspects of current problems in the two industries. Some of the points discussed had been fundamental. He would like to consider the TUC's arguments with his colleagues. Sir Keith Joseph said he appeared not to have convinced the TUC that the interests of the workers in the steel industry were best served by improving competitiveness. He did not want to give the TUC the false impression that the Government would press BSC to alter the timing of its closure plans. He understood that consultation over the method and scale of the rundown, and on compensation, would resume when the strike finished. He also understood that discussions were in progress between Sir Charles Villiers and Sir Derek Ezra over the quality and price of coking coal to be supplied to the BSC.

28. On the third of Mr. Murray's questions, the Chancellor said that the Government agreed to a joint study with the TUC to establish the facts on whether the UK was maximising its take from existing Community programmes. Mr. Murray pressed for the inclusions of "potential" programmes, and the Chancellor agreed. From the discussion which followed, it seems likely that in the course of this study the Government will be pressed to explain why it voted against the Vredeling proposals on steel closures, including short time working arrangements, at a recent meeting of the Council of Ministers. Ministers were also questioned by Mr. Gormley about their attitude towards the Economic and Social Committee's "own initiative" opinion on industrial restructuring (September 1979).

29. On Mr. Murray's fourth question, on coking coal, Ministers said they would do what they could to secure discussion of the subject between the Boards of the BSC and NCB.

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30. There was some discussion of Mr. Murray's second question, on consultation over closures. Sir Keith Joseph said that it was not his duty as Secretary of State to interfere with the management of the industry. But he did accept responsibility for dealing with the social consequences of major decisions by management. He hoped that consultation would resume as soon as the strike was over. The trade union side argued that he had a statutory duty to ensure that consultation takes place. Exercise of this duty would not constitute interference in management. Mr. Sirs referred to the injunction he had taken out against the BSC management to enforce consultation. The Chancellor said that the Government would remind the BSC of their statutory obligations, in the light of their concern for the competitiveness of the industry, for the taxpayer, and for the social consequences.

31. Closing the meeting, the Chancellor said that the two sides should look for other ways of clearing their minds on the facts. The Government was willing to meet the TUC "on any issues that made sense". He suggested further meetings to take the discussion further. Mr. Chapple confirmed that the TUC had no objection to a further meeting. No date was fixed.

32. The meeting ended at about 5.15 p.m.

*M.A. Hall*

(M.A. HALL)  
1st February, 1980

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