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[Handwritten signature]

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Prime Minister

There is some good material here. BSC handed out their own "facts" sheet to industrial commentators today, and will be publishing a rebuttal to Sirs in the Press Gazette on Monday. They are also considering advertising in the industry press.

Dear Bernard,

Steel Strike Briefing

I attach a new Question and Answer briefing for Ministers on the strike together with a detailed rebuttal of the case made by Bill Sirs in the UK Press Gazette advertisement "The Truth About Steel". BSC are considering taking a similar amount of advertising space in the Gazette to put their case. As I explained on the telephone to Andy Wood this material has not yet been cleared by Ministers here. I will let you have any comments they might make as soon as possible.

You will see that the latest briefing on productivity and international comparisons is embodied in the rebuttal of Mr Sirs. All this material has been shown to BSC representatives and we have incorporated their comments.

The matter of a reply to the ISTC in the UK Press Gazette is, of course, entirely for the BSC but we would expect to see a copy of their material before it is published.

I am copying this material to the Paymaster General's office.

[Handwritten signature]
 JOHN WOODROW



SPEAKING NOTE FOR MINISTERS ON THE STEEL STRIKE

1 What is on the table? Just what is BSC's latest offer?

The BSC management, not the Government, is negotiating. There is very little between the two sides on the figures. The difference between them - and it is vital one - is the question of how the increase is to be paid for, by higher productivity or by the taxpayer.

BSC said on 7 January (statement attached as Annex B) that the Board had agreed that negotiations should be based on a general increase of 8% which aims to be self-financing on the basis of a detailed agreement, plus a further increase of a minimum of 4% in lump sum payments from locally negotiated lump sum bonus schemes. One payment of 4% of gross earnings would be made in advance, but subsequent payments would depend on locally negotiated agreements. The statement said 12% was a minimum and the average increase payable was expected to be higher.

Locally negotiated pay increases are not new to BSC or their unions. Last year's national pay settlement was 8% but earnings rose by a further 6% as a result of local agreements.

2 Why does the Government not intervene/sponsor talks/call in the parties?

Negotiations should be properly conducted by management and unions. The unions have rejected higher pay through productivity. Perhaps they still expect the taxpayer to contribute more. The taxpayer has contributed nearly £4,000m over the last five years. Is it reasonable to ask the taxpayer for more when the steel workers can earn more through higher productivity?

3 Will the Government call in ACAS? : It is for the parties to any dispute to call in ACAS, not for the Government. ACAS is an independent body.



4 Why does the Government not provide more money by increasing the cash limit for 1980/81 to enable BSC to raise their offer to the steelworkers?

Where is the money to come from? There is no such thing as free money. It has to be cut from services like housing or health, or taken from the pockets of the individual taxpayer.

5 Why does the Government not agree to forego interest on their loans to BSC so they could pay the workers more?

Even before deducting interest, BSC have made substantial trading losses for the last three years, and are heading for another loss, which will be even worse than last year when they were paying slightly more interest. In any case, this is another version of the argument that the workers in the industry should get free money. Every other commercial concern has to pay interest on its capital, in fact all monies provided since April 1978 - and this will be more than £1.5bn - has been provided interest free (under section 18 of the Iron and Steel Act 1975).

<u>BSC LOSSES</u>	1975/76	1976/77	1977/78	1978/79	£m 1979/80 (forecast)
Loss for the year	(255)	(95)	(443)	(309)	(300+)
Loss <u>before</u> charging interest, tax or extraordinary items	(129)	69	(275)	(137)	(160+)

6 What are BSC's losses? Are they so bad?

1972/73	£3 million profit
1973/74	£50 million profit
1974/75	£73 million profit
1975/76	£255 million loss
1976/77	£95 million loss
1977/78	£443 million loss
1978/79	£309 million loss



1979/80 £151 million loss
first half year
second half year £150 million loss +

Therefore, BSC's losses over the 5 years 1974/75 to 1979/80 will exceed £1,400 million.

7 How much public money has gone into BSC in recent years?

	£m
1975/76	659
1976/77	931
1977/78	801
1978/79	715
1979/80	700 (estimated)

The total over the five years is therefore £3,106 million, representing £221 for each family in the country (assuming the latter at about 14 million); £50 this year (1979/80) alone. Or £27 this year for each taxpayer. For next year (1980/81) we have promised £450 million, or £32 for each family in the country. Do they really want to pay more than this so that BSC can continue making losses?

8 How can the Government go on insisting that BSC break even this year, in the middle of a drastic recession, against a strong pound and massive inflation, none of which have anything to do with the steel workers?

Job security can be given only by an industry that earns its keep by being in the black. So long as BSC is in the red, there is bound to be a question mark hanging over every job in it. So the steel workers are directly affected and they must help BSC get back into the black by improved productivity - for which there is very great scope and which is within their control.



9 But other countries subsidise their steel industries which are also making losses.

Figures cited for the steel losses in other countries have tended to be for 1978. But the foreign companies have IMPROVED in 1979. The Dutch state company, Estel, and the German state company, Klockner, are now operating profitably. The Belgian state company, Cockerill, and the Luxembourg company, Arbed, have sharply reduced their losses and are moving towards making a profit. The French and the Italian state companies are still making losses but, in the case of the French industry, strenuous attempts are being made to return them to profit. BSC's losses have got NO BETTER and may well be SLIGHTLY WORSE (from £309 million for 1978/79 to something over £300 million in 1979/80, when they are paying £25 million less interest on their capital). (see table attached as Annex A).

10 Why should the steel workers not be protected from a fall in their standard of living, when other workers in the public sector get 20% without any strings?

It is for BSC to determine what they can afford. Steel workers are being offered the chance to earn a minimum of 12% by negotiating local bonus schemes. There can

be no automatic protection for the workers in an industry struggling for its life against international competition; productivity must be increased, overall costs reduced.

11 What about the plant? Is it good enough?

BSC is entering the 1980s with some of the most modern plant and



equipment in the free world. The new Redcar blast furnace is the largest in Europe. All this investment has cost the taxpayer £2,000 million in capital investment over the last 5 years. The steelworker has all this new equipment. The taxpayer now expects him to put it to efficient and profitable use.

12 Are imports mining the industry? What about import controls?

UK Market Share

	BSC	UK Private Sector	% Imports
1974	56	26	18
1978	53	26	21
1979 (estimated)	54	26	20/21

Figures for the past 5 years show comparatively little change. However, imports in 1970 were only 6%, and in 1973, 13%. The reasons for the increase in imports over the past decade to 20/21% are:

- (a) entry into the Common Market and BSC's competitive weakness;
- (b) BSC delivery failures in 1973/74, resulting from industrial disputes and production problems, led users to "double source" as a safeguard against disruption in supplies. The strike will only strengthen this trend to "double source" abroad.

By comparison with other European countries, domestic steel producers in the UK - the BSC and the private sector - have a high, (nearly 80) share of the home market. But that market is, if anything, declining. And, so long as BSC are inefficient, they cannot



compete more successfully overseas. The remedy for the latter lies in the hands of the Corporation and its workforce, but at present the prospects for increased sales at a profit are very poor. Selling at a loss helps no one in the end.

13 How serious are the effects of the strike?

It will be very serious for the steel workers. There is already too much steel in the world. BSC will lose customers. They will go elsewhere. Individual steel workers are very unlikely to gain enough from a strike to compensate them for the loss of money while they are not working.

14 What will be the effect on industries like BL and other industries that are already in trouble?

It is impossible to judge at this stage. Stocks are quite good - but a long strike must put non-steel jobs at risk too.

15 Will the steel strike leave the industry smaller than it need otherwise be?

Yes. A long strike would lose the Corporation more business for good. The BSC has its doors open ready to continue negotiations. Steelmen cannot be unwilling to consider the extra money earned from higher productivity. Steel workers are a very intelligent bunch of people. They must realise the damage they may do to themselves and the damage they may do to others. Just think of how much money their households are losing each week of strike.



Data on the current financial performance of BSC's competitors is inevitably incomplete. Also, we have more information from the press on those companies whose performance has improved than on companies in France, Italy and Belgium whose performance in 1978 was worse than BSC's.

		PRODUCTION (M TONNES)	PROFIT/(LOSS) (£million)	PROFIT OR (LOSS)/ TONNE (£ per tonne)
ARBED (LUXEMBOURG)	1976	4.04	(19)	(4.75)
	1977	3.8	(72)	(17)
	1978	4.2	(32)	(6)
	1979	losses sharply reduced in first half of 1979		
ESTEL (HOLLAND)	1976	10.4	(16)	(1.5)
	1977	9.4	(105)	(14)
	1978	10.4	(69)	(6)
	1979	Pre-tax profits made in Q2/3 1979		
SACILOR (FRANCE)	1976	6.6	(84)	(13)
	1977	6.4	(267)	(42)
	1978	N/A	(117)	(18)
	1979	Further heavy loss expected in 1979		
COCKERILL (BELGIUM)	1976	5.1	(18)	(6)
	1977	4.9	(116)	(24)
	1978	5.4	(106)	(20)
	1979	N/A		
ITALSIDER (ITALY)	1976	10.8	(85)	(8)
	1977	10.2	(258)	(25)
	1978	10.4	(214)	(21)
	1979	N/A		
KLOCKNER (GERMAN) (steel interests) estimate	1976	N/A	N/A	N/A
	1977	3.75	(81)	(22)
	1978	4.2	(62)	(15)
	1979	Group now operating profitably		
BSC	1975/6	17.2	(255)	(15)
	1976/7	19.7	(95)	(4)
	1977/8	17.4	(443)	(25)
	1978/9	17.3	(309)	(18)
	1979/80	Loss of £300m+ expected.		



NOTES ON THE "MEDIA BRIEFING" BY THE ISTC (Copy attached)

1. "16% improvement in productivity since 1975" (para 2)

The figure is taken from the NEDC Iron and Steel Report 16 of December 1979. The full extract reads as follows:-

"TABLE 9 - International Comparisons: Man-hours to produce 1 ton of crude steel (manual workers only)

	W.Germany	France	Italy	Bel.	Lux.	UK
1977	6.5 hrs	7.2	5.4	6.2	6.1	11.9
1978	5.9 hrs	6.4	5.2	5.2	4.8	10.9
% Improvement 77-78	9%	11%	4%	16%	20%	8%
% of total workforce made up of manual workers	74%	65%	80%	82%	77%	68%
% overtime working - manual workers (Oct. 1978)	48%	n/a	3%	1%	6%	11%

A.10 Labour productivity rose in the United Kingdom by approximately 7% in 1978 as a result of plant closures and a reduction in employment of 20,000. Labour productivity has now risen 16% since 1975 but remains 13% below 1973 levels. International comparisons of labour productivity are open to many criticisms - differing definitions of the industry, the extent to which sub-contractors are used, etc. For this reason table 9 restricts the comparison to other EEC countries and Treaty of Paris products. Despite the 8% improvement in output per manhour in the United Kingdom recorded in the statistics between 1978 and 1979 the gap is widening with other EEC steel producers because of greater percentage improvements recorded last year there."



According to the NEDC report, signed by Mr Sirs as a member of the Sector Working Party, on the basis of figures prepared on a strictly comparable basis it takes BSC nearly twice as many man hours to produce a tonne of steel as its major European competitors. It is true that BSC has improved manpower productivity by 16% since 1975 but it remains 13% below 1973 levels. Two of our European competitors, Belgium and Luxembourg have improved productivity by 16% and 20% respectively since 1977. Despite the improvement in the UK we are falling still further behind in manpower productivity.

2 BSC production manning at Appleby Frodingham Basic Oxygen Steelmaking plant are only 75% of those at the Dutch plant, IJmuiden. BSC's labour costs per tonne are significantly lower (paragraph 3). On manning, the full sentence in Report no. 16, Iron and Steel reads "Production manning was only 75% of the Dutch level but maintenance manning was found to ^{be} 20% higher".

On labour costs, the sentence reads "Both the labour output per tonne and the capital utilisation rates were poorer than on the Dutch plant although in the case of labour costs since employment costs per man were twice as high as on the Dutch Steel plant, the labour cost per tonne of steel produced must have been lower at Scunthorpe".

So production manning may have compared favourably with a Dutch plant but this was more than evened out by the fact that maintenance manning in the BSC plant was higher. / As Mr Sirs acknowledges, there is scope for improvement. Labour costs per tonne are lower because



employment costs in the BSC plant are half those in the Dutch plant. But labour output is much lower/in the British plant as the Report makes clear. If we could get labour output up then pay could rise. BSC have been offering the unions the chance to do just that through bonus schemes related to performance.

3 BSC are using figures for productivity that are prepared on a different basis from continental figures. If like is compared with like the UK productivity figure is 192 tonnes per man against the German 200. (paragraph 4)

The NEDC do not recognise the 192 tonnes figure from any documents of theirs. The figures produced in the NEDC draft report (see table above) show that BSC workers, on a strictly comparable basis, take twice as many hours to produce 1 tonne of steel as their nearest EEC competitors.

ECSC manning would produce about 192 tonnes if the Corporation were working to its full capacity of 21 million tonnes per annum.

On a strictly comparable basis, using only workers included in the ECSC definition, BSC workers produce 140 tonnes per annum, French workers 180 tonnes and German workers 237 tonnes.



4. Hourly labour costs for UK manual steelworkers are still the lowest in the EEC. The British steelworkers has slipped in the earnings league table (paragraphs 6 and 7)

It is true that BSC pay is low in comparison with their European counterparts. So is their productivity - it takes BSC workers almost twice as long as the best of the European Workers to produce 1ton of steel. BSC workers are being offered the prospect of improving their earnings by improving productivity. The Corporation has said that average earnings for BSC process workers in September 1979 were about £110 per week. These are not low paid workers. (The average industrial wage is £ and BSC workers have been offered the opportunity to raise earnings by a minimum of 12%).

5. BSC said the cupboard was bare but they are now offering 6% with strings (paragraph 8)

BSC do need to conclude a pay settlement that is aimed to be self-financing/ if they are to be able to compete in this international ^{practices} business.

6. No other group of workers have been asked to take such a dramatic cut in this standard of living. Pay rises of 13%-20% have been gained in other parts of the public sector (paragraph 9)

Mr Sirs is presumably thinking of the miners settlement. The two cases are not comparable. There is a strong demand for coal and the NCB can sell all it produces. Steel is in surplus, BSC is not competitive and more jobs in the corporation are at risk unless / ^{they} can become more competitive. Steel workers will, if the schemes are successful, receive an increase of more than 12% which will get them a higher increase than some public sector workers.



7 A pay deal has to take account of inflation. The money could be funded. BSC is trading at a profit (paragraph 10)

This is simply not true.

		1978/79	£ million	1979/80 1st half (provisional)
Sales		3,288		1,554
Cost of Sales		<u>3,317</u>		<u>1,540</u>
Difference	minus	29	difference	14 (a)
Depreciation		<u>111</u>	plus	<u>64</u>
Trading loss after depreciation	minus	140	minus	50
Interest		208		101
Other adjustments	plus	<u>39</u>		included in (a)
	TOTAL LOSS	<u>£309 million</u>		<u>£151 million</u>
		=====		=====

Therefore, in 1978/79, receipts from sales were worth £140 million less than the basic cost of these sales. It is true that, in the first half year of 1979/80, receipts from sales were £14 million above the bare cost of sales (ignoring adjustments) but one cannot simply ignore depreciation and interest. Everybody has to pay interest on his house mortgage or his hire-purchase and has to make provision for replacing household goods and repairing his roof. The charges for depreciation and interest taken together are much the same as those born by BSC's European competitors. The fact is that the value added by BSC is no more, if anything a little less, than the wage bill. So the workers as a whole are effectively contributing nothing to the national wealth; meanwhile the taxpayer is still being asked for heavy contributions to maintain the fabric of the industry.



8 If the Government were to subsidise British coking coal to the same extent as other EEC Governments subsidise their coking coal, BSC would save £135m a year, more than enough to pay the claim in full (paragraph 10)

BSC have said recently that (if) they have been suffering a cost penalty of £135m per year as a result of using almost exclusively NCB coking coal. This cost arises partly directly because NCB coal is more expensive than imported coal (this accounts for £70-80m) and partly indirectly because most NCB coal is intrinsically less suitable for use than the Australian, US and other imported coals. It is open to HMG under the Treaty of Paris to subsidise the coal prices down to world levels (i.e. approximately the levels apid for 3rd country imports). The other penalty would still be incurred. The NCB have been told by Ministers that they may subsidise provided they can find the money within their cash limit. However, this obstacle and the current NCB pricing structure effectively prevent full use of the Community subsidy rules.

This is a difficult point to answer since steelworkers are not interested in NCB's problems. Some points can be made; that we would not be able to subsidise coking coal by £135m because not all of this sum is a direct cost difference, some of it arises because much of the coking coal produced in this country is operationally not as suitable for modern blast furances as imported coal. And BSC has been given the freedom to import coal at world prices so the cost penalty they incurred under the last Government is being rapidly reduced.