

Original returned
to Mr Hoskyns.

PRIME MINISTER

British Steel

This note suggests some lines of thinking for handling the British Steel situation. It is mostly questions at this stage, and follows from the discussion this morning with David Wolfson and Solly Gross.

1. THE POSITION HAS CHANGED

As you know, before Christmas we urged early behind-the-scenes intervention to prevent the strike taking place. We took the view that Villiers' original offer was ridiculous, that Government was involved (whether it realised it or not) and that, since the position had not been thought through properly - with or without Villiers - we should avoid a strike until we had worked out whether it was winnable and how. Once the battle-lines are drawn, however, we have to think again.

2. THE PRESENT SITUATION

2.1 The rapid raising of BSC's offer has weakened the Board's credibility. There is a danger that Government credibility is thereby weakened also, even if it does no more than stand pat behind BSC. To intervene and try and "fix it" after BSC's own crumbling would be difficult to do without a real loss of credibility.

2.2 Nevertheless, everyone knows that this is the type of dispute which Government can fix very easily if it wants to. We must assume that neither unions nor public opinion are sure that Government will refrain from doing so.

2.3 If the £450 million cash limits are going to be quickly blown away by the strike, to what extent do those cash limits remain sacred?

3. NEGOTIATING STRATEGY

3.1 Who is negotiating? There appear to be two sets of negotiations. On the face of it, BSC negotiates with ISTC/NUB. Behind that there is a "confrontation" between the union movement and the Government.

/ 3.2 NEGOTIATING OBJECTIVES

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3.2.1 Each of the parties has a different reward/penalty for winning/losing.

3.2.2 BSC Board has little to lose by a strike which muddies the waters, blows away their cash limits and obscures the fact that they were not going to break even. They may have something to win if winning delivers big changes in manning, agreement to further closures, organisational changes to make different parts of BSC perform better and compete for funds, (though some BSC Board members might not welcome such changes).

3.2.3 ISTC/NUB had nothing to lose at the outset. Sirs could never accept the 2 per cent, so any alternative outcome was better. It is more evenly balanced now, with BSC offering something which could be presented as not too far below the inflation rate (which is what the strike is all about - the insistence on at least partial indexing if other groups are being indexed).

3.2.4 The TUC and supporting unions have much to gain or lose in terms of face and political ascendancy.

3.2.5 Government can win or lose credibility. It also has the chance to give the public a bit more education in economic reality. Both will be purchased at a heavy economic price but that may not matter provided that price can be well and truly converted into political stepping stones. Government's fallback position (snatching victory from the jaws of defeat) if a long-drawn-out strike does force Government intervention to fix it, might be to prepare a shock economic budget designed to bring home the lessons of such industrial civil war and get some of the big budget numbers right, faster, at the same time.

3.3 Strengths and Weaknesses of Negotiating Parties

3.3.1 ISTC/NUB. We can live without steel for quite a while. People will not die or starve. There is no obvious jugular to go for in a steel strike. Steel comes in many shapes and forms, scattered around the whole country. Secondary picketing is therefore harder. Pressures on Sirs will come from marginal plants facing closure, public opinion, lay-offs in other industries, loss of face as the TUC picketing code is broken and, most important of all, cumulative loss of members' earnings.

/ 3.3.2. TUC

3.3.2 TUC and supporting unions. They have now taken up a position but are not really in control of events. The uglier it gets, the more TUC's credibility, especially on trade union reforms, will suffer.

3.3.3 BSC Board. Can afford to be brave because it is not their money, more to gain than lose perhaps. They need only capitulate if the Government tells them to do so. We suspect there is little public sympathy for Villiers and Co. but we have no data.

3.3.4 Government. Economic impact on output, exports, sterling, PSBR. The lack of real hardship (food, medical, etc.) coupled with growing indignation about bankruptcies, lay-offs, etc., gives the Government quite a strong hand. But unless we succeed in establishing our criteria, all the blame will in the end switch to Government. The true costs of a strike of this kind tend to come after the strike is over as people import to make up shortage.

3.4 Choice of Strategy

3.4.1 We have two choices - either to intervene, whether covertly or overtly, and settle the dispute quickly, or else to sweat it out to the finish. We may decide that the first option has already been missed.

3.4.2 The question really is whether we are trying to minimise the cost (political and economic) of losing, maximise the rewards (again political and economic) of winning or something inbetween.

3.4.3 It may be possible for BSC to make one more concession in order to settle the dispute, but it would have to be clearly signalled that it was the end of the line, so that, if it was accepted, BSC did not itself lose all remaining credibility (which means that Government will lose credibility too, whether we like it or not).

3.4.4 Another possibility might be that Government lifts the restriction on BSC's use of public money to fund operating losses (provided it stays within cash limits). There may be differences in the treatment of other nationalised industries, to justify this.

3.4.5 If we did decide on sweating it out, there might be a psychological moment when BSC could start to reduce their offer, (perhaps as a result of Government overtly reviewing the cash limit situation in view of the strike costs). Similarly, BSC

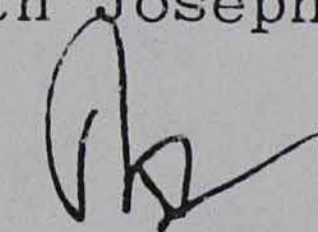
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might increase the redundancy requirement needed for settlement, putting further pressure on marginal plants. There may also be a point at which Villiers could, on the basis of opinion research, propose balloting the workforce. This would itself carry heavy risks for Sirs, who might then make concessions, to head off a ballot which could have an embarrassing outcome for him.

4. IMMEDIATE ACTION

- 4.1 The most urgent task is to establish the criteria by which the public and BSC workers can evaluate and understand both what is happening and the final outcome, as and when it occurs. This task can be done by Government, BSC and any other interested parties - e.g. the CBI - because it is not negotiation, it is interpretation, explanation and education.
- 4.2 The Secretary of State for Industry's statement on Monday can develop this communication process. He should seek to underline BSC's objectives, whilst making it clear that the method of achieving them is still their responsibility alone. He needs to reiterate the Government's position on cash limits and any other constraints imposed by Government, in a way that will not close off other options which our strategy (when it is agreed) may contain.
- 4.3 It looks increasingly as if the moment for quick intervention and settlement is past. We may want to escalate the debate, about a week later, with a Ministerial broadcast. However, the broadcast would not be an intervention in the dispute. Rather it would be an amplification and fresh explanation of why Government cannot intervene. We are already putting some thoughts together on such a broadcast.
- 4.4 You will inevitably face Questions next week after Keith's statement. It is important that you each speak about the problem from your respective positions (Departmental and national) in such a way that you say different - though consistent - things. While Keith must spell out the industrial and economic realities, you should set it all in the context of a country which has been running away from such realities for most of the last 16 years.
- 4.5 CRD is putting in hand preparation for opinion research early next week to check both worker and public opinion in key steel towns, and public opinion nationally. It should produce first results by Thursday, 17 January.

I have copied this minute to Keith Joseph, Solly Gross and David Wolfson.



John Hoskyns

9 January 1980