JU

cc Mr Lister
Mr Duguid

CONFIDENTIAL

Prime Minister

I am sure Sir Keith's line is right. (The further information which you asked for on imports of steel is coming tomorrow.)

TL 6/12

THE PRIME MINISTER

BRITISH STEEL CORPORATION: PAY NEGOTIATIONS

The British Steel Corporation are telling their unions that they cannot afford any general wage increase from 1 January apart from the (unavoidable) consolidation of certain additional rates agreed last year (which amount to 2%) and that any further increase must be negotiated locally and be conditional upon equivalent improvements in productivity. This move follows their intimation to the unions last week of the need to scrap or mothball another 5 million tons of surplus capacity on top of the closure of iron and steel-making at Corby and Shotton (my minute of 28 November to you). The leading steel union, the Iron and Steel Trades Confederation, led by Mr Bill Sirs, is threatening strike action, which could begin in early January.

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The Corporation recognise the damage which a prolonged general stoppage would do to their own market position, as well as to the national economy, especially if sympathetic action by dockers and transport workers impeded substitute steel imports. They argue, rightly in my view, that action both to reduce capacity to match demand and to oppose unrequited wage increases is nevertheless essential if they are ever to regain profitability and provide secure jobs for a slimmed down labour force (besides of course staying within the external financing limit which I have set them for 1980/81).

Officials are making an assessment of the likely impact of any stopppage on the economy. If there had to be one, the next few

/months ...

months would probably be the least unfavourable time. Demand for steel is falling, stocks with both BSC and distributors are high and foreign supplies, as long as they can get through, are plentiful and cheap.

The Government's attitude will be regarded as a critical test of our determination to curb inflation and public expenditure, and to make nationalised industries stand on their own feet. I believe that we must back the Corporation in facing the risks and bringing home to the steel unions the harm which the consequences of a strike would do to their own members. It will be of the greatest importance, in trying to avoid a strike or, if it comes to it, containing and defeating one, to win the support of public opinion. I am encouraging the Corporation to make every effort to put over the facts of their case, in particular that substantial wage increases are attainable only if they are paid for in productivity. It is equally important for the Government, in its public attitude and in its own wage negotiations, not to undermine the Corporation's stand. I hope that other public (and indeed private) sector employers will recognise their own interest in the Corporation's success on this issue.

I am sending copies of this minute to Cabinet colleagues and to Sir Robert Armstrong.

KJ

K J

6 December 1979

Department of Industry
Ashdown House