

Prime Minister

Encl. 1

Will have
word on
Wed. noon
with
Sir Robert
put

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P.0195

MR LANKESTER

The drafts attached add
nothing ^{of substance} to what Sir Keith
and Mr Prior said in E
today. But in any case, the
Sir/Sirley meeting may
change things. It would
seem best if Sir Keith and
Mr Prior ~~as~~ simply reported
orally again.

THE STEEL STRIKE

Ann?

Th.

15/1

Cabinet last week agreed to resume its discussion of the steel
strike on Thursday. There was a general reluctance to take
serious decisions on the basis of an oral explanation of the
issues. We therefore commissioned separate papers from the
Secretary of State for Industry and from the Secretary of
State for Employment.

I attach drafts of both these papers. (They might need up-dating
in the light of developments early tomorrow morning.)

But events have moved on. There was an inconclusive discussion
in E this morning. Your office are probably better-informed
than we are about the latest state of play.

The Prime Minister may judge, when she has read these two draft
papers, that it would be inappropriate to have a full-scale
Cabinet discussion at this stage. If so, we can defer circulation
of the papers.

If however she thinks that the time has come to expose the issues fully
to Cabinet, we will arrange for these two papers to be up-dated, and
circulated (rather late, and in breach of the 48 hour rule) tomorrow
morning.

P Le CHEMINANT

Cabinet Office
15 January 1980

We had better
not have these
papers included.
Ray I have brief
which summarizes
all the arguments
Reason for
not including
possible changes
in structure.
I will open by
summarizing the
arguments and
and pulling
the position with
regard to
which don't
put



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DRAFT PAPER FOR CABINET

(Secretary of State for Industry)

STEEL STRIKE : WHAT IS AT STAKE AND WHAT WE SHOULD DO

We were elected as a Government to restore economic sanity; to stop supporting inefficient loss-making industries out of public funds; to end subsidisation of wages not financed by higher productivity; to dispel the illusion of a right to wage increases in line with the cost of living.

2 BSC is a classic example. Since the Corporation last made ^a ~~an~~ operating profit in 1974/5 the taxpayer has financed total losses of £1400 million on top of the £2400 million provided for capital expenditure. BSC's losses have not been reduced, as they have in other steel companies here and abroad, for whom trade is equally bad, but who know they can go bankrupt if they do not improve. BSC is a by-word for inefficiency by world standards.

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/3 After



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3 After we took office I set them a tough but realistic external financing limit of £450 million for 1980/81 to cover fixed investment and other essential capital requirements, including the cost of redundancies. I have repeatedly said in Parliament and elsewhere that we do not intend to finance operating losses. As a result the Corporation at all levels has recognised, I believe for the first time, that the Government is in earnest. Management have begun dramatically slimming down capacity to match demand and manning to match competitors abroad. The workforce, by accepting the closure of iron and steel making at Corby and Shotton, have shown that they too can face facts. It is this new-found realism which has led BSC to offer wage increases for 1980 only to the extent that they can be financed from internally generated funds.

4 It remains for BSC to decide what they can afford.

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The point I must emphasise is that there is no easy way for them to find money for an unearned wage increase without making it evident that the taxpayer is paying. It is not only a matter of preserving the cash limit, but how the money within the limit is used. BSC could cut capital expenditure further (at the cost of business's future).

They could try to reduce redundancy compensation (at the risk of deferring closures and prolonging operating losses).

But both would mean using funds provided from within the cash limit to subsidise unearned pay increases. Waiver

of interest would be an even more transparent subsidy.

However, I have already told BSC that they can use money from disposals to cover operating losses.

5 The Government's credibility is at stake. ~~In BSC, both~~
if we pinch from self financing both BSC
management and workforce would be lulled once more into shirking the need to become competitive and profitable.

So, over and above any losses from the strike, we would face the prospect of ongoing BSC losses of the order of



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£300 million p.a or ^{more}~~mine~~. Excessive wage claims elsewhere in the public sector (especially the railways and other loss makers) would be encouraged; each 1% pay increase in this sector costs the Exchequer another £120 million. In the country and in the world we would, I fear, be seen as retreating from the economic



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policies
~~Principles~~

on which we were elected. We may **have** weathered the miners' settlement because of special circumstances.

In non-commercial areas like local government the issues can perhaps be smudged. The case ^{of} ~~in~~ BSC is so glaring that I do not think we could ever have dodged it.

6 The prize is great if we stick successfully to our course. Can we afford the price ? In my minute of 21 December to the Prime Minister I recognised the damage to the steel-using industries from a prolonged strike. BL is the most obvious risk, which we might have to accept despite the consequences. How quickly and severely other firms come under pressure depends on the extent to which non-BSC steel supplies keep flowing. The ISTC's decision this week on extending the strike to private steelmakers (~~now may~~ *now may* ~~providing at least half our remaining supplies~~) will be crucial.



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~~Apart from that~~

7 Of course, any outside initiative such as that by ACAS, which
Apart from that,
achieved an acceptable settlement, would be welcome. / We should in
my view stand firm, waiting for time and lack of success to under-
mine the strike's support. The strike has not begun to bite.
Almost half normal steel supplies still seem to be getting through.
Strikers have yet to suffer personal financial hardship. Outside
the industries directly involved, a long strike will, unlike most
^{other}~~previous~~ occasions, cause little harm or even inconvenience to ordinary
^{jeopardise the prospect of an internationally competitive industry}
people. We must not ~~throw away the prize~~ by faltering.

8 In the meantime we should continue to encourage BSC to be patient
and imaginative in seeking a settlement within their financial
constraints - including the money they could raise from additional
disposals. They and we should vigorously campaign for public
understanding and support. We should seek industrial backing through
the CBI. We should explore ways of encouraging and supporting those
who want to continue working and go about their business despite
picketing. We should examine with the financial institutions means
of relieving steel-using companies threatened with insolvency.

Above all, we should do our utmost to get



across to the trade union movement the message that we are determined not to be diverted by this self-destructive strike and that we are not seeking confrontation; I would hope that reasonable and moderate leaders would listen.

9 The cost of not succeeding would be calamitous. I do not believe that there is any step that could be taken to hold or recover credibility if the final settlement is not self-financing within the terms of our ~~cash limit~~. *financial constraints.*

then
10 The only step we could *then* usefully take would be to see whether the BSC or elements of it could be made bankruptable like firms in the private sector. Management and employees at unprofitable plants would no longer feel that the Government stood behind them financially; if promises of better performance for higher pay were not fulfilled, bankruptcy and closures would follow.

/11 ...



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11 A preliminary study suggests that it would be feasible to turn BSC into a Companies Act holding company wholly owned by Government with a number of Companies Act subsidiaries based on the present operating divisions. There would need to be a capital reconstruction and write-off of existing debt (which will be necessary at some stage anyway to put BSC on a sound financial footing) and almost certainly new legislation. Because the new company would need an injection of funds if some of its subsidiaries were not to become bankrupt straight away. The proposition would initially be at least as expensive for Government as paying direct for an unrequited wages settlement. And Government would remain vulnerable to later pressure to rescue this or that subsidiary so as to preserve national steelmaking capacity. And legislation would take time. Nevertheless, the proposition would point to a long term solution of the problem of nationalised inefficient industries instead of the short term palliative of buying off opposition to efficiency with taxpayers' money. More work needs to be done.

/Conclusions...



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Conclusions

(a) We have a great chance of consolidating our long-term economic credibility if we can get through the BSC dispute without financing an unearned pay increase. We cannot conceal the loss of credibility if we fail;

(b) there are risks and uncertainties in sticking to this course but we ^{should} do so for ~~as long as we possibly can;~~

(c) we should campaign vigorously to win over public, industrial and general union opinion;

(d) we should take whatever steps are practicable to mitigate the short-term consequences of the strike;

/(e) we should



- (e) we should study the possibility of turning
BSC into a group of bankruptable Companies
Act companies.

STEEL STRIKE

Memorandum by the Secretary of State for Employment

(i) INTRODUCTION

Given the potential economic, industrial and political consequences, we need to consider how and when the strike might be ended. We cannot simply await events, possibly to the point at which we might be compelled to intervene directly in circumstances in which a good deal of industry is seriously affected, the price of a settlement has become the higher and we have lost the support of industry. The likely terms of a settlement, and the means of achieving it, in those circumstances could be disastrous to our overall strategy.

(ii) THE PAY ISSUE

2. Whatever the logic of the British Steel Corporation's (BSC) first offer of only a 2% increase in pay from the consolidation of an existing supplement, together with proposals for local lump sum bonus schemes which could provide further increases of up to 10%, it undoubtedly soured negotiations. The proposed schemes were still not well detailed in further negotiations when a further 3% was offered for the withdrawal of the guaranteed week agreement. ³ The Iron and Steel Trades Confederation (ISTC) and the National Union of Blastfurnacemen (NUB) commenced the strike on 2 January and the General Secretary of the TUC then helped to establish a common negotiating position for all the unions concerned. This was for a general increase of 8% without specific commitments to improved productivity and a further 5% as an advance payment against the negotiation and implementation of local lump sum bonus schemes. All the unions were ready to commit

themselves to joint local arrangements to establish these schemes and for their monitoring.

4. In response, the BSC offered the deferment of the 2% consolidation and proposed instead a 8% general increase in return for specific commitments to its proposals for demanning at existing plants (some 12,000 of the 50,000 redundancies first announced only on 11 December), the possibility of suspending the guaranteed week arrangements by local agreement, a non-recruitment policy against existing manning scales and discussions on the relationships between maintenance and process workers. In addition, an advance lump sum payment of 4% was offered in respect of the bonus schemes for the first three months and further payments of 4% were guaranteed for subsequent quarters once local schemes were agreed.

5. Agreement could not be reached and subsequently the Transport and General Workers' Union (TGWU), the General and Municipal Workers' Union (GMWU) and the nine unions represented on the National Craftsmens' Co-ordinating Committee (NCCC) also declared an official strike.

(iii) PRESENT POSITION

6. The strike is now in its third week and steel stocks available to heavy and continuous users are diminishing. Imports are being progressively reduced and private steel makers picketed. Some companies seem others rather later, likely to be significantly affected by the end of the month/and substantial lay-offs would follow.

7. The TUC's Nationalised Industries' Committee has acted to lift the threat of the Welsh TUC to seek a strike of all coal, steel and railway workers in South Wales from 21 January in protest against the BSC's

proposals for plant closures, but its chairman, Mr Frank Chapple, has nevertheless threatened that widespread stoppages could be in prospect unless an acceptable outcome is reached in the discussions the Committee is seeking with the BSC on these proposals. There is a growing danger therefore that the pay and closure issues could become increasingly fused as the strike on pay continues and that agreement on both issues might come to be the price of ending the strike.

8. The CBI is endeavouring to contain already developing anxieties among its members and to be helpful in its public statements, but Sir John Methven has warned me that pressures will build for an early settlement as steel stocks diminish, given that many employers were weakened by the national engineering strikes, are facing declining orders and are having to contend with the high MLR. We must expect mounting pressures in the House for a settlement and there are already suggestions from the media that the Government should intervene in the dispute.

9. The strike is being solidly observed and there are no indications that support for it will quickly weaken.

Loss of income can be borne for a long time. Eventual lay-offs in other industries in which many of the same unions have members are more likely to increase the pressures on the Government to facilitate a settlement of the strike, rather than influence the unions themselves.

The ISTC and the NUB may have come to increase their settlement price since the last breakdown in negotiations, although this is a long way short of the 20% claim voiced by some members, and none of the unions appear prepared to accept all the specific commitments the BSC has sought for the 8% general increase. They might also be expected

to seek surer guarantees for the payment throughout the year for the commitment in principle to the negotiation of local productivity schemes and cannot now be expected to settle for less than a 13% increase in earnings overall. Prospective pay offers and settlements elsewhere in the public sector (eg water, gas, electricity) could come to make a settlement the more difficult if it is long delayed.

10. The Advisory, Conciliation and Arbitration Service (ACAS) has embarked on a first round of meetings with the BSC and the unions. The BSC, possibly for good tactical reasons, has done no more than justify its last offer. The unions' position is that the initiative for a settlement must now come from the BSC. Given these positions, ACAS are unlikely to be able to take positive steps to secure a settlement unless there is some modification to the BSC's position. None of the parties favours arbitration and in any case it might be thought that the issues are too important and sensitive to be left to the judgement of a third party.

(iv) NEXT STEPS

11. We are agreed that the Government must not be seen to intervene directly. I am sure this is right if only because we could hardly then escape from becoming a party to the negotiations, we could be faced directly with union demands about the closure programme and our intervention could make the price of settlement the higher.

12. The Government has no assessment of how the BSC might now see a settlement being reached and on what timescale. Given the damage that a continuing strike will have on the nationalised steel industry with its implications for public expenditure, as well as the consequences for industry generally, we must look urgently to the BSC for its view on how

an acceptable settlement might yet be attempted. This is not to seek to frame proposals for the BSC and the tactics to be used would be primarily for the BSC itself to consider. ACAS could assist through conciliation and could seek to persuade all the parties to accept the appointment of a mediator to help in further negotiations.

13 If however the BSC is unable to contemplate a renewed search for a settlement which now must inevitably entail some rejigging and improvement of their last offer, I am sure we cannot just allow the strike to continue without any clear view on how it will eventually end. It is unrealistic and misleading to believe that the strike could be endured until it is in some sense "won". I recognise all the difficulties in seeking to prompt the BSC to search actively for a settlement if it is reluctant or feels unable to do so, but I nevertheless believe that the economic, industrial and political consequences would otherwise be such that we should be ready to do so if necessary. Any course that is now adopted will have implications for the BSC's future financial position, but this must inevitably be re-examined in the aftermath of the strike. It need not entail a breach of the cash limit.

JP

Department of Employment
15 January 1980