Industry

Mr faxed to Chequers
30/12. GB

PS/Prime Minister

cc PS/Secretary of State
PS/Mr Butler
PS/Mr Marshall
Sir Peter Carey
Mr Ridley Dep Sec
Mr Leeming IP
Mrs Cohen IS1
Mr Clay IS3
Mr Thompson IS1B
Mr Vile

STEEL STRIKE

I attach answers to the questions that were put to me yesterday, which I understand the Prime Minister wishes to have by this afternoon, and a description of the present offer by BSC.

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BRITISH STEEL CORPORATION: PAY DISPUTE

What is BSC's present offer?

1 The offer at national level comprises consolidation, value 2% (the calculated benefit of consolidating, into normal rates of pay, past supplements under incomes policy) plus 4% against measures to improve productivity plus an additional 1%, if an agreement could thereby be concluded with productivity commitments. In addition, BSC offer in local negotiations pay improvements (no ceiling now specified: previously "up to 10%") in return for locally designed and locally agreed productivity improvements, when these are achieved.

2 The latter offer of increased pay in return for improved productivity to be negotiated and achieved locally, has been dismissed out of hand by the central union negotiators. Is this sensible? Surely it should be considered and investigated? This is the way in which the workers, the Corporation and the taxpayer at large can all benefit. Last year's national pay settlement was 8%, but local productivity agreements gave another 6%.

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

	£ million
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

32

this so that BSC can continue making losses?

4 BSC Production

million tonnes

	Liquid Steel Production	Finished Steel Deliveries (including exports)
1973/74	23	18.1
1974/75	20.8	15.1
1975/76	17.2	12.7
1976/77	19.7	13.7
1977/78	17.4	13.4
1978/79	17.3	12.5
1979/80 (estimated)	19.3	13.6

(1 tonne of finished product equals about 1.34 tonnes of liquid steel)

5 BSC Productivity by comparison with main European Competitors. Productivity up by 8%?

The position on manpower productivity is set out below:

Man-Hours to Produce 1 Tonne of Crude Steel

	West Germany	France	Italy	Belgium	Lux.	UK
1977	6.5	7.2	5.4	6.2	6.1	11.9
1978	5.9	6.4	5.2	5.2	4.8	10.9
Improvement 1977-78	9%	11%	4%	16%	20%	8%

It takes BSC nearly twice as many man hours to produce a tonne of steel as its major European competitors. It is true, as Mr Sirs claims, that the British steel industry as a whole improved its manpower productivity by 8% from 1977 to 1978, but the table shows that the improvement in 4 out of our 5 main European competitors was greater than this. So, despite the 8% improvement in the UK, we are falling still further behind in manpower productivity.

6 "BSC are making a trading profit". Mr Sirs

		1978/79		£ million 1979/80 1st Half (Provisional)
Sales		3,288		1,554
Cost of Sales		3,317		1,540
Difference	minus	29	Difference plus	14 (a)
Depreciation		111		64
Trading loss after depreciation	minus	140	minus	50
Interest		208		101
Other adjustments	plus	39		included in (a)
	Total loss	£309 million		151

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-purchases and has to make provision for replacing household goods and repairing his roof. 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.

7 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 increased capacity in the private sector;

c 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. A strike now will only strengthen this trend to "double source" abroad.

8 BSC Profit/(Loss)

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 First half year	£151 million loss
Second half year	>£151 million loss

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

450
600 Con.
700 Bl.
700 JR.
65 Pov.