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SECRETARY OF STATE FOR ENERGY
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The Rt Hon Nigel Lawson MP
 Chancellor of the Exchequer
 Treasury Chambers
 Parliament Street
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3 June 1985

Nigel
 AEA: INDUSTRIAL PAY

John Moore replied on 29 May to my letter to you of 24 May.

We must see this proposal in its proper context. The Authority have successfully negotiated a series of below-average settlements in recent years. In particular their 18-month deal last year was the lowest pay settlement in the whole of the public sector.

The cumulative result of these low settlements is, as I have mentioned, that the Authority's pay rates have become uncompetitive. They are suffering from a rising wastage rate and serious recruitment problems.

While I am naturally concerned that the AEA should settle at the lowest possible level, these factors cannot realistically be ignored.

I have in fact already said that I would press the Authority to offer only a modest increase on 5 June, and have discussed the current negotiating position with the Chairman, who accepts that it would be prudent not to offer more than 5% on 5 June.

John Moore asked for an assessment of the impact and risks of industrial trouble. The AEA have advised that there is considerable strength of feeling about the need to improve differentials with non-industrial staff and with BNFL, and believe that there is a real risk of a strike. I would not claim that a strike would have a major impact on electricity supply, but it would undoubtedly affect the AEA's financial position to the extent that the important revenue contributions from the Dounreay and Winfrith plans were lost. The Authority have given assurances that they could accommodate a settlement of up to 5.9% within their cash limits for 1985/86, but this would certainly not be the case in the event of a prolonged strike where the savings on the industrial wage bill were outweighed by the loss of electricity receipts and other income.

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I propose to reconsider the situation in the light of the 5 June meeting. I am writing separately about BNFL.

I am copying this letter to the Prime Minister and members of E(PSP), and to Sir Robert Armstrong.

A handwritten signature in dark ink, consisting of a large, stylized 'P' followed by 'Walker' in a cursive script.

PETER WALKER

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5 JUN 1965

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