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Secretary of State for Industry

8 December 1982

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
London SW1

Dear Geoffrey,

NATIONALISED INDUSTRIES: PAY

The letter of 8 November from No 10 to your Private Secretary recorded the Prime Minister's wish that Ministers who sponsor nationalised industries should hold discussions with their Chairmen on pay and report the outcome to you.

2 Of the nationalised industries which I sponsor only one, the British Steel Corporation, has an early settlement date (1 January). For the rest it is too early to be precise about likely settlement levels as much as will depend on the course of the pay round.

The position with regard to my industries is as follows:

#### BRITISH STEEL CORPORATION

I have discussed pay restraint with Ian MacGregor as part of our consideration of the grave financial and commercial position facing BSC. He said that, because many BSC workers were on short-time working, average earnings had dropped in recent months. He proposes in the next pay round to adopt the same strategy as last year: a nil national pay increase, but with plant level negotiations linking pay increases to reduced costs and still greater drives for efficiency. Negotiations will continue through December.

#### BRITISH SHIPBUILDERS

Norman Lamont wrote to the Chairman in October making clear our view that there is a strong case for those nationalised industries which are dependent on continuing subsidies to settle for a nil wage increase, leaving any earnings increase to be





financed from improvements in productivity. He also asked for adequate advance notice of any pay offers. He followed this up when he met the Chairman on 29 October. Mr Atkinson said that BS were aiming for a zero pay increase. The EFL for the industry has not yet been set, but it will be such that, if BS is to carry out all its capital expenditure, it will be able to afford only a very small increase in pay.

The BS pay settlement date is April 1983. Negotiations normally begin in January. However, in October the Chairman took the initiative by writing to the General Secretary of the Confederation of Shipbuilding and Engineering Unions about the difficulties facing the shipbuilding industry. He emphasised that he could not justify to Government the need for increased financial support if this were to be consumed in increased wages, sought union co-operation to avoid unrealistic wage claims and suggested that any claims should reflect the present decline in this and other industries. He asked for a meeting with the CSEU to discuss these issues and this has now been arranged for 13 December. It is not BS' intention that this meeting should be used to start pay negotiations. Rather it is seen as an opportunity to acquaint the unions with the state of the industry. Norman will be meeting the Chairman again on 10 December to discuss pay before this approach to the unions and will again be making the Government's position clear.

#### POST OFFICE AND GIROBANK

Kenneth Baker last month twice met the Chairman to impress on him the importance of keeping pay settlements as low as possible. Ron Dearing fully supports the Government's position. It is too early to predict the likely outcome of the negotiations since the postal workers are not due to settle until 1 April 1983, and those in Girobank not until 1 July. However, Mr Dearing believes that, with the new union leadership, the lowest settlement that could be achieved in the postal business without provoking damaging industrial action might be nearer to the prevailing rate of inflation than to 3½%; the Post Office has, of course, secured settlements below the rate of inflation in each of the last 3 years. For Girobank much will depend on settlements in the private banking sector. Clearly Kenneth Baker and I will need to review the situation in the New Year before negotiations start in February. Mr Dearing accepts the need for seven days' advance notice wherever this is possible.

#### BRITISH TELECOM

Although the BT settlement is late in the pay round (1 July 1983)





I have written to the Chairman stressing its importance, and have also discussed the matter with him. An encouraging point is that BT have now given the required 6 months' notice of termination of their unilateral arbitration agreement, so that arbitration will not be available to the unions after the beginning of May. The main negotiations usually start around then and the key POEU Conference is in June. In addition BT are hoping to replace their present practice of corporation-wide productivity bonuses by Divisional schemes. Sir George's objective is a deal on bonuses and general increase payments which overall will increase the pay bill (for the same volume of work) by less than the prevailing rate of inflation. Frankly, I do not regard this as a very challenging objective and I am taking it up with him. There will be further opportunities to press the point home between now and when negotiations start. Sir George has undertaken to keep me adequately informed of what is happening.

I am sending copies of this letter to the Prime Minister, to the other members of E Committee, to George Younger and Nicholas Edwards and to John Sparrow and Sir Robert Armstrong.

Your ever  
Patel

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Public Sector pay

- 8 DEC 1982

