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10 DOWNING STREET

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*From the Private Secretary*

15 April 1985

*Dear Michael,*

The Prime Minister has seen your Secretary of State's letter to the Chancellor of 11 April about electricity supply industry pay. She has commented that she agrees with the desire of the Electricity Council to avoid a ballot on the basis of a recommendation for rejection. In the context of an industry in which labour costs form a relatively small proportion of total costs the factors pointing towards an offer of the kind set out in your Secretary of State's letter are very strong.

I am sending copies of this letter to Private Secretaries to members of E(PSP), John Graham (Scottish Office), Colin Jones (Welsh Office), Jim Daniell (Northern Ireland Office) and Richard Hatfield (Cabinet Office).

*Yours ever*  
*Timothy Flesher*

(Timothy Flesher)

Michael Reidy, Esq.,  
 Department of Energy.

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SECRETARY OF STATE FOR ENERGY  
10, DOWNING STREET  
LONDON, W1M 0LW

Prime Minister

01 211 6402

To note

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

TV

11 April 1985 12/4

*Nigel*

*Labour costs are such a small proportion of the price of electricity that there increases can be afforded. It is more important to establish the human point - and to meet those people with us*

ELECTRICITY SUPPLY INDUSTRY PAY. *important to establish the human point - and to meet those people with us*  
The Electricity Council met their trade unions on Thursday 4 April to discuss the pay settlement for manual workers. *that to be*

At that meeting, the Council's negotiators did not formally table the offer described in my letter of 25 March, but outlined it as a possibility. The unions said that if such an offer were made, they could not accept it, and would feel obliged to put it to a ballot of their members with a recommendation for rejection. They explained that they regarded the credibility of the new union leadership, in the first negotiations after the departure of Mr Chapple, as needing to be established; and it was out of the question that they could recommend their members, in the aftermath of the coal strike, to accept a settlement below what was current in the private sector. They went on to say that they regarded it as inescapable that they should ballot their members before concluding any settlement; and that they would not wish to do so on the basis of a neutral recommendation. *overwhelmed by the inside on effect not*

As you know, the Electricity Council have been anxious to avoid a ballot on the basis of a recommendation for rejection. In the light of the further informal discussions they had with the unions on 4 April, their negotiators judge that the minimum which might secure a recommendation for acceptance would involve improving the offer which they previously had in mind as follows:-

- a) An increase on all scale points of at least 5.4% in line with the increase in the cost of living. The Council's negotiators regard this as unavoidable.





- b) Higher increases on some scale points: the Council have not come to firm conclusions on this; but they seem likely to take the view that they would need to offer of the order of 7% at the top of the craftsmen and foremen scales.

The effect on earnings would naturally depend on the details of what was done under (b), but might be of the order of 6%.

The next meeting with the unions is on Wednesday 17 April. The unions will be pressing for an offer to be made on which they will be able to go to a ballot with a clear recommendation for or against acceptance. The Industrial Relations Committee of the Electricity Council is meeting during the afternoon of Monday 15 April to decide on tactics. Clearly the negotiations are not going as well as we had hoped; but the Council will, of course, continue to try to secure the lowest deal that is possible.

In your letter of 2 April you mention the prospects for negotiations with other ESI groups. There is no doubt that the power engineers will seek to build on whatever increase may be conceded for craftsmen and foremen: and the increase will have to be reflected to some extent in the engineer's settlement. But the Electricity Council will not wish to carry it right through the range. They think that there is a fair prospect of resisting any demands to this effect: in particular, if the industrial unions are satisfied with their settlement, they will not be well disposed towards attempts by the engineers to exploit it unreasonably for their own advantage. As for the clerical grades, the settlement with the industrials is bound to have some effect; but the electricity Council will naturally try to negotiate the lowest deal they can.

I am sending copies of this letter to the Prime Minister, other members of E(PSP), George Younger, Nicholas Edwards, Douglas Hurd and Sir Robert Armstrong.

PETER WALKER