

PRIME MINISTER

MINERS' PAY

You saw earlier the letter from the Energy Secretary (Flag A) suggesting an opening offer on miners' pay of an annual increase at around the level of the September RPI increase (10.9 per cent). You also underlined my manuscript note which indicated that this offer seemed too high.

At Flag B is a letter from the Chief Secretary resisting such a high offer.

At Flag C is a minute from Howell Harris Hughes (Policy Unit) which also underlines that this would be too high a settlement for miners' pay.

- Do you want to intervene in the correspondence and argue for a lower offer? *Yes mhr*
- Or
- Content for the Energy Secretary and Chief Secretary to resolve this in further discussions?

BHP

BARRY H. POTTER
16 NOVEMBER 1990

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

20 November 1990

MINEWORKERS' PAY

The Prime Minister has seen your Secretary of State's letter of 8 November, indicating and explaining the proposed opening offer to the Union of Democratic Mineworkers, which British Coal have in mind for the annual pay settlement. She has also seen the letter of 15 November from the Chief Secretary commenting on the British Coal proposals.

The Prime Minister considers that the proposed opening offer at the level of the September RPI increase (10.9%) on basic rates is too high. It is not justified on economic grounds - for a loss-making, contracting industry. Nor is the Prime Minister persuaded of any wider reasons for such a high opening offer. In her view, the arguments in the penultimate substantive paragraph of your Secretary of State's letter suggest delay in making an offer, not a high opening figure.

The Prime Minister would be grateful if, in consultation with the Chief Secretary, the Energy Secretary could consider further whether British Coal can be persuaded to make a rather more modest opening offer, with the aim of reaching a final settlement on basic rates lower than 10.9%, with a correspondingly lower impact on earnings.

I am copying this letter to Jeremy Heywood (Chief Secretary's Office), to the Private Secretaries to the other members of E(PSP) and to Sonia Phippard (Cabinet Office).

BARRY H POTTER

John Neilson, Esq.,
Department of Energy.

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THE RT HON JOHN WAKEHAM MP

CCP. A



Department of Energy
1 Palace Street
London SW1E 5HE
071 238 3290

The Rt Hon Norman Lamont MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Prime Minister
To be aware. 'X' seems
rather high for a loss-making,
contracting industry, though the
factors at 'Y' are relevant. But
they mainly point to delay in
offer, not necessarily a figure
as high as at 'X'.

RHP
8/4

8 November 1990

Dear Norman

ms

MINEWORKERS' PAY

The pay round for the coal industry is getting under way. The Union of Democratic Mineworkers recently put in an unquantified claim, seeking increases in basic rates of more than the rate of inflation together with increases in allowances, incentives, bonuses, holiday and sick pay etc, as the basis for a two-year deal. British Coal estimate the minimum cost of this claim as equivalent to 12.6% on the wage bill, but clearly the union's sights could be set a good deal higher.

I have discussed the outlook with Lord Haslam who takes the view that the Corporation will be hard pressed to keep the overall settlement to within an increase of 10.9% on the pay bill, this being the September RPI increase which has traditionally been the marker for past settlements in the industry. He pointed out that productivity was moving ahead well this year, 7.6% up on last year thus far with an outturn in prospect for the year as a whole of some 8%. Moreover, last year's increase, the second phase of a two-year deal, was worth only 7.6%, significantly below other major settlements that year.

British Coal aim to keep the combined cost of pay settlements to the industry at below £100m, in the context of a single year agreement, and to accommodate this cost within the agreed External Financing Limits for 1990-91 and 1991-92.

The Corporation have not yet decided at what level to pitch their opening offer to the UDM, but a credible response to the claim is unlikely to be less than the September RPI increase of 10.9% on basic rates, equivalent to around 8.3% on the full year wage bill if allowances, bonuses, incentives etc remained unchanged.

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British Coal do not intend to make an offer, however, until probably the week of 19 November, following the NUM ballot on industrial action in support of a £50 per week claim, and late in the period of balloting for the UDM President where Roy Lynk is under serious challenge - in which context a tight-fisted offer would not be helpful to Lynk. British Coal will need to take into account the fact that two years ago the Corporation's offer to the UDM was twice rejected by the membership in a ballot, before being settled by arbitration where British Coal's position was upheld. The Corporation will need to have a defensible position if arbitration is again sought this year.

Clearly, there are difficult tactical judgements to be made and I would not wish unreasonably to constrain Bob Haslam's approach, given the Corporation's good track record in such negotiations, the desirability of maintaining the industry's recent good labour relations (and the benefits that has for productivity), and the need for the Corporation to keep within its EFL.

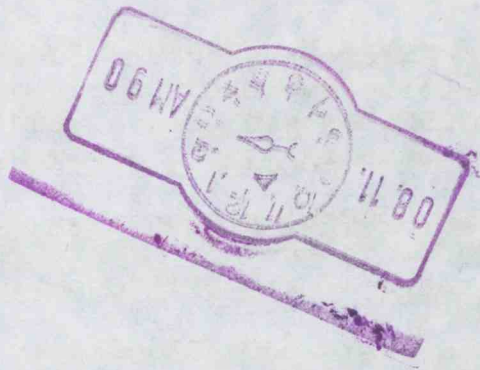
I am copying this letter to the Prime Minister, the members of E(PSP) and to Sir Robin Butler.

John Wakeham

John

JOHN WAKEHAM

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ccp4 B



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John Wakeham MP
Secretary of State for Energy
Department of Energy
1 Palace Street
London
SW1E 5HE

15 November 1990

MINEWORKERS' PAY

Thank you for your letter of 8 November.

2. On our normal recruitment and retention criteria for determining pay increases, there appears to be very little justification for the suggestion of a settlement worth 10.9 per cent on the pay bill for this group. Such a settlement would be worth a full percentage point more than any other deal reached by a public sector trading body in the last twelve months and significantly more than almost any other settlement in the public sector. It would be bound therefore to have wider repercussions.

3. I note what you say about previous settlements being linked to the September RPI increase. But we are, as you know, opposed to index-linking in principle, because it takes no account of market forces. And it would be presentationally very damaging to reach a settlement on this basis at a time when the RPI is peaking and when colleagues, particularly John Major, have so frequently stressed the dangers for markets and jobs resulting from wage negotiations being conducted around the RPI.

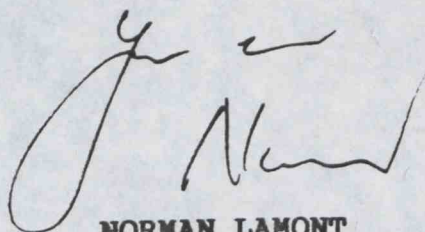
4. The productivity improvements that British Coal have achieved are commendable. But I understand that staff are rewarded for increased output through incentive and bonus schemes. It is not clear that this can also justify a very large hike in basic pay.

5. I would be grateful therefore if you would review again the position with British Coal's management with the aim of agreeing proposals for reaching a settlement very much lower than 10.9 per cent.

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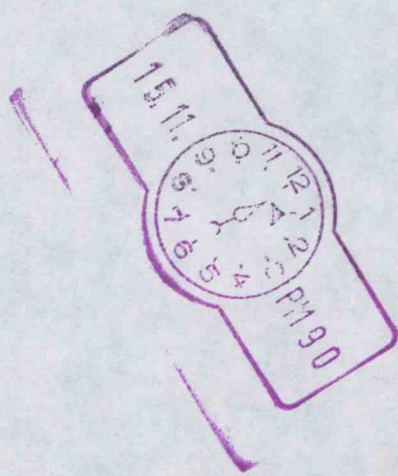
6. In accordance with the arrangements agreed by E(PSP), I would very much like to have the opportunity to consider those proposals before any offer is made.

7. I am copying this letter to the Prime Minister, members of E(PSP) and Sir Robin Butler.

A handwritten signature in black ink, appearing to read 'Norman Lamont', written in a cursive style.

NORMAN LAMONT

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MINEWORKERS' PAY

1. The Government's strategy in this wage round is to achieve public sector settlements below the rate of inflation. The September RPI figure will be close to its cyclical peak and the fact that the September figure has traditionally been the marker for past settlements in the coal industry simply cannot be allowed to dictate what happens in this crucial year.
2. There is no suggestion that the industry as a whole suffers from problems of retention or recruitment, unlike say, Royal Mail Letters so Lord Haslam should be encouraged to aim at a settlement of less than 10.9 per cent on the overall pay bill.
3. Lord Haslam's point about the productivity of the industry is perfectly valid but the incentive and bonus schemes will continue to reward that. The key issue is that the basic settlement should not validate a rate of inflation which will fall away sharply.
4. It is perfectly reasonable that Lord Haslam should continue to enjoy plenty of room for tactical manoeuvre but it is worth making the point that the approach in Mr Wakeham's letter does not in fact conform with the guidelines for the notification and clearance of offers which colleagues in E(PSP) have accepted. We will give all the wrong signals at this point if the opening offer to the UDM has to be 10.9 per cent to be 'a credible response' to the Union claim. The Government's pay

strategy will not be credible if we do not make it clear at every point that the realistic expectation of sharply falling inflation must be reflected in offers.

Howell Harris Hughes

HOWELL HARRIS HUGHES