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E(81) 7th Meeting

COPY NO 57

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at  
10 Downing Street on  
MONDAY 23 FEBRUARY 1981 at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP  
Prime Minister

The Rt Hon Lord Carrington  
Secretary of State for Foreign  
and Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP  
Secretary of State for Industry

The Rt Hon Lord Soames  
Lord President of the Council

The Rt Hon James Prior MP  
Secretary of State for Employment

The Rt Hon John Nott MP  
Secretary of State for Defence

The Rt Hon Michael Heseltine MP  
Secretary of State for the  
Environment

The Rt Hon John Biffen MP  
Secretary of State for Trade

The Rt Hon David Howell MP  
Secretary of State for Energy

The Rt Hon Leon Brittan QC MP  
Chief Secretary  
Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Francis Pym MP  
Chancellor of the Duchy of  
Lancaster and Paymaster  
General

The Rt Hon George Younger MP  
Secretary of State for Scotland

Mr Michael Roberts MP  
Parliamentary Under-Secretary of  
State, Welsh Office

Mr J R Ibbs  
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong  
Mr P Le Cheminant  
Mr D J L Moore



2. BRITISH STEEL CORPORATION: CORPORATE PLAN  
Previous Reference: E(81) 5th Meeting, Item 1

The Committee considered a minute of 19 February to the Prime Minister from the Secretary of State for Industry, covering a draft parliamentary statement on the Government's response to the British Steel Corporation's (BSC) corporate plan.

THE SECRETARY OF STATE FOR INDUSTRY said that the head of the Central Policy Review Staff, together with representatives of the Department of Industry and of the Treasury, had further examined BSC's cash requirements in 1981-82. They had concluded that, while BSC's provision for contingencies was high, it was justified in relation to the volatility of the steel market and of the exchange rates, and that, if BSC's plan were to be accepted, there were no significant cash savings to be made in 1981-82. He accordingly invited the Committee to agree that he should announce an increase of £150 million to bring BSC's External Financing Limit (EFL) for 1980-81 to £1,121 million; an EFL for 1981-82 of £730 million; a target of limiting loss before interest in 1981-82 to £225 million; and a planning assumption of aiming to break even, before interest, in 1982-83. The Iron and Steel Bill 1981, which would provide for capital reconstruction of the Corporation and other measures already approved by the Committee, would be published at the same time as his statement. The statement would draw attention to problems of the private sector steel companies in the United Kingdom and refer, in particular, to the announcement on 20 February of Phoenix I, a joint venture between BSC and the private sector; and to the assurances by the Chairman of BSC, Mr MacGregor that it was not BSC's policy to set price levels for steel below those of imports, but only to match them, and that he would personally undertake to investigate any specific allegations of unfair pricing put to him and to keep the Secretary of State for Industry informed of the results.

In discussion it was argued that the statement would be severely criticised on the grounds that it made massive provision for subsidies to BSC at a time when the future of some United Kingdom private sector steel companies was in doubt and most were having to close plant. BSC refuted allegations that the private companies were losing

business to subsidised BSC products on the grounds that there was also sharp competition from overseas companies who would move in to markets from which BSC withdrew. United Kingdom steel companies did not find this convincing, since they believed that if the subsidies available to BSC were switched to them they could fight off competition from overseas. If, however, the Government were to switch some subsidies to the private sector, they would then have to bear the cost both of these and of continuing to finance spare capacity pending a further run down in BSC. Since for this reason subsidies could not be switched to the private sector, the assurances in the statement would need to be strengthened by making clear that it would not be left solely to Mr MacGregor to deal with allegations but that the Secretary of State for Industry would himself take the initiative in ensuring that they were vigorously examined.

THE PRIME MINISTER, summing up the discussion, said that the Committee reluctantly accepted the figures proposed by the Secretary of State for Industry for the EFL's and financial targets for BSC. They did so on the understanding that these figures, and the Corporation's strategy, would be further reviewed in July in the light of Mr MacGregor's assessment of progress by that time. The Committee continued to be deeply concerned by the impact of BSC on the competitiveness of private sector steel companies in the United Kingdom, and the Secretary of State for Industry should revise his statement to emphasise that there would be a major review of progress in July and to make clear that in the meantime he would himself pursue with Mr MacGregor any allegations of unfair competition. In revising his statement, the Secretary of State for Industry should substantially shorten it.

The Committee -

Invited the Secretary of State for Industry to make a statement on 24 February on the Government's response to the British Steel Corporation's corporate plan, and to revise the draft attached to his minute of 19 February on the lines indicated by the Prime Minister in her summing up of their discussion.

Cabinet Office

24 February 1981

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX  
E(81) 7th Meeting Minutes, Item 1  
MONDAY 23 FEBRUARY 1981 at 10.30 am

CONFIDENTIAL

1. COAL TRIPARTITE DISCUSSIONS

Previous Reference: E(80) 33rd Meeting

The Committee considered memoranda by the Secretary of State for Energy on the coal tripartite discussions (E(81) 24) and on colliery closures and coal strategy (E(81) 21).

THE SECRETARY OF STATE FOR ENERGY said that, before his tripartite discussions on 18 February with the National Coal Board (NCB) and the National Union of Mineworkers (NUM), he had been authorised to make the minimum concessions necessary to avoid a national coal strike. At the tripartite meeting he had re-affirmed the Government's belief in the future of the coal industry; agreed to look, with a view to movement, at what could be done to reduce likely coal imports of  $5\frac{1}{2}$  million tonnes in 1981 towards the irreducible minimum of those qualities of coal not produced domestically; and, on the understanding that the Board and the Unions would discuss a pattern of proposals for colliery closures consistent with Plan for Coal and the severe economic realities, agreed to discuss the financial implications for the NCB with an open mind and with a view to movement. In the light of this statement, and in response to the union's requests, the NCB had said that they would withdraw their accelerated closure programme and re-examine the position in consultation with the unions. There would be a further tripartite meeting on 25 February when he judged it would be necessary for him to make, or agree to consider, a number of specific measures, if militant opinion in the NUM were to be denied the opportunity to regain the upper hand with the risk of a national strike. The Board's accelerated closure programme had assumed the elimination of 4 million tonnes of capacity in the next year and, if this were now to be reduced to

closures of only  $1\frac{1}{2}$  million tonnes capacity as assumed in the NCB's earlier financial strategy, the costs might be in the order of £150-200 million in 1981-82 and more in later years. Improved redundancy payments would cost around £20 million a year if  $1\frac{1}{2}$  million tonnes of closures annually were achieved. The provision of funds for the NCB to discount their own prices to the Central Electricity Generating Board (CEGB) and to the British Steel Corporation (BSC), and so enable the maximum possible displacement of coal imports to those bodies, might cost £60 million in 1981-82. There was a case for devising a scheme to promote the substitution of oil by coal in industrial boilers, at a cost of £25-35 million over the next two years. If pressed, the Government should be prepared to restore the cut of £50 million a year made earlier on the NCB's investment programme. It would be necessary at a later stage to consider proposals to give the Board a reasonable chance of meeting their objective of breaking even on revenue account; and possibly to provide some funding of research and development projects to demonstrate new technologies of coal use. The Chairman of the NCB would give his own estimate of some of these costs in response to questions which the Chairman of the NUM, Mr Gormley, would be putting to him at a meeting later today.

In discussion the following were the main points made -

a. The statements at, and following, the tripartite discussion on 18 February had focussed on the Government's willingness to reconsider the financial constraints on the NCB in the light of re-examination of the closure programme and of the reduction of coal imports towards the irreducible minimum. The Government were not committed to make further concessions and these should not be offered unless they were in return for concessions by the NCB and the NUM. If the unions were to be offered on 25 February a package as extensive as that outlined by the Secretary of State for Energy, they would be encouraged to seek even more. Even the very minimum concessions which would be necessary would lead to high recurring costs in later years and would push up yet further the costs of fuel to industry.

b. If closures were to be no more than  $1\frac{1}{2}$  million tonnes of capacity a year, there was no case for giving enhanced redundancy terms; although Mr Gormley might argue that this would now be necessary to secure the

agreement of the more militant members of the NUM to even that level of closures. On the other hand, it would be well worth offering improved terms in return for a high level of closures with a reduction in the costs of keeping open uneconomic capacity. It was probable that individual miners, as distinct from some of their union leaders, would be willing to accept redundancy in response to such improved terms, although they would no doubt be happy to give the union leaders the opportunity to exact the best terms from the current negotiations. Whatever the outcome, care should be taken that the redundancy terms offered to the miners should not lead to demands, which would be difficult to resist, elsewhere in the public sector, and particularly in the BSC and British Shipbuilders (BS). The details should also be checked to ensure that no miner would receive more from his redundancy pay than he would from continuing to work.

c. Capital grants to encourage firms to convert their industrial boilers to use coal rather than oil could increase coal sales by around 1 million tonnes a year. On the other hand, if such conversions did bring financial benefits, firms should be ready to make them anyway without the help of a capital grant. There was also a risk that increases in coal prices, following the changes now under discussion, could later lead to demands for current subsidies on coal used in such conversions. Agreement to the proposed scheme would be at the expense of other measures, currently under consideration, for reducing the burden of fuel costs on industry.

d. If the rate of closure of uneconomic capacity were now to be reduced, there was no case for increasing the NCB's investment programme.

e. The Government was committed to movement towards reducing the level of coal imports but not necessarily to reducing them to the technical minimum, and so the costs could turn out to be less than the present provisional estimate of £60 million. The present proposal was confined to subsidising NCB's prices so that the BSC and the CEGB would buy from the NCB. It would be neither possible nor sensible to ban all coal imports by all United Kingdom companies, and the cost of extending subsidies to enable the NCB to match import prices of coal to other consumers, e.g cement works, could be high. It would be important to avoid going further than an operation confined to CEGB and BSC coal, or entering into any long-term

commitments on restraints of imports. The availability of imported coal was an important constraint in keeping coal prices down, and the arrangements for coal should not be such as to provide other sectors, under pressure in the recession, with a plausible case for import controls on products affecting them or for subsidies to protect domestic production.

f. Although an increase in the External Financing Limit (EFL) would be necessary, it was important that the NCB should understand from the outset that this increase would not necessarily equal the estimated additional costs of delayed closures and of other concessions. The increase in the EFL would have to be negotiated between Departments and the NCB in the usual way with account taken of offsetting savings.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that, at the next tripartite meeting on 25 February, the Secretary of State for Energy should seek to focus discussion on a revised closure programme and the practical scope for reductions in imports, and to draw out the options for, and costs of, action in fulfillment of the Government's promises under both heads. The Committee recognised that it would be worth offering enhanced redundancy terms in return for a closure programme higher than 1½ million tonnes of capacity a year and, if the unions were to raise the question, the Secretary of State was free to indicate the Government's willingness to consider improvement, though without commitment at this stage as to the precise changes the Government would accept. Given the potential impact on other public sector redundancy schemes the Secretary of State for Energy would need to keep in close touch on these matters with the Lord President of the Council, the Secretary of State for Industry and the Chief Secretary, Treasury. He was also free to take note, without commitment, of any other measures which the NCB or the NUM might propose. The Committee were not, however, yet persuaded of the case for grants to enable industrial boilers to be converted to coal use, nor were they yet convinced of the case for increasing the Board's investment programme at the same time as the closure programme was being delayed. In general, while the Committee stood by the previous judgement that a national coal strike was to be avoided and were prepared to be flexible to this end, they did not wish to go further, whether by providing additional cash or otherwise, than was absolutely essential for this purpose. Before the meeting on 25 February, the Secretary of State for Energy

should discuss his negotiating priorities and tactics with the Chancellor of the Exchequer or the Chief Secretary, Treasury, and the head of the Central Policy Review Staff. Following the tripartite meeting he should report further to the Committee who would wish to approve any proposed measures, and the amendments to the EFL, as a package and not piecemeal. Any facts and figures which the Chairman of the NCB offered to the unions in the meantime would be on his own authority and not that of the Government.

The Committee -

Invited the Secretary of State for Energy -

- i. to be guided at his tripartite meeting with the National Coal Board and National Union of Mineworkers on 25 February by the Prime Minister's summing up of their discussion;
- ii. to discuss his negotiating priorities and tactics further with the Chancellor of the Exchequer or the Chief Secretary, Treasury and the head of the Central Policy Review Staff prior to the tripartite meeting fixed for 25 February.
- iii. to consult the Lord President of the Council, the Secretary of State for Industry and the Chief Secretary, Treasury, on the terms of any enhanced redundancy payments scheme for mineworkers before committing the Government to any particular improvements;
- iv. to report further to the Committee in the light of the tripartite meeting on 25 February.

Cabinet Office

24 February 1981