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E(81) 14th Meeting

COPY NO 57

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
WEDNESDAY 8 APRIL 1981 at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department
(Items 1 and 2)

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 James Prior MP
Secretary of State for Employment

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food

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 Sir Ian Gilmour MP
Lord Privy Seal
(Item 1)

The Rt Hon Francis Pym MP
Chancellor of the Duchy of Lancaster
and Paymaster General
(Item 1)

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Patrick Jenkin MP
Secretary of State for
Social Services
(Item 2)

The Rt Hon Sir Michael Havers QC MP
Attorney General
(Item 1)

The Rt Hon Norman Fowler MP
Secretary of State for Transport

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Transport
(Item 1)

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

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

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1. INDUSTRIAL ENERGY PRICES

The Committee considered memoranda by the Secretary of State for Energy (E(81) 39) and by the Central Policy Review Staff (E(81) 46) on industrial energy prices.

Their discussion and conclusions reached are recorded separately.

His Majesty's (HM) had agreed in November 1980 that the Wages Council system should be retained but widened and improved. He strongly recommended that that decision should be confirmed. There was no firm evidence that significant economic benefits would flow from wholesale abolition. Abolition would require primary legislation which would be contentious; it would reduce pressure for the introduction of a national minimum wage, and encourage the extension of trade union activity into the small business sector. Many employers and trade unions would be opposed to it. It would be very difficult to design legislation for the abolition of Wages Councils if, as the Agricultural Ministers wished, the Agricultural Wages Boards were to be retained. He also recommended against primary legislation to remove young people and part-time workers from the scope of the Wages Councils. Any increased employment which might result for young people would probably be at the expense of adults. To remove part-timers from the scheme could be seen as an attack on low-paid married women many of whom had to work part-time of necessity. He recommended that the right course was to concentrate on improvements to the system and on reductions in the number of Councils where possible. Since 1969 the number had been reduced from 27 to 13 and, with further abolitions and mergers now under discussion, the total could fall to 8. He had reduced the wages inspectorate from 200 to 200 staff and drawn the attention of the chairman and members of individual Councils to the Government's concern over the special problem of small firms and over the need to avoid the back-dating of pay increases. He would continue to press for progressive improvements on these lines.

In discussion the following were the main points made -

Although Wages Councils might do relatively little economic damage, it was equally true that they did not bring any significant benefits. They did, however, cost around £3 million a year to run and placed an administrative burden on many firms.

2. WAGES COUNCILS

The Committee considered a memorandum by the Secretary of State for Employment (E(81) 40) on Wages Councils.

THE SECRETARY OF STATE FOR EMPLOYMENT said that the Sub-Committee on Economic Affairs (E(EA)) had agreed in November 1980 that the Wages Council system should be retained but slimmed and improved. He strongly recommended that that decision should be confirmed. There was no firm evidence that significant economic benefits would flow from wholesale abolition. Abolition would require primary legislation which would be contentious; it could stimulate pressure for the introduction of a national minimum wage, and encourage the extension of trade union activity into the small business sector. Many employers and trade unionists would be opposed to it. It would be very difficult to defend logically the abolition of Wages Councils if, as the Agriculture Ministers wished, the Agricultural Wages Boards were to be retained. He also recommended against primary legislation to remove young people and part-time workers from the scope of the Wages Councils. Any increased employment which might result for young people would probably be at the expense of adults. To remove part-timers from the scheme could be seen as an attack on low-paid married women many of whom had to work part-time of necessity. He recommended that the right course was to concentrate on improvements to the system and on reductions in the number of Councils where possible. Since 1969 the number had been reduced from ~~50~~⁴⁹ to 33 and, with further abolitions and mergers now under discussion, the total could fall to 26. He had reduced the wages inspectorate from 300 to 200 staff and drawn the attention of the chairmen and members of individual Councils to the Government's concern over the special problems of small firms and over the need to avoid the back-dating of pay increases. He would continue to press for progressive improvements on these lines.

In discussion the following were the main points made -

- a. Although Wages Councils might do relatively little economic damage, it was equally true that they did not bring any significant benefits. They did, however, cost around £3 million a year to run and placed an administrative burden on many firms.

b. The views of the business community were divided. Pressure for the abolition of the Wages Councils came mostly from small businessmen, including small shopkeepers, but farmers generally welcomed the existence of the Agricultural Wages Boards. Indeed in the farming industry it was the Unions who sought the abolition of the system.

c. Legislation, either to abolish Wages Councils or to provide for major exemptions, should be ruled out. The legislative programme was already over-burdened and there were other Bills deserving much higher priority for the public expenditure savings and economic benefits which they could bring. The right course was to press ahead as fast as possible with reductions in the numbers of Councils and with voluntary agreements to improvements in procedures. In particular it was important to reduce the burden of the system on small firms.

d. The root of the difficulty with young people was that there was not too narrow a differential between their wage rates and those of adults. This was widely held to be a cause of youth unemployment with young people pricing themselves out of a job. It was reasonable to pay young people relatively less to reflect their inexperience and to increase their pay gradually as they grew older. This was a question which went much wider than Wages Councils, and the proposed consultative document on industrial training had identified it as a matter which needed consideration across the board.

THE PRIME MINISTER, summing up the discussion, said that, although the Committee shared the view that, in general, Wages Councils served little or no useful purpose and might actually tend to increase unemployment among the young, they agreed that it would not be practicable in the foreseeable future to introduce legislation providing for abolition of the system or of exclusion from its scope of young people or of part-timers. The Secretary of State for Employment should instead press ahead as quickly as possible with his proposals for reducing the number of Councils where practicable and for securing improvements in the system. In particular he should seek to reduce the burdens it placed on small firms. The Committee were concerned that the narrowing differential between rates of pay for young people and for adults was a reason for increased unemployment among the former and, as had already been agreed, the Secretary of State for Employment would take the opportunity of the forthcoming consultation on industrial training to urge the need for consideration of this question.

The Committee -

1. Agreed that legislation should not be introduced to abolish Wages Councils or to provide for the exclusion from their scope of particular categories.
2. Invited the Secretary of State for Employment to press ahead as quickly as possible, on the lines indicated by the Prime Minister in her summing up of their discussion, with securing reductions in the number of Wages Councils and improvements in the system.

Public Office
10 April 1961

5. RAILWAY PAY

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The Committee's discussion and conclusions reached are recorded separately.

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX

E(81) 14th Meeting Minutes, Items 1 and 5
WEDNESDAY 8 APRIL 1981 at 10.30 am

CONFIDENTIAL

INDUSTRIAL ENERGY PRICES

The Committee considered memoranda by the Secretary of State for Energy (E(81) 39) and by the Central Policy Review Staff (E(81) 66) on industrial energy prices.

THE SECRETARY OF STATE FOR ENERGY said that the measures announced in the Budget had provided for £118 million to reduce the tariffs charged to many large industrial users of gas and electricity and for grants of £50 million to help finance the conversion of oil-fired boilers to gas use. While these measures had been helpful, industrial users continued to criticise them as an inadequate response to the price disparities set out in the report of the Energy Task Force to the National Economic Development Council and to argue that the benefits were being offset by the increase of 20p on the duty on heavy and by the absence of any reduction in the duty on Heavy Fuel Oil (HFO). In view of this criticism, which was supported by many Members of Parliament, he recommended that further assistance should now be offered to industrial energy users. At a cost of £60-£70 million, 100 per cent of the duty on HFO could be remitted for certain selected energy-intensive industries accounting for up to 50 per cent of HFO consumption; and the Attorney General had advised that there was a reasonable chance that this would not lead to re-negotiation of the long contract for gas imported from Norway and, therefore, to increases

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10 April 1981

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX

E(81) 14th Meeting Minutes, Items 1 and 3
WEDNESDAY 8 APRIL 1981 at 10.30 am

CONFIDENTIAL

1. INDUSTRIAL ENERGY PRICES

The Committee considered memoranda by the Secretary of State for Energy (E(81) 39) and by the Central Policy Review Staff (E(81) 46) on industrial energy prices.

THE SECRETARY OF STATE FOR ENERGY said that the measures announced in the Budget had provided for £118 million to reduce the tariffs charged to many large industrial users of gas and electricity and for grants of £50 million to help finance the conversion of oil-fired boilers to gas use. While these measures had been helpful, industrial users continued to criticise them as an inadequate response to the price disparities set out in the report of the Energy Task Force to the National Economic Development Council and to argue that the benefits were more than offset by the increase of 20p on the duty on derv and by the absence of any reduction in the duty on Heavy Fuel Oil (HFO). In view of this criticism, which was supported by many Members of Parliament, he recommended that further assistance should now be offered to industrial energy users. At a cost of £40-£50 million, 100 per cent of the duty on HFO could be remitted for certain selected energy-intensive industries accounting for up to 30 per cent of HFO consumption; and the Attorney General had advised that there was a reasonable chance that this would not lead to re-negotiation of the Frigg contract for gas imported from Norway and, therefore, to increases

in gas prices. If some concession had to be made in the Finance Bill on transport fuel duties, he recommended that the duty on derv should be reduced by 5p/4p below the duty on petrol at a cost of £40-55 million. Across-the-board cuts on industrial electricity prices would be too expensive, and he recommended instead the introduction of measures to enable the provision of electricity to selected companies at prices competitive with those in Europe; this might cost over £50 million in the current year and, if successfully challenged in the Courts as discriminating in favour of bulk users, might require legislation. The effect of the Budget measures would be to freeze renewal prices for all gas purchased on contract by industrial customers at present levels until December 1981, and he did not think that any further action on gas prices was required for the time being. To deal with the gap of around 30 per cent between United Kingdom and other European list prices for foundry coke he recommended measures costing up to £10 million to ensure that United Kingdom delivered prices were below those of imports.

In discussion the following were the main points made -

a. The Government had been given insufficient credit for the £118 million assistance, announced in the Budget, to large users of industrial gas and electricity. This was in part because of the concurrent increases of 20p on the duty on petrol and on derv, and in part because industry remained deeply critical of the fact that its industries had to bear the competitive disadvantages of an exchange rate which was high because the United Kingdom was rich in energy sources, but they did not have the benefit of low energy prices. In the case of electricity, prices were high because of the high cost of coal. This left the United Kingdom at a competitive disadvantage with France, which was now benefitting from its nuclear programme, and with other European countries, some of which were importing large quantities of cheap coal. It was, therefore, essential for the United Kingdom to reduce its

electricity costs in the longer term by reducing coal costs and by developing its nuclear programme. If such cost reductions could be achieved in the longer term, a case could be made for further subsidies now in order to bridge the gap.

b. It was generally agreed that there would be advantage in an amendment to the Finance Bill to provide for some remission of the proposed increase in the duty on derv. This would be welcome to industry generally, and in particular to the haulage industry who were resentful of the duty increase at a time when 2,000 haulage companies had gone out of business in the last 12 months, and who had held pay settlements down to between 2.9 and 6.4 per cent. A concession on derv should encourage a number of Members of Parliament to withdraw their opposition to the increase on the petrol duty; without such a concession the Government could be defeated in the Finance Bill on the increased duty for both derv and petrol. The timing of the announcement of a decision to abate the increase on derv should be for further consideration; it should not be made so early as to encourage pressure for further concessions but it would need to be made not long after Easter.

c. Any general remission of the duty on HFO would lead to renegotiation of the Frigg contract, at a total cost of between 2 and 3 times the benefit of remitting the duty. The benefits of the Frigg contract, which was in most respects very advantageous to the United Kingdom, should be brought out more clearly. The alternative of remitting the duty for selected large users, as proposed by the Secretary of State for Energy, stood a better than evens chance of avoiding a successful challenge in the Courts to the Frigg contract. It would, however, involve difficult problems of selecting which industries should benefit and of defending that selection. Although industry made much of the disadvantages of the duty, and its abolition appeared to be psychologically important

to them, the duty was thought to represent only about 0.1 per cent of industrial costs. It was also likely that the benefit of remission would in time go to the producers, who would adjust their prices accordingly, rather than to consumers.

d. There was a strong case for further consideration of measures to help industrial users of electricity. There would, however, be considerable difficulties in selecting categories or companies for such assistance and a risk that new legislation would be necessary. Further consideration should therefore be directed to changes in the electricity tariff structure which might lead to benefits to large industrial users without the need for the Government to select the beneficiaries.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that there should be an abatement of the increase announced in the Budget of 20p on the duty on derv. She would arrange for a group of the Ministers directly concerned to consider further the amount of the abatements and the timing of the necessary amendment to the Finance Bill. The Committee agreed that no changes should be made in the duty on HFO. She would arrange for the group of Ministers to consider also the scope for further measures to reduce the cost of electricity to industrial users, and the scope in the longer term for reducing the costs of producing electricity. The Committee agreed that any help on electricity prices should not be based on a selective approach but on changes in tariff structure which would have the effect of benefitting large industrial users. The Group would consider also the Secretary of State for Energy's proposals for reducing the prices of foundry coke. More generally, Ministers should seek opportunities to emphasise publicly the benefits to gas and electricity users of the £118 million assistance announced in the Budget for which the Government had been given insufficient credit.

The Committee -

1. Took note, with approval, that the Prime Minister would arrange for a small group of the Ministers directly concerned to consider -

i. the amount of an abatement of the increase, announced in the Budget, of 20p on the duty of derv and the timing of its announcement.

ii. The scope for further reductions in electricity tariffs for large industrial users and for reductions in the price of foundry coke.

2. Agreed that there should be no change in the duty on Heavy Fuel Oil.

5. RAILWAY PAY

THE SECRETARY OF STATE FOR TRANSPORT said that the Railway unions were hoping for a settlement of around 13 per cent from 20 April. He and the Chairman of British Rail (BR) were agreed that this was unacceptable. BR's budget and their External Financing Limit (EFL) for 1981-82 had allowed for a pay settlement of 8 per cent; subsequently BR's revenue projection had deteriorated by £80-100 million. BR would be meeting with the unions on 13 April and there was a risk of stalemate leading to industrial action. To avoid this, BR were considering three options. They could offer 7 per cent now with 3-4 per cent later in the year; the total increase would be within the 8 per cent now assumed for pay, but it would lead to a higher base for negotiations in the following year. They could freeze pay for 6 months, but that would almost certainly lead to industrial action. They could offer 6 per cent now and make any further increase of, say, 2 per cent, subject to firm agreements on productivity improvements and within the 8 per cent provision. In the meantime the Civil Contingencies Unit was examining the consequences of industrial action on the railways. The Committee would be considering later his proposals for railway policy and financing in the longer term, but he wished to consider urgently with the Chief Secretary, Treasury, the case for additional financial provision for BR in 1982-83.

THE PRIME MINISTER, summing up a short discussion, said that the Committee agreed that the Secretary of State for Transport should advise the Chairman of BR to avoid any form of pay settlement involving staging, which could have adverse repercussions on settlements in other parts of the public sector, and to aim for a settlement within the EFL based on an opening offer of 6 per cent with anything further linked to the achievement of improvements in productivity. The details and tactics of negotiations were, however, a matter for the BR Board. The Committee would consider at an early meeting the memoranda which the Secretary of State for Transport had circulated on railway policy and BR finances. They took note that, in the meantime, the Secretary of State for Transport would discuss the financial provision

for BR in 1982-83 with the Chief Secretary, Treasury. The Civil Contingencies Unit were preparing a report on the consequences of industrial action by the railway unions; it would be important to ensure that as much coal as possible was moved from pit-head stocks to power stations before any dispute began.

The Committee -

Invited the Secretary of State for Transport to be guided by the Prime Minister's summing up in his further discussions with the Chairman of British Rail on the main railways' pay settlement for 1981.

Cabinet Office

10 April 1981