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E(81) 55rd Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
TUESDAY 10 NOVEMBER 1981 at 9.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for
the Home Department

The Rt Hon Lord Carrington
Secretary of State for Foreign
and Commonwealth Affairs
(Item 1)

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

The Rt Hon Sir Keith Joseph MP
Secretary of State for
Education and Science

The Rt Hon James Prior MP
Secretary of State for
Northern Ireland

The Rt Hon John Nott MP
Secretary of State for Defence

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food
(Item 1)

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

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

The Rt Hon Baroness Young
Chancellor of the Duchy of Lancaster
(Item 1)

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

The Rt Hon Norman Tebbit MP
Secretary of State for Employment

The Rt Hon Cecil Parkinson MP
Paymaster General

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Lord Hailsham
Lord Chancellor
(Item 1)

The Rt Hon George Younger MP
Secretary of State for Scotland
(Item 1)

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Norman Fowler MP
Secretary of State for
Social Services
(Item 1)

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

Mr Nicholas Fairbairn QC MP
Solicitor General for Scotland
(Item 1)

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

Mr Alexander Fletcher MP
Parliamentary Under-Secretary of State
Scottish Office

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson
Mr D J L Moore

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INDUSTRIAL RELATIONS LEGISLATION
1. Previous Reference: E(81) 30th Meeting

The Committee considered a memorandum by the Secretary of State for Employment (E(81) 112) on industrial relations legislation.

The detailed record of this discussion has been circulated separately.

The Committee -

1. Approved the Secretary of State for Employment's proposals in E(81) 103 as further clarified in E(81) 112 for bringing the immunity for trade unions in Section 14 of the Trade Union and Labour Relations Act 1974 in line with the immunity for individuals in Section 13.
2. Approved the Secretary of State for Employment's proposals for joinder in closed shop dismissal cases set out in Annex 2 of E(81) 112, subject to reconsideration, in the light of the consultations on the Government's proposals, of whether the employee should be required to show evidence of union pressure to dismiss.
3. Approved the Secretary of State for Employment's proposals for dealing with union labour only requirements in E(81) 103 as further clarified in E(81) 112, subject to reconsideration, in the light of the consultations on the Government's proposals, of whether industrial action interfering with the performance of a contract should be made unlawful.
4. Agreed that the long title of the Bill should be drafted so as to exclude the possibility of amendments relating to the political levy.
5. Invited the Secretary of State for Employment to publish his proposals as a basis for consultations, with a view to introducing a Bill in January.

2. REGIONAL DEVELOPMENT GRANTS

The Committee considered Memoranda by the Secretary of State for Industry (E(81) 101) and by the Secretary of State for Scotland (E(81) 107) on the possibility of changes in the system of paying Regional Development Grants (RDGs).

THE SECRETARY OF STATE FOR INDUSTRY said that, in the context of the public expenditure review, he had identified two possible ways of reducing RDG payments. The first would be to deny RDGs to the oil companies which had built the Sullom Voe and Flotta oil pipeline terminals; this would save £122 million in 1982-83 and £9 million in 1983-84. The payments would be a poor use of public money: the prospect of them had not influenced either the investment or the choice of location, and the number of jobs provided was only 800 to 900. The Law Officers had advised that he could properly exercise his discretion to refuse the payments and that it was unlikely that his decision could be challenged successfully in the courts. On the other hand, the companies were expecting the payments under present procedures and, if they were now refused them, they would criticise the Government for taking a retrospective decision and for a breach of public faith. Secondly, it would be possible to reduce by 2 percentage points the present RDG rates of 22 per cent in the Special Development Areas (SDAs) and 15 per cent in the Development Areas (DAs). This would save about £20 million in 1982-83 and a little over £50 million in each of the two following years. Any greater reduction in the percentage would be indefensible in the light of his predecessor's undertaking that the Government's objective was to maintain reasonable stability in the framework of regional investment incentives and to avoid abrupt changes. He could accept reductions of 2 per cent in RDGs only if this change was accompanied by other measures designed to help industry; in particular he would welcome a reduction in the National Insurance Surcharge.

THE CHIEF SECRETARY, TREASURY, said that he had recommended, as part of his proposals for the 1981 Public Expenditure Survey, cuts of 4 per cent in the RDGs for the SDAs and of 3 per cent for the DAs. These would lead to savings of £36 million in 1982-83 and of £90 million in each of the two following years. He did not agree that such reductions should necessarily

be conditional on specific offsetting measures to help industry, which would benefit generally from decisions to limit the planning total of public expenditure. For the future, there might be a case for making all RDGs discretionary so that the total of payments could be cash-limited rather than demand determined. He strongly supported refusing taxation and RDG arrangements meant that the oil companies would get relief on over 100 per cent of their capital investment.

THE PARLIAMENTARY UNDER-SECRETARY OF STATE, SCOTTISH OFFICE, (MR FLEMING) said that the Secretary of State for Scotland was opposed to denying RDGs for Sullom Voe and Flotta because to do so would undermine the confidence of industry in the Government's regional policy and in its commercial integrity. The Secretary of State was also opposed to any reduction in the present rates of grant since this could deter investment in the assisted areas and seriously threaten the stability of regional policy.

THE SECRETARY OF STATE FOR WALES said that he was strongly opposed to any general reduction in the present RDG percentage and to making the system cash-limited in future. Stability and confidence were crucial to a successful regional policy and, in particular, to attracting inward investment in competition with other European countries, notably Ireland, who could offer clear-cut and attractive packages of assistance. He would, however, like to discuss proposals with the other Ministers directly concerned for achieving significant savings on RDGs by limiting, as was possible under present legislation, the amounts paid in support of large capital projects.

In discussion it was agreed that it was regrettable that oil terminal projects had ever been made eligible for RDGs and that it would be right to exclude such projects in future. There were, unfortunately, strong objections to denying grants to Sullom Voe and Flotta; statements had been made, notably to the Public Accounts Committee in 1977, which gave the oil companies reason to believe that they could confidently expect payment of these grants. In view of the benefits accruing to them under the taxation arrangements, there might have been a case for persuading

the oil companies voluntarily to forego some part of the payments of the RDGs. The Attorney General had, however, advised strongly against any attempt to strike a deal with the companies for payment of a lesser sum than the amount claimed.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that, in view of undertakings given and to avoid any charge of bad faith on the part of the Government, RDGs should be paid to the oil companies for the Sullom Voe and Flotta terminals. The Committee had not reached a view on the amount and form of any further savings by reducing the rates of RDGs. A final decision on this would be taken in the context of decisions on the 1981 Public Expenditure Survey. In the meantime, the Ministers directly concerned should urgently examine the Secretary of State for Wales's proposals which might possibly yield savings comparable to those already suggested, and in particular whether a statement should be made in the near future that RDGs would no longer be available in respect of oil terminals, refineries and other very large projects. The Government was due to review regional policy generally, in preparation for changes in the next Parliament, and any longer term proposals for the RDG system could be taken into account in that review.

The Committee -

"Agreed that, provided the present criteria for payments were satisfied, Regional development Grants should be paid in respect of the Sullom Voe and Flotta oil pipeline terminals."

reuce the rates of Regional Development Grant should be taken in the context of discussion of the 1981 Public Expenditure Survey.

3. Invited the Secretary of State for Industry, in consultation with the Secretaries of State for Scotland and for Wales and with the Chief Secretary, Treasury, to examine urgently the Secretary of State for Wales's proposals for changes in the Regional Development Grant system, and in particular whether grants should no longer be available for oil terminals, refineries and other very large projects, to estimate the savings which might result from such changes, and to report in time for decisions to be taken in the context of discussion of the 1981 Public Expenditure Survey.

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the oil companies voluntarily to forego some part of the payments of the RDGs. The Attorney General had, however, advised strongly against any attempt to strike a deal with the companies for payment of a lesser sum than the amount claimed.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that, in view of undertakings given and to avoid any charge of bad faith on the part of the Government, RDGs should be paid to the oil companies for the Sullom Voe and Flotta terminals. The Committee had not reached a view on the amount and form of any further savings by reducing the rates of RDGs. A final decision on this would be taken in the context of decisions on the 1981 Public Expenditure Survey. In the meantime, the Ministers directly concerned should urgently examine the Secretary of State for Wales's proposals which might possibly yield savings comparable to those already suggested, and in particular whether a statement should be made in the near future that RDGs would no longer be available in respect of oil terminals, refineries and other very large projects. The Government was due to review regional policy generally, in preparation for changes in the next Parliament, and any longer term proposals for the RDG system could be taken into account in that review.

The Committee -

1. Agreed that Regional Development Grants should be paid in respect of the Sullom Voe and Flotta oil pipeline terminals.
2. Agreed that decisions on whether, and, if so, by how much, to reduce the rates of Regional Development Grant should be taken in the context of discussion of the 1981 Public Expenditure Survey.
3. Invited the Secretary of State for Industry, in consultation with the Secretaries of State for Scotland and for Wales and with the Chief Secretary, Treasury, to examine urgently the Secretary of State for Wales's proposals for changes in the Regional Development Grant system, and in particular whether grants should no longer be available for oil terminals, refineries and other very large projects, to estimate the savings which might result from such changes, and to report in time for decisions to be taken in the context of discussion of the 1981 Public Expenditure Survey.

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CABINET
MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX

E(81) 33rd Meeting Minutes, Item 1
TUESDAY 10 NOVEMBER 1981 at 9.30 am

CONFIDENTIAL

INDUSTRIAL RELATIONS LEGISLATION

Previous Reference: E(81) 30th Meeting

The Committee considered a memorandum by the Secretary of State for Employment (E(81) 112) on industrial relations legislation.

THE SECRETARY OF STATE FOR EMPLOYMENT said that he had sought to deal with the points raised at the Committee's meeting on 29 October. The most important outstanding issue was whether to bring immunities for trade unions into line with those for individuals. In Annex 1 of E(81) 112 he had clarified his proposals in respect of vicarious liability, had indicated how they would be likely to work in practice, and had given his assessment of the likely effects of the proposed change on industrial relations. He recognised that the proposal would be strongly opposed by the trade union movement, although the unions would retain the benefit of the wide immunities for industrial action enjoyed by individuals. The advantage was that any future restriction of immunities would apply to unions as well as to individuals and the scope for individual martyrdom would be reduced. On joinder in closed shop dismissal cases, he had in Annex 2 of E(81) 112 put forward some modifications to his original proposals to meet the Committee's concern about the difficulty of assessing relative blame and about the need to improve the incentive to join unions in the proceedings. On "union labour only" requirements, he had sought to demonstrate in Annex 3 of E(81) 112 that his proposals would be workable and worthwhile and that they were preferable to any alternative approach.

The following points were made in discussion -

a. It was generally agreed that there was a very strong case in principle for bringing immunities for trade unions into line with those for individuals. It was more questionable whether the proposals should be included in a Bill for enactment during the current Session. This might create Parliamentary difficulties in both Houses, might exacerbate industrial relations, thus putting at risk the achievement of a successful pay round, and might make it certain that a future labour government would repeal both the 1980 Act and the proposed new legislation. It was doubtful whether the limited benefits in discouraging certain kinds of official industrial action were sufficient to justify the costs.

b. It was suggested that resistance to the measure might be diminished if the Government were to legislate on trade union immunities but to provide that legislation would not take effect until after the next General Election; or to postpone the proposal and include it in the next Election Manifesto. It would however be difficult for the Government to acknowledge the desirability of the change but to explain why action should be deferred until the next Parliament.

c. Although the trade unions were likely to attack the proposal strongly and some moderate trade union leaders might be provoked into vigorous opposition to the Government on a wide range of issues, it ought to be possible for the Government to win the public debate by emphasising the arguments of principle and by stressing the modest restriction on immunity which would result. If the Government were not to go ahead with the proposal, it would disappoint many of its supporters.

d. It might be argued that, by introducing special provisions for determining the vicarious liability of trade unions instead of relying on the law which was generally applicable in such situations, the Government was seeking to discriminate against trade unions. On the other hand these provisions could be justified by the confused state of trade union rule books.

e. On joinder in closed shop dismissal cases, the proposals might not go far to meet the objective of shifting the responsibility to the union rather than the employer. There was no financial incentive for an employee to join a union in proceedings except where an employer had few resources. But many employees might bring unions into the proceedings because of strong feelings about the principle of the closed shop. The alternative of automatic joinder was open to various objections set out in Annex 2 to E(81) 112. The Secretary of State for Employment's proposals could therefore be held to strike the right balance, although it might be worth considering in the light of consultations whether to drop the requirement that an employee should be required to show evidence of union pressure to dismiss.

f. On "union labour only" requirements the most contentious proposal was that which would render unlawful any industrial action interfering with the performance of a contract. This might provoke industrial trouble on building sites and in the docks and might involve the Courts in the handling of some difficult cases. This proposal might be reconsidered in the light of consultations.

THE PRIME MINISTER, summing up the discussion, said the Committee was on balance in favour of legislation now to bring immunities for trade unions in line with those for individuals. On joinder closed shop dismissal cases the Secretary of State for Employment's proposals were approved but the requirement for an employee to show evidence of union pressure to dismiss should be reviewed in the light of reaction to the Government's proposals in the consultation paper. Similarly the proposals relating to "union labour only" requirements were approved subject to reconsideration, following the consultations, of the proposal relating to industrial action interfering with the performance of contracts; the passage in the consultation paper on that proposal might be drafted more tentatively than the passages relating to other proposals on "union labour only" requirements. It was desirable that the long title of the Bill should be drafted so as to exclude the possibility of amendments relating to the political levy.

The Committee -

1. Approved the Secretary of State for Employment's proposals in E(81) 105 as further clarified in E(81) 112 for bringing the immunity for trade unions in Section 14 of the Trade Union and Labour Relations Act 1974 in line with the immunity for individuals in Section 13.
2. Approved the Secretary of State for Employment's proposals for judicial reconsideration, in the light of the consultations on the Government's proposals, of whether the employee should be required to show evidence of union pressure to dismiss.
3. Approved the Secretary of State for Employment's proposals for dealing with union labour only requirements in E(81) 105 as further clarified in E(81) 112 subject to reconsideration, in the light of the consultations on the Government's proposals, of whether industrial action interfering with the performance of a contract should be made unlawful.
4. Agreed that the long title of the Bill should be drafted so as to exclude the possibility of amendments relating to the political levy.
5. Invited the Secretary of State for Employment to publish his proposals as a basis for consultations, with a view to introducing a Bill in January.

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