PREM 19/307

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PART 2

Confidential Filing

The Steel Industry.

NATIONALISED

INDUSTRIES

Part 1 : June 1979

Part 2 : November 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~12.12.79~~							
~~13.12.79~~							
~~18.12.79~~							
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8.1.80							
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PART 2 ends:-

~~Th to~~ Industry to CAW ~~7~~8.1.80

PART 3 begins:-

Industry internal note 8.1.80

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(79) 19th Meeting. Item 1	12/12/79
E(79) 20th Meeting, Item 2	19/12/79

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed OHWayland Date 29 July 2010

PREM Records Team

CONFIDENTIAL

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2

Clive Whitmore Esq
Principal Private Secretary
to the Prime Minister
10 Downing Street
London SW1

7 January 1980

Prime Minister

You asked to see these. (DoI will send a note on today's negotiations - which are still (6pm) going on - later tonight).

M 7/1

Dear Whitmore,

... I attach, as promised, a copy of the joint statement on reductions in employment costs and improvements in labour productivity issued by the British Steel Corporation and the TUC Steel Committee on 23 January 1976. I also attach
... copies of the wage agreements signed in 1978 and 1979, which also include references to better productivity. The more significant passages in all three documents are sidelined in red.

The scope for productivity bargains in exchange for better pay was drastically curtailed by the first stage of the Labour Government's incomes policy introduced in July 1976. It is also fair to note that subsequently a number of local demanning arrangements have been negotiated. The fact remains that the kind of expressions of good intent which the unions are offering now have been made more than once before and have gone largely unfulfilled.

I am copying this letter, with enclosures, to your opposite numbers at the Treasury, Home Office and Department of Employment, and to Ian Ellison here.

Yours sincerely,

Philip Ridley

P W Ridley

CONFIDENTIAL

BRITISH STEEL CORPORATION

JOINT STATEMENT ON REDUCTIONS IN EMPLOYMENT COSTS AND IMPROVEMENTS IN LABOUR PRODUCTIVITY

At the meeting between the British Steel Corporation and the TUCSICC/NCCC held on the 8th, 9th, 10th, 22nd and 23rd January, 1976, agreement was reached as follows:

1a. Both the B.S.C. and the unions concerned believe that the Corporation should be transformed into a profitable, high wage, high productivity industry comparable with its major European competitors. If these objectives are to be achieved, changes will have to be made now to reach European levels of productivity. The changes will vary between Works but the scale of the reductions which is needed is such that alterations in the organisation and structure of work will be required so that working practices also match those of the Corporation's competitors.

b. Both the Corporation and the Steel Committee are aware, as Lord Beswick stated in the Official Report on Steel Closures in Scotland dated 6th August, 1975, that:

"The success of that industry will hinge on its ability to supply steel to using industries both at home and abroad, at internationally competitive prices and qualities. This in turn will require steel plants - whether already in existence, now being built or newly planned following the review - to be run in accordance with international standards of operational practice and manning: otherwise the prospects for British Steel, including Scottish Steel, remaining competitive in the 1980's may be grim."

c. Having regard to the Corporation's present financial problems the Steel Committee agrees that the necessary reductions in manpower must take place. The overmanning can be broadly defined as "recession overmanning" and "inbuilt overmanning". "Recession overmanning" exists because numbers employed are in excess of the requirements for the current order load. "Inbuilt overmanning" is that which needs to be reduced in order to bring productivity up so that it matches international standards. The task of making reductions in both categories will begin immediately. In the case of "recession over-manning" the reductions should be completed in three months and the "inbuilt overmanning" within a period of not longer than two years.

d. The conditions under which the reductions will take place are as follows:

(1) BSC will provide the Steel Committee with figures on a works by works basis showing existing manning levels and the manning levels which they believe to be desirable.

(2) Local management will provide more detailed figures at each works to the trades unions concerned.

(3) BSC management and the unions at each works will begin discussions in order to achieve the necessary manning reductions. This will be by agreement wherever manning levels are the subject of agreements or are established jointly.

(4) The Steel Committee or the unions individually (as appropriate) are ready to take appropriate action to help the situation should these discussions fail to progress satisfactorily. The Committee will discuss the formal machinery and procedures which might be necessary for this purpose in the next four weeks.

(5) The Steel Committee will publicise to their members the seriousness of BSC's position and the need to reach voluntary agreements at works level.

(6) At the end of six months from the date of this agreement the Corporation and the Steel Committee will meet to review progress and to decide what further action may be necessary.

(7) Maximum advantage will be taken of natural wastage which over the last five years has been at a substantial rate. It will therefore be necessary to obtain commitments from

unions at all plants that job vacancies will be met where possible from internal job restructuring and transfers rather than by external recruitment.

(8) The maximum opportunity for voluntary redundancy will be allowed.*

2. The unions have accepted the Corporation's proposals to load fully the low cost plants and to stabilise the load on the "Beswick" plants as detailed at the meeting. In the first instance firm offers of redundancy will be made to the surplus labour in these plants. If this fails to produce the necessary reduction in the labour force then the Corporation will consider other redundancy measures as described in the footnote.

3. The Steel Committee accept the principle that because of the critical financial circumstances, weekend and other premium shifts will only be loaded after all non-premium shifts have been properly utilised. Changes in shift working will be preceded by full consultation. The Steel Committee recognise that the management have traditionally had discretion in deciding what shift pattern to operate at works (where no Agreement covering the matter exists). However, they believe that any variation should be implemented humanely and with the longest possible notice.

4. Where reductions in premium shifts have taken place since 4th January, and an unresolved dispute situation exists, the following arrangement will apply:

(a) The pattern of rota and premium shift working which existed immediately prior to 4th January, will be restored.

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* The Corporation's position is that if the manpower has not been reduced within 12 weeks of the date when jobs are declared redundant, then other redundancy measures will have to be applied.

(b) The unions concerned will immediately ensure a return to normal working where it has been interrupted.

(c) The Corporation will immediately begin discussions at each plant with the object of renegotiating the changes in question.

(d) The Corporation and the Steel Committee have agreed a deadline of 8th February, 1976 by which negotiations will be completed and any appropriate action taken.

5. The Steel Committee accept that under the terms of the guaranteed week agreement reasonable alternative work will be undertaken and the Committee agrees that every union will support the management in their endeavour to introduce flexible and mobile working. (The N.U.B. will discuss arrangements with the Corporation on a separate basis).

6. The Steel Committee has accepted that where the Guaranteed Working Week Agreement applies the shifts on which work will be found will be at managements' discretion. Works and Departments will be required to give weekly a formal statement of forward order loads and inform local trade union representatives of the effect of these on future working arrangements.

7. The Steel Committee also recognises the need to man jobs flexibly in such matters as working light broadening of job content and mobility, particularly in regard to the undertaking of alternative work without restrictions caused by traditional union and branch boundaries. While such job restructuring may give rise to a higher job content any negotiation regarding a revision of earnings must be considered in the light of Government anti-Inflation policy and the Corporation will renew its representations to the Government on this point. The Corporation and the unions will proceed with negotiations on job restructuring even though implementation may have to await changes in Counter-Inflation policy. Apart from productivity agreements, the Steel Committee would have no objection to their members reaching agreement locally which provided for an agreed amount of de-manning in exchange, for example, for the early retirement of older workers with full entitlement or to increase the future viability of the plant.

8. The Steel Committee affirm that they will take appropriate steps to minimise the number of unofficial strikes which occur in that part of the Corporation where they have responsibilities.

9. Both the Corporation and the Steel Committee have agreed in principle to introduce across the Corporation at Divisional and Works levels joint management/union teams to implement the immediate introduction of the arrangements agreed above particularly plans to reduce manning and means by which unofficial strikes can be minimised. During the next four weeks, the details of these arrangements which will include provisions for deadlines during which negotiations can be completed, will be worked out jointly by the Corporation and the Steel Committee and introduced immediately.

10. This document is intended as a clear declaration on the part of the Corporation and the Steel Committee, to both the management and workforce, of the actions required to improve cost performance. The policy of the Corporation is to consult with the workforce at all levels and it is imperative that this practice is applied to the matters detailed above. Both parties recognise, however, that in view of the enormity of the problems presently facing the Corporation such discussions cannot be allowed to delay the implementation of this agreement.

Signed:

On behalf of the Corporation	On behalf of the TUCSICC/NCCC

A.U.E.W. ENG SECT. L K Dixon.

U E [illegible] I. (TASS) [illegible]

EETPU/EESA [illegible]

A.P.A.C. [illegible]

ISTC J. A. Gacin.

ISTC James Foley

I.S.T.C Leo Cooper

ISTC J E Tickton

ISTC Peter Woods

ISTC. [illegible]

ISTC. Stan Bidencombe.

BRITISH STEEL CORPORATION

PRODUCTIVITY COMPARISONS

The following productivity comparisons are based on BSC Iron and steel activities only. They exclude employees in mining, quarrying, refractories, RDL Limited, and BSC (Chemicals) Limited, etc.

	Liquid Steel Tonnes per man year	Productivity Index	Number of employees BSC would need to employ, in Iron and Steel activities, to achieve comparable productivity, given comparable plant configurations
BSC	131	100	182
France	164	125	146
Germany	225	172	106
Italy	232	177	103
Netherlands	243	185	98
United States	274	209	87
Japan	372	284	64

(Main Source E.C.S.C. 1973)

22.2.78

MEMORANDUM of AGREEMENT made on the 22nd February 1978.

between the BRITISH STEEL CORPORATION, 33 GROSVENOR PLACE LONDON SW1X 7JG, (hereinafter called "the Corporation") of the one part and the IRON AND STEEL TRADES CONFEDERATION SWINTON HOUSE, 324 GRAY'S INN ROAD, LONDON WC1X 8DD, (hereinafter called "the Confederation") of the other part with regard to an INCREASE IN WAGES.

The Confederation submitted a claim for an increase in wages to take effect following the termination of the period covered by the national agreement dated 7th December 1976. Negotiations on the claim took place at conferences held on the 30th November 1977, 17th January and 1st & 22nd February 1978 Agreement was reached taking into account the importance of fully implementing the agreement dated 23rd January 1976 between the Corporation and the Steel Committee, to which the Confederation was a signatory, in respect of reductions in employment costs and improvements in labour productivity.

It is now agreed that:-

1. Both parties recognise the serious financial difficulties facing the Corporation and are committed to the introduction of measures which will assist in reducing the financial losses of the Corporation.

2. Both parties accept the continuing need to improve the operating performance of the Corporation

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as agreed under the terms of the 23rd January 1976 agreement, particularly through progress in the following areas:-

2.1 The early closure of Beswick plants as further detailed in Clause 1 of Appendix 1 together with meaningful discussions about the means by which reductions in operating costs and improved performance can be achieved in the Corporation's ongoing plants during the current year.

2.2 The reduction of unofficial disputes by adopting the procedure set out in Clause 2 of Appendix 1. In addition the Confederation will emphasise to its members the seriousness of the trading situation and the crucial importance of maintaining supplies to our customers on time during 1978.

2.3 The commissioning and operation of new installations without delay by the adoption of the procedure set out in Clause 3 of Appendix 1 for a trial period of one year

2.4 At local level the parties will jointly conduct a critical examination of manning levels, and consider what actions can be taken to bring about a general improvement in productivity through reduced man hours, related costs and improved performance. The means by which such improvements will be achieved are set out in Clause 4 of Appendix 1.

/..............

2.5 The Corporation and the Confederation agree to joint local examination of problems arising from high absentee levels and poor timekeeping.

3. The workers covered by this agreement are those members of the Confederation (a) employed on production conditions covered by the National Agreement dated 7th December 1976 (see Clause 1 thereof) and (b) any members in respect of whom agreement has subsequently been reached between the Corporation and the Confederation that they shall be transferred to Corporation Heavy Steel Conditions (subject to the condition of Clause 7.2 below).

4. This Agreement is made for a twelve month period from 6.00 a.m. Sunday 1st January 1978.

5. There shall be an increase in pay for all workers covered by this Agreement from 6.00 a.m. on 1st January 1978 subject to the exceptions detailed in Clause 7 as follows:-

5.1 In answer to the national Confederation claim for an increase in pay from 1st January 1978 and in acknowledgement of the agreement of the Confederation to actions detailed in Clauses 2 and the Appendices to this Agreement there shall be a general increase to rates of pay from 6.00 a.m. 1st January 1978 of 10 %.

6. The present arrangements regarding Phase 2 supplement will only be changed in so far as to increase the minimum and maximum payments by the general increase.

7. 7.1 Any bonus incentive or other payment expressed as a percentage of a rate to which has been added the percentage increases stated in Clause 5 above shall not be further increased as a result of this Agreement. Where necessary such agreements will be adjusted accordingly to ensure this condition is met.

7.2 In the case of workers subsequently transferred to Corporation Heavy Steel conditions the increases detailed in Clause 5 of this Agreement shall apply from 6.00 a.m. on the first Sunday following the expiry of twelve months from the date on which their last principal wage increase took effect. The increases detailed in Clause 5 shall only be applied to these workers provided the supplement had not been consolidated into their rates as a result of any previous revision.

7.3 This Agreement does not result in a change in the calculation of previous earnings for the purpose of readaptation and/or EIS payment for those employees redeployed before the date of this Agreement.

8. Except as amended by or in consequence of this Agreement all conditions under existing agreements or arrangements shall be continued.

9. This Agreement shall be submitted by the Corporation to the Department of Industry for confirmation that it is consistent with H.M. Government's Pay Guidelines. /............

/..............

SIGNED ON BEHALF OF THE BRITISH STEEL CORPORATION

D. Grieves.

[illegible]

H.O. [illegible]

SIGNED ON BEHALF OF THE IRON AND STEEL TRADES CONFEDERATION

W. Sirs.

[illegible]

22.2.78

APPENDIX 1

1. During the period covered by this Agreement the Corporation and the Confederation will co-operate fully in discussions with the Steel Committee on the identification of Beswick plants where permanent closures can be brought forward.

1.1 The arrangements under which agreed early closures will take place shall be the subject of discussion and negotiation at local level between national and local officials of the parties concerned. The arrangements which applied at the Hartlepool Works shall form the reference point at other works when consideration is given to the terms and conditions of termination of employment of the employees concerned and the orderly permanent and early closure of the plant.

2. The Corporation and the Confederation recognise the need to reduce the incidence of unofficial disputes.

2.1 Where inter-union disputes arise the Confederation agree to discuss such issues with the interested parties without delay and in the event of no immediate resolution of the problem agree to initiate speedy reference to the appropriate body i.e. Steel Committee or TUC for the matter to be dealt with under the established disputes machinery.

There shall be no impediment to normal operation

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during the period required to resolve the problem. If necessary the Corporation shall discuss with the interested parties the arrangements that shall apply to ensure that there shall be no impediment to normal operations during the period required to solve the problem. Such arrangements shall be without prejudice to any party.

2.2 The Corporation and the Confederation recognise that disputes may be the responsibility of either party and that existing agreements at both local and national level have evolved over a number of years and form the basis of the negotiating machinery. These Agreements are reaffirmed.

2.2.1 Both parties recognise that delays in operating the negotiating machinery can cause dissatisfaction and they agree to speed up the procedure.

2.2.2 Where any dispute occurs it is agreed there shall be no interruption to, or restriction to work while the machinery of negotiation is operated.

2.2.3 Both parties shall meet to consider the recommendations of the Heathrow Working Party Reports. As a first step consideration shall be given to agreeing the revised procedure arrangements incorporating the main recommendations of the Heathrow Working Party No. 3.

/.............

2.2.4 In addition, in the interim period a revised system of conducting neutral committees in line with the discussions already held and which allows for advisers to be present at such committees, shall be introduced for an experimental period of one year.

3. Where new plant or installations are being introduced there shall be no delay or interruption to the commissioning and operation of the new plant. This will be achieved by a commitment from both parties to establishing pre-commissioning agreements including the terms of the special procedure shown in Appendix 2.

4. The Corporation and the Confederation recognise there is an urgent need to reduce manpower and improve productivity.

4.1 In works where lead-in payments under WMIS are being paid, both parties are committed to as speedy a conclusion as possible to outstanding studies in order that schemes may be finalised and brought onto a 'live' basis. Every effort will be made to conclude these arrangements in twelve months.

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4.2 To facilitate the overcoming of local problems, including the speed of implementation of the study programme, a flying squad consisting of national officers of the Confederation and the Corporation will be set up to visit areas where difficulties are occurring and assist in solving them.

4.3 In works where work measured lead-in payments do not exist both parties can agree, as an alternative, to implement self-financing productivity schemes designed to meet job restructuring arrangements referred to in Clause 7 of the 23rd January 1976 Agreement. The use of work study is not precluded and particular attention will have to be paid to ensure that area wage structures are not distorted.

4.4 The Confederation understands the Corporation's position that it must conform to the Government criteria concerning self financing productivity schemes.

SPECIAL PRE-COMMISSIONING PROCEDURE FOR SETTLEMENT OF DIFFERENCES WITH REGARD TO MANNING, RATING AND OTHER CONDITIONS OF EMPLOYMENT APPLICABLE FROM THE DATE OF COMMISSIONING OF A NEW PLANT

The normal procedure which applies in the Corporation heavy steel sector is to be used as the primary procedure for resolving questions and differences with regard to manning, rating and kindred matters prior to commissioning dates of new plants. The special procedure detailed below will only be used when the parties involved have been unable to resolve matters through normal procedure in time for commissioning to take place on the planned date.

1. If any difference is not resolved one month prior to the commissioning date the issue will be automatically referred to a special panel convened for this specific purpose. The decision of the panel will be looked upon as an interim agreement to apply for a period of time determined by the Panel and be binding on all parties.

2. During the period of the interim agreement all parties shall pursue settlement of the issue through normal negotiating procedures. Should an agreement be reached during the duration of the interim agreement, it shall be implemented forthwith and the Panel so informed.

3. The panel will comprise a chairman and an equal number of representatives from each side. Unless otherwise agreed the number of representatives shall be not less than three nor more than seven from each side.

4. The chairman will be selected as a person having knowledge of the steel industry and agreed between the Head Offices of the parties. If agreement upon a chairman cannot be reached either from within the industry or from names obtained from the A.C.A.S., then A.C.A.S. shall be asked to nominate a chairman and their nomination shall be accepted by both parties. In order to avoid unnecessary delay the chairman shall be agreed and appointed at least 3 months prior to the commissioning date.

5. The Panel will receive evidence written and oral from the parties and will attempt to reach a decision. In the event of an agreed decision not being reached the chairman will make a decision acting as an umpire or oversman.

6. If during the interim agreement period the parties have not reached agreement on the permanent manning, rating or other conditions in question the panel shall be reconvened and shall be charged with hearing fresh evidence if necessary and reaching a decision on the conditions to apply until a permanent agreed settlement is reached by the parties concerned through normal procedures.

REF. IR|1|79|47.

MEMORANDUM of AGREEMENT made on the 2ND APRIL 1979 between the BRITISH STEEL CORPORATION, 33 GROSVENOR PLACE, LONDON SW1X 7JG (hereinafter called "the Corporation") of the one part and the IRON AND STEEL TRADES CONFEDERATION, SWINTON HOUSE, 324 GRAY'S INN ROAD, LONDON WC1X 8DD (hereinafter called "the Confederation") of the other part with regard to an INCREASE IN WAGES

The Confederation submitted a comprehensive claim for an increase in wages and improvements in other benefits to take effect following the termination of the period covered by the National Agreement dated 22nd February 1978. Negotiations on the claim took place at conferences held on 1st December 1978, 5th January 1979, 23rd February 1979, 1st March 1979 and 2nd April 1979.

Agreement was reached taking into account the serious financial difficulties facing the Corporation, the continuing necessity for the introduction of measures which will assist in reducing the financial losses of the Corporation and the conclusion of the NEDC Iron and Steel Sector Working Party Progress Report 1979 that to remain competitive and pay higher real wages the industry must urgently seek ways to improve its operating performance and productivity.

It is now agreed that:-

1. The workers covered by this agreement are those members of the Confederation (a) employed on production conditions covered by the National Agreement dated 22nd February 1978 (see Clause 3 thereof), (b) members on heavy steel maintenance conditions subject to the addendum to this agreement and (c) any members in respect of whom agreement has subsequently been reached between the Corporation and the Confederation that they shall be transferred to Corporation Heavy Steel Conditions (subject to the condition of Clause 8 below).

2. This agreement is made for a twelve month period from 6.00 a.m. Monday 1st January 1979.

3. There shall be an increase in pay for all workers covered by this agreement from 6.00 a.m. Monday 1st January 1979, subject to the exceptions detailed in Clauses 7 and 8 below, as follows:-

   In full and final settlement of the Confederation's national claim for an increase in pay from 1st January 1979 and in acknowledgement of the agreement of the Confederation to continue actions detailed in Clause 5 of this agreement there shall be a general increase to rates of pay from 6.00 a.m. on 1st January 1979 of 8%.

4. In addition to the increase stated in Clause 3 above a new minimum earnings level of £50 per week including the increased minimum supplement of £2.97 for adult workers as currently applied shall be introduced. For the purpose of this Clause a definition of what constitutes "earnings" and a definition of what constitutes "week" are given in Appendix 1 to this agreement.

5. The means by which the continued improvement in the Corporation's financial position will be achieved are as follows:-

   5.1 The Corporation and the Confederation agree to confirm the commitments made in the last annual agreement dated 22nd February 1978 in respect of:-

/................

a. the new procedure for ensuring no IR delays in the commissioning of major capital projects.

b. the new procedure for speedy resolution of inter-union disputes.

5.2 In view of the vital need to become and remain competitive the Corporation and the Confederation accept the need for commitment to local negotiation in order to achieve by the end of 1979:-

not in NJB agreement

a. speedy resolution of the outstanding problems with work measured incentive schemes where lead-in payments are being made in order to bring these schemes on to a 'live' basis and achieve the consequent productivity improvements as soon as possible. Any outstanding problems at 31st December 1979 will be subject to joint review.

not in NJB agreement

b. local productivity bargains of a self-financing nature at works where lead-in payments do not exist in order to make progress towards internationally competitive manning levels and productivity.

Such bargains may include manpower reductions, where overmanning is established, together with the restructuring of work in order to minimise the recruitment of replacement labour and/or overtime cover when vacancies occur. The use of work study is not precluded nor is it compulsory.

shorter version than NJB

5.3 Joint examination of means by which the whole range of process and maintenance activities can in the future be more closely aligned with particular emphasis being directed to the mutual acceptance of joint responsibility and common purpose.

5.4 It is recognised by both parties that the reduction of absenteeism and the elimination or reduction of unnecessary overtime are important aspects in reducing labour costs and local discussions will be undertaken with a view to securing this objective.

5.5 Whilst there has been a considerable reduction in the incidence and severity of industrial disputes in the Corporation during 1978 there have still been a number of disputes which have had a serious effect on the Corporation's ability to retain orders. In an attempt to build on the progress made in the last year, the Corporation and the Confederation agree:-

a. to confirm for a further year the arrangements for both sides to appoint senior officials as advisers on Neutral Committees.

not in NJB agreement but in origin draft clauses

b. that in the event of an industrial relations situation developing which is likely to lead to serious disruption of production the national officers of the Corporation and the Confederation would intervene as soon as possible with a view to ensuring that normal working continues while procedures are being followed.

/..............

c. the Corporation and the Confederation reaffirm the existing practice that where employees are asked to take on additional duties, they will do so and pursue any claims for increased earnings or regrading through traditionally recognised procedures.

5.6 The Corporation and the Confederation agree to encourage all employees to move onto payment by bank transfer by 31st December 1979 in the interests of administrative economy, safety and security.

6. The present arrangement regarding Phase 2 supplement will be changed only insofar as to increase the minimum and maximum payments by 8%.

7. Any bonus incentive or other payment expressed as a percentage of a rate to which has been added the increases stated in Clauses 3 and 4 above shall not be further increased as a result of this agreement. Where necessary such agreements will be adjusted accordingly to ensure this condition is met.

8. In the case of workers subsequently transferred to Corporation Heavy Steel Conditions the increases detailed in Clauses 3 and 4 of this agreement shall apply from 6.00 a.m. on the first Sunday following expiry of twelve months from the date on which their last principal wage increase took effect. The increases detailed in Clauses 3 and 4 shall only be applied to these workers provided the supplement had not been consolidated into their rates as a result of a previous revision. In these circumstances the increases detailed in Clauses 3 and 4 above shall be adjusted to take account of the increased premium value of the supplement.

9. This agreement does not result in a change in the calculation of previous earnings for the purpose of readaptation and/or EIS payment for those employees redeployed before the operative date of this agreement.

10. Except as amended by or in consequence of this agreement all conditions under existing agreements or arrangements shall be continued.

SIGNED ON BEHALF OF THE BRITISH STEEL CORPORATION	SIGNED ON BEHALF OF THE IRON AND STEEL TRADES CONFEDERATION
P.H. Broxham	W. Sirs
T.P.S. Baxter	L. Bramley
	R.L. Evans

APPENDIX 1

Definition of "week" and "earnings" stated in Clause 4 of the Agreement dated 2nd April 1979

1. The expression "week" for the purpose of Clause 4 shall be interpreted as follows:-

   (a) In the case of day workers and day rota workers the week shall be 40 hours worked and paid for.

   (b) In the case of shift workers to whom the 40 Hour Week Agreement applies the week shall be 40 hours or 5 shifts worked and paid for.

   (c) In the case of workers to whom the 40 Hour Week Agreement has not been applied the week shall be 42 hours or 5.25 shifts worked and paid for.

2. The expression "earnings" for the purpose of Clause 4 shall be defined as follows:-

   /the 5% supplement minimum of £2.97,

   (a) Time rate, and tonnage bonus earnings, or other earnings of an incentive nature which may exist in place of, or in addition to, tonnage bonus, where applicable, based on the average over thirteen normal production weeks immediately prior to the week commencing 6.00 a.m. Sunday ; if, however, during that period any weeks are abnormal these shall be excluded; if that period is not representative at any Works another period shall be substituted by local agreement.

   (b) Shift and weekend premiums, shift working extras and additional payments for working in abnormal conditions shall be excluded.

3. Any balance necessary to bring the earnings as defined above to the £50 level shall be consolidated into the time rate.

ADDENDUM to AGREEMENT made on the 2ND APRIL 1979 between the BRITISH STEEL CORPORATION, 33 GROSVENOR PLACE, LONDON SW1X 7JG (hereinafter called "the Corporation") of the one part and the IRON AND STEEL TRADES CONFEDERATION, SWINTON HOUSE, 324 GRAY'S INN ROAD, LONDON WC1X 8DD (hereinafter called "the Confederation") of the other part with regard to an INCREASE IN WAGES for FULLY SKILLED AND SEMI-SKILLED MAINTENANCE CRAFTSMEN, ANCILLARY MAINTENANCE WORKERS AND APPRENTICES.

1. Clause 5.2. of the agreement is not applicable to maintenance workers to whom the following provisions should apply instead:-

"Clause 5.2.
Both parties are committed to the achievement of the highest possible levels of plant performance through local/district joint discussion and agreements. It is agreed that the engineering workforce contribution to this aim can best be achieved by the effective use of planned maintenance systems, coupled with an increased range of skills and wider systems and plant knowledge on the part of individual maintenance personnel.

In particular the Corporation and the Confederation jointly agree to:-

(a) take whatever steps may be necessary to complete the implementation of live WMIS for maintenance workers not later than 31st December 1979.

(b) joint examination of manpower reductions where over-manning is established, together with the restructuring of work in order to minimise the recruitment of replacement labour and/or overtime cover when vacancies occur. The use of work study is not precluded and particular attention will have to be paid to ensure that area wage structures are not distorted."

SIGNED ON BEHALF OF THE BRITISH STEEL CORPORATION	SIGNED ON BEHALF OF THE IRON AND STEEL TRADES CONFEDERATION
P.H. Broxham	W. Sirs
T.P.S. Baxter	L. Bramley
	R.L. Evans

RES.RHC/EM 7th January 1980

B.S.C's "BOGUS" BONUS

There appears to be a belief, shared by the Prime Minister, the Minister for Industry and some press, radio and T.V. commentators, that there is a further 10% increase in earnings from local productivity deals just for the asking.

Such a belief arises from a complete misunderstanding of the Corporation's proposals and it is doubtful whether Mrs Thatcher, Sir Keith Joseph and others have really bothered to study the proposals in detail. They appear to have just accepted the Corporation's word at its face value - a mistake which many have had cause to regret over recent years.

It is about time that the 10% productivity bonus was spelled out in some detail in order that there can be no possibility of further misunderstanding.

The B.S.C. have produced Proposed Guide Lines for Lump Sum Bonus Scheme which is intended to make their offer irresistably appealing on the surface. But if anyone is prepared to examine the documents' examples in some depth it becomes obvious that it is the biggest confidence trick ever attempted.

In their example of payments based on improvements in added value the Corporation show how the calculations are made.

They take a hypothetical division which in a given year sold goods and services worth £695.8m and spent £583.4m on materials and services thus giving an added value of £112.4m. In the same year employment costs were £126.1m.

The added value of £112.4m is then divided by employment costs of £126.1m in order to provide the value added ratio of 0.891.

This Value Added Ratio (VAR) is then related to a table which shows the percentage bonus achievable.

cont......

V.A.R.	% BONUS
up to - 0.999	Zero
1.000 - 1.049	1%
1.050 - 1.099	2%
1.100 - 1.149	3%
1.150 - 1.199	4%
1.200 - 1.249	5%
1.250 - 1.299	6%
1.300 - 1.349	7%
1.350 - 1.399	8%
1.400 - 1.449	9%
1.450 and over	10%

As the VAR in the example is 0.891 no bonus is paid because the ficticious division is in a severe loss making position in that its employment costs are greater than its added value, thus:-

$$\frac{\text{Added Value}}{\text{Employment costs}} = \frac{£112.4m}{126.1m} = \text{0.891 VAR = No Bonus}$$

In order to achieve any bonus it is obvious that the added value numerator has to be increased or the employment costs denominator has to be reduced - or both.

If we assume that added value remains constant what reduction in employment costs would be required to achieve a 10% bonus?

To acjieve a VAR of 1.450 (see table above) we would have to reduce employment costs by £48.6m to £77.5m thus:-

$$\frac{\text{Added Value}}{\text{Employment costs}} = \frac{£112.4m}{£\ 77.5m} = \text{1.450 VAR = 10\% Bonus}$$

A reduction of employment costs from £126.1 m to £77.5 m is a 38.54% drop.

It is now becoming apparent just how bogus the bonus offer is. In exchange for a 38.54% reduction in the labour force the Corporation are prepared to offer a 10% bonus. At least 1 out of every 3 employees will be made redundant and of the remaining 2 they will have to increase their productivity by more than 50% each, otherwise the added value side of the equation will fall, thus wiping out any bonus whatsoever.

Indeed, the 10% bonus would not be paid every quarter at that level following such massive manpower cuts and increases in productivity. The cost of the 10% bonus would be added to the employment cost denominator in subsequent periods and so reduce subsequent bonuses thus:-

Period 1

$$\frac{\text{£}112.4\text{m}}{\text{£}77.5\text{m}} = 10\%$$

Period 2

$$\frac{\text{£}112.4\text{m}}{\text{£}77.5\text{m} + 10\%} = \frac{\text{£}112.4}{\text{£}85.15} = 1.32 \text{ VAR} = 7\% \text{ Bonus}$$

So having shed over one third of manpower and increased output per man by over 50% for a farcical 10% bonus in one period that bonus would be reduced substantially in the following period.

It must be remembered that the so called 10% increase is a supplementary payment only and is not consolidated into rates.

Let us now assume that the rate of inflation increases by 12% per year over the next two years. In year one, the bonus would be 10%, in year two it just might reach 7%. So in addition the 11.5% reduction in living standards arising from the current 6% offer steelworkers would experience a further 2% reduction at the end of 1980 and a 5% reduction in 1981 - and so on. No wonder BSC want to replace the system of national negotiations for local productivity agreements! What will the BSC get from the deal? A 38.5% reduction in employment costs would result in an annual savings of £462 million - more than enough to wipe out their current losses and to provide the Government with substantial dividends.

If the figures used by the BSC in their guidelines are applied across the Corporation it would appear that in order for every employee to achieve a 10% bonus some 65,000, i.e. 38.5% of total employees, would have to be made redundant in 1980 - this is 10,000 more than even the Corporation predicts.

This then is the magnitude of the proposal which the BSC are trying to force upon its employees. Can Mrs. Thatcher and Sir Keith Joseph honestly admit they fully understand and approve such an offer? If so do they agree that it is a fair offer?

Is there any trade union, any group of employees, any journalists, broadcosters or members of the public who knowing the above facts consider that the Corporation's proposals are a fair and reasonable basis for settlement? Or do they, like the steelworkers, recognise the bonus offer for what it really is - a bogus offer - a gigantic confidence trick.

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COVERING CONFIDENTIAL

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
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TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

7 January 1980

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Seen by the Prime Minister.

TPL
7.

Dear Tim

STEEL STRIKE

Mr Gross has already reported orally to the Duty Clerk the outcome of today's meeting between the BSC Board and the TUC Coordinating Committee. You will wish to see, however, the
... attached minute which sets out in full the statement which the BSC Board propose to make following that meeting.

I am copying this letter to Martin Hall (Treasury), Tony Butler (Home Office), Ian Fair (Employment) and Richard Prescott (Paymaster General's Office).

Yours sincerely

Peter

PETER MASON
Private Secretary

7 JAN 1980

N

Reference..........

CONFIDENTIAL

PS/Secretary of State

cc All Ministers
Secretary
Mr Ridley
Mr Berman Dep Sec
Mr Bullock Dep Sec
Mr Dearing Dep Sec
Mr Liesner Dep Sec
Mr Lippitt Dep Sec
Miss Mueller Dep Sec
Mr Lanchin G
Mr Monck Treasury
Mr Littler Treasury
Mr Woodrow Inf
Mr Clay IS3
Mrs Cohen IS1
Mr Long IS4
Mr Neville-Jones IP1
Mr Spencer IS1A
Mr McMillan IS1A

STEEL STRIKE

The following is the statement which Sir Charles Villiers will issue this evening, subject to a further discussion by Dr Greaves of BSC with Mr Len Murray.

"Proposed Statement by BSC Board: Evening January 7 1980

At its meeting today, the Board received representations from the TUC Coordinating Committee. The Board then gave careful and sympathetic consideration to these views. Following this the Board agreed that negotiations for a pay settlement should be based on:-

(i) a general increase of 8% based on a national agreement to include changes essential to improve the efficiency of the industry, particularly flexibility in working practices, reduced manning at ongoing plants, non-recruitment of labour to fill vacancies caused by natural wastage, in order that such an agreement should be self-financing, the basis accepted by the TUC Coordinating Committee.

(ii) a further increase of a minimum of 4% (in lump sum payment) arising from locally negotiated lump sum bonus schemes. BSC were prepared to guarantee this minimum benefit from the schemes, but expected the average payment under the scheme to be higher.

In addition steelworkers directly concerned with traditional productivity schemes would receive further increases. Last year locally negotiated schemes yielded an average of 6-7% on top of the nationally negotiated settlement.

The Board of BSC considered that an offer based on these principles would be in line with its own objectives as well as those of the unions ie to reconcile:-

(i) significant increases in earnings for steelworkers, and

(ii) self-financing of these increases through improved performance by plants in BSC.

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In response to the representations from the Trade Union Coordinating Committee, the Board are now prepared to make one advance payment during January/March quarter at the rate of 4% of gross earnings of the last quarter of 1979 (the minimum guaranteed under the schemes) in respect of the lump sum bonus schemes. Further quarterly payments would be made only where the lump sum bonus schemes have been negotiated by 31st March 1980.

The minimum increase in earnings achieved on this basis should be 12% per annum provided lump-sum schemes are entered into by 31st March, but the Board would expect the average increase payable to be higher than this.

The Board considers that a pay agreement tied to increases in efficiency in the industry, arising from a national agreement intended to be self-financing, and from the proposed local lump sum bonus schemes, is essential to the competitiveness of the industry and to job security within it."

I will circulate an explanatory note tomorrow morning.

S J GROSS
IS
R.816 Ashdown House Ext 8705
7 January 1980

CODE 18-77

Nad
Ind

NOTE FOR RECORD

The Prime Minister spoke with Sir Keith Joseph on the telephone at 10.45 hrs about the steel negotiations.

The Prime Minister said that she was worried that if no settlement were achieved today, BSC would be pushed further - and would eventually have to settle at a still higher cost. The longer the delay in reaching a settlement, the higher the eventual level of it. BSC had had a bad press over the weekend - they were not getting over the fact that part of their offer was conditional on productivity. It also appeared that they had, in fact, moved from 2% to 12% in a period of days.

Sir Keith Joseph said that the gulf between BSC and the unions remained enormous. It would be a mistake to ask BSC to concede any more. If they offered money in advance of productivity, the unions simply would fail to deliver - as they had done in 1976.

The Prime Minister said that the cost of a prolonged strike would be enormous: she re-emphasised that it was important to get a quick settlement. If the strike went on for more than a few weeks, the consequences for industry generally would be very bad. Sir Keith agreed with the latter point, but said that if BSC were to concede more now, this too would have serious consequences. In particular, the unions would take it as a victory, and would then go on to win on the question of closures. The Prime Minister disagreed; she pointed out that the cash limit was fixed at £450 million, and BSC would have to live within this. If the unions failed to come through with productivity improvements, there would have to be further redundancies. On the question of productivity, she hoped that DOI would look not just to the unions to deliver: the contribution of management was also crucial. She felt that the negotiations

/had been

had been badly handled by BSC. Villiers and Scolley were known to be divided, and the unions were seen to be on top.

Sir Keith said that the Chancellor and he were agreed that it was essential that BSC should stand firm on the linking of a substantial part of the 12% offer with productivity. Productivity must be negotiated before the full amount is paid. The Prime Minister said that she thought a settlement of 12 - 13% was possible with public guarantees from the unions that the necessary productivity improvements would take place. Sir Keith said that such guarantees would not be enough.

The Prime Minister and Sir Keith agreed to discuss the situation further later in the day.

R.

7 January 1980

NOTE FOR THE RECORD

The Prime Minister spoke on the telephone with the Secretary of State for Employment at 1120 hours about the steel negotiations.

The Prime Minister said that it was important to get a settlement today. She was afraid that if there was any further delay, the level of settlement which BSC would be forced to concede would be even higher. Sir Keith Joseph was arguing that to accept the unions latest proposals would simply be a repeat of the 1976 experience when they had failed to deliver on productivity. Her own view was that they could be made to deliver - not least by the existence of the £450 million cash limit.

Mr. Prior said that he fully agreed that a settlement was needed today. The weekend Press had convinced him of this all the more - the BSC Board were already seen to be losing the battle, and it would be best for them to "cut and run". It ought to be possible to achieve a settlement at 13 per cent, and provided the productivity element was properly presented, this would not be too bad. It was unfortunate that BSC had proved such poor negotiators.

The Prime Minister said that she would be meeting Sir Keith and the Chancellor later this morning, and she would try to persuade them that an immediate settlement - not necessarily with the productivity linking which Sir Keith would like - was essential. In Mr. Prior's absence from London, she would like Douglas Smith to attend.

7 January 1980

NOTE OF A TELEPHONE CONVERSATION BETWEEN THE PRIME MINISTER AND THE SECRETARY OF STATE FOR EMPLOYMENT AT 1645 ON SUNDAY 6 JANUARY 1980

Mr. Prior telephoned to congratulate the Prime Minister on her television interview, and especially handling of trade union matters, which he characterised as highly effective, although perhaps too detailed for a majority of the audience. Later in the conversation, the Prime Minister asked whether Mr. Prior had any new information about the steel strike situation. She commented that the Corporation had received a terrible press that day. Mr. Prior said that he had no new information. He was concerned that disunity in the Corporation's Board could lead to a damaging situation. In a chance meeting the previous day, Lord Thorneycroft had expressed the view that a package of 12-13 per cent could be sold quite successfully if the presentation was carefully prepared - taking into account comparisons with other pay settlements, the scale of cutbacks already agreed this year, etc. He had not given Mr. Douglas Smith any new instructions over the weekend, although Mr. Smith had been in regular contact with Mr. Gross. Mr. Prior said that he understood that the split between Sir Charles Villiers and Mr. Scholey had been clearly visible on Friday night. The Prime Minister was concerned about the meeting scheduled for Monday 7 January. It was important that negotiations did not break down. Each additional day of the dispute tended to raise the price. Mr. Prior felt that there was now little prospect of a settlement significantly below 13 per cent. The Prime Minister said that the difference was not so much the quantum of the settlement as the grounds and method of paying it. She understood that the union side had also tried to reopen some of the proposed redundancies at Friday's negotiations. The Board would have to sort itself out on Monday morning and appear united at the meeting with the unions later in the morning.

Mr. Prior said that the Board needed advice on how to put across to the public the settlement, preferably before it was reached. The Prime Minister said that they had gone further than

/ expected

expected on Friday night, with Mr. Scholey being worn down by the five union General Secretaries. She commented that Mr. Gross seemed to be a very effective operator. Mr. Prior said that he and Mr. Douglas Smith were working together very well. There appeared to be some problems between Mr. Gross and his immediate superior in the Department of Industry.

MAP

7 January 1980

T/L.

MAP

7/1.

PRIME MINISTER

Here is a fuller report from Mr. Gross about Friday's steel negotiations. The first section spells out in more detail what you have already heard in the notes which Nick and I gave you. His "comment" reflects the issues which you discussed with Sir Keith Joseph on the telephone this afternoon.

None of this need affect the line you were proposing to take on steel in the Weekend World interview. It will just ensure that you have the up-to-date facts at your disposal. The note will be of most value to Ministers when they take up matters again on Monday.

M. A. PATTISON

5 January 1980

PS/PRIME MINISTER

The Steel Strike: Negotiations

1. I understand that the Prime Minister now has adequate background briefing for her appearance on television tomorrow, Sunday, morning. But Mr. Ingham asked that I let you have the position this evening on BSC's negotiations with the Unions, to be supplemented by telephone tomorrow morning if needed. My Secretary of State, Sir Keith Joseph, has also asked me to note the line that I propose, with his agreement, to take at the special BSC Board meeting scheduled for 11.00 a.m. on Monday, 7 January. At 11.30 a.m. the Board are to meet the Trade Union Co-ordinating Committee (ISTC, NUB, GMW, T & G and NCCC, led by Mr. Murray) at the latter's request.

2. My second minute of yesterday set out the position as at 6.00 p.m. The negotiations continued until midnight. During their course, the Trade Union side tabled their proposals in writing, see annex 1; BSC responded with their proposals, at annex 2.

3. The Trade Union side are seeking an 8 per cent general increase from 1 January plus a 5 per cent increase from the same date "on account of" lump sum bonuses from productivity agreements to be negotiated locally. They noted that settlements in heavy industries like steel were now averaging 19 per cent: they recognised the difficulties faced by BSC and were therefore prepared to settle for the lower 13 per cent rate now being agreed in the public service sector, but were not willing to go below this. Although the proposals as tabled are ambiguous on the point, they appear prepared for the 5 per cent "on account of" payment to be subsumed in the payments that would arise from local productivity agreements. They committed themselves to the introduction

/ of such schemes

of such schemes but were not prepared to accept any termination of the 5 per cent payment if the schemes were delayed or unsuccessful.

4. For their part, BSC offered 8 per cent against the central agreement (to be strengthened in ways not specified but see note to annex 2) plus one per cent "unrequited" lead-in payment on the launch of a local productivity scheme plus a minimum 3 per cent to be paid at the end of each quarter following introduction of a productivity scheme. They did not pursue their earlier proposal to terminate the 3 per cent payment if the productivity improvements were not achieved, but instead sought provision for the investigation of any failure to achieve this by "a neutral agency".

5. As the gap was not being narrowed, the Unions sought a meeting with the full Board on Monday 7 January and Sir Charles Villiers agreed to this.

Comment

6. While the gap in the total amounts appears to be only 1 per cent, (Unions 8 + 5 = 13; BSC 8 + 1 + 3 = 12) there are important differences in the two positions. Apart from the 2 per cent consolidation element, BSC are seeking some real, although difficult to quantify, productivity concessions for the 6 per cent balance of the central offer and insist that local productivity agreements, which should be self-financing, be negotiated before anything over the 8 per cent is paid. The Unions want another 5 per cent paid immediately irrespective of whether the local agreements are reached. Their proposal therefore greatly reduces the incentive to the local work forces to reach such agreements.

7. Experience of the January 1976 Steel Agreement and of national enabling agreements in other industries strongly supports the BSC view that very little of the wage increase

/ as proposed

as proposed by the Unions (costing about £160 million) would in practice be covered by productivity gains, so vital to the future competitiveness of the industry. So the credibility of the £450 million cash limit and of the "none of this cash for operating losses" would be undermined and would be seen to have been undermined.

8. The Union leaders have now raised their "settling point" twice in short order - from about 7 per cent (with less strength) on 24 December to 11 per cent (6 per cent + 5 per cent "on account") a few days later, to 13 per cent now. An easy victory on terms close to the latter would only encourage similar industrial resistance to the major closure and reconstruction proposals (Concept and Llanwern/Port Talbot).

9. On the other side, if there is no early settlement, the strike may well be a long one of, say, 6 or 8 weeks, causing increasing industrial damage which would bring pressure on Government rather than on BSC.

10. It may well be that BSC could have played their hand more skilfully, but in essence, the question is a relatively simple one. Do we want BSC to act like a commercial organisation and observe the financial discipline imposed by their bankers or do we want BSC to act as a public utility with publicly financed social and national obligations? If the former, we have little choice but to support their present stand that anything over 8 per cent must be manifestly self-financing, hence have strings attached and should therefore not be paid until the local schemes are negotiated.

S. Gross

Iron & Steel Division
Department of Industry
Room 816, Ashdown House
212-8705

5 January 1980

ANNEX 1

PROPOSALS TABLED BY THE TRADES UNIONS COORDINATING COMMITTEE: 4 JANUARY 1980

The representatives of the Trades Union Coordinating Committee will be jointly prepared to recommend to their respective negotiating bodies and Executive Committees the following points as basis for the resumption of normal working and the settlement of the current pay negotiations. It should be noted that there are a number of other * points advanced by the Unions which will need to be resolved within the negotiations.

(i) A general increase of 8 per cent on all existing elements of pay from 30/12/79

(ii) A further 5 per cent as from the same date on all existing elements of pay on account of the negotiation and implementation of lump sum bonus schemes on a Divisional or Works basis and having regard in this connection to the commitments set out in points (iii)-(vi) below.

(iii) A national commitment by all the parties concerned to the introduction of such schemes and to the principle of local joint bargaining in relation to such schemes at Divisional or Works level.

(iv) An agreement by the Unions to establish local Joint Productivity Committees which the Unions concerned will assist with specialised resources.

/ (v)

(v) Agreement to the provision for a joint review where a particular scheme is not yielding the anticipated returns; in specific situations, it will be open to both sides to seek advice and assistance from mutually agreed sources.

(vi) Agreement that the Trades Union Coordinating Committee will continue in existence to deal with any problems arising from these negotiations and will as appropriate involve national negotiators.

(vii) Constructive discussions will be held concerning the introduction of a 39 hour week or a shorter working year with a view to this being effective from 1 January 1981 **

NOTE BY SJG

* I gather these points would include special increases for lower paid workers and for apprentices.

On ** the proposed starting date is a year earlier than that previously mentioned, namely 1 January 1982.

ANNEX 2

PROPOSALS TABLED BY BSC: 4 JANUARY 1980

1. The agreement as submitted by the BSC to the Negotiating Committees of the ISTC and the NUB is accepted by all parties as the basis for a settlement subject to some strengthening. The consolidation arrangements as detailed in Clause 3 (i) remain unaltered. The general increase as detailed in Clause 4 (i) being agreed at 6 per cent. The Corporation is prepared to defer consolidation and consider a general increase of 8 per cent. The modifications to the lump sum bonus scheme as set out in 2. below to be agreed.

2. Lump sum bonus scheme.

(a) The introduction of schemes on a multi-Union basis to be actively encouraged by all parties.

(b) All parties accept the principle of self-funding of bonus payments through the acceptance and introduction of changes at local level leading to improved performance benefiting both the Corporation and its employees.

(c) In order to facilitate the launch of such schemes, BSC agreed that:

(i) A lump sum payment equivalent to 1 per cent of 1979 gross earnings shall be paid on the launch of a scheme agreed on a multi-Union basis;

(ii) After the introduction of a lump sum bonus scheme during 1980, lump sum bonuses shall be

/ calculated

calculated on a quarterly
basis and for the remainder of
the year a minimum payment of
3 per cent on gross earnings
during the quarter in question
shall be made. Any areas not
improving on this basic shall
be the subject of review at
national level including the
use of outside neutral agencies.

NOTE BY SJG

The Agreement mentioned in paragraph 1 is the Agreement of 28 December as watered down by Mr. Sirs and Mr. Hector Smith. (But still rejected by the Negotiating Committees). The remaining features are agreement to continue to slim down at on-going plants (but deletion of the figure of 12,500 redundancies needed, abolition of Guaranteed Week Payments at local level where mutually agreed and encouragement of discussions between local representatives of process workers and of craftsmen with a view to more flexible working and simpler wage structures. " Strengthening" the Agreement would probably involve restoring the references to 12,500 redundancies, a Joint Industry Committee, increased responsibilities for the TUC Steel Committee, etc.

CONFIDENTIAL

NOTE OF A TELEPHONE CONVERSATION BETWEEN THE PRIME MINISTER AND THE SECRETARY OF STATE FOR INDUSTRY AT 1700 HOURS ON SATURDAY 5 JANUARY

The Prime Minister said that she had seen two notes reporting the previous night's negotiations, and she had had further comments from her own private sources. Were there any other points of which she should be aware?

Sir Keith Joseph said that the union General Secretaries had descended to the level of personal attacks on Sir Charles Villiers. The unions were still trying to get something for nothing, as they had so often done in the past.

The Prime Minister asked why the Corporation had raised its offer as high as 8 per cent in the previous night's negotiations. Sir Keith Joseph explained the package. The Corporation had assured him that all the new money would be strictly tied to productivity. The situation was still dicey. The Prime Minister would know that the full Board was to meet the unions on Monday. He was apprehensive about this. Mr. Scholey had been very robust, while Sir Charles Villiers seemed somewhat less solid. There was a risk of splits in the Board, and he had instructed Scholey and Villiers to arrange for the Board to meet before the 1130 meeting with the unions, in order to establish a line to which they could stick. The 1130 meeting with the unions would be very important, but he feared that the conditions for a settlement did not exist. The unions wanted all the money to be paid immediately, and back-dated to 1 January, even though the detailed schemes would not be worked out for some time. The previous night's meetings had become messy, and Mr. Sirs had broken the agreement that nothing would be said to the press about the details discussed. When the unions had outlined the Board's offer, the Board had been obliged to do some counter-briefing.

/ The Prime Minister

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The Prime Minister said that she would have to insist to television that negotiations were still in progress. Sir Keith Joseph suggested that she should emphasise that the only additional money was that which could be earned through productivity, and that the tax payer had already paid enough to support the steel industry.

The Prime Minister feared that Mr. Scholey was not a particularly skilled negotiator. Sir Keith Joseph commented that Messrs. Scholey and Villiers were in a death or glory situation. They both knew that failure meant that he would ask the Prime Minister to replace them. The biggest problem was that the temptation to offer just a little more in the hope of achieving a settlement was always there. The Prime Minister added that the only alternative was more redundancies.

The Prime Minister had heard that the BSC Board had refused to continue the negotiations into the night, despite union wishes. She felt that the Board must be equipped with more than one or two spokesmen, as the negotiating ability of the five union General Secretaries could wear them down. She hoped that there were no real differences between Sir Charles Villiers and Mr. Scholey. Sir Keith Joseph said that the gap which had appeared to be emerging between them had now been recovered. The unions were desperate to reach a conclusion, but it was not clear whether this was because they smelt victory or feared defeat. The Prime Minister suggested that they might be motivated by a fear of playing into the hands of union extremists. Sir Keith Joseph said that he would ensure that the Board sorted out a firm position, and would tell them that, if necessary, the time of negotiations would have to be set back. The Prime Minister insisted that the negotiations must start on Monday. There was a risk of more highly publicised developments with flying pickets, etc if there was delay. It was important to find an additional skilled negotiator for the BSC, and the part-time members of the Board should be considered if necessary.

MAP

7 January 1980

CONFIDENTIAL

PRIME MINISTER

STEEL STRIKE

You will have seen Nick Sanders' report of his conversation with Solly Gross late last night.

Mr. Gross rang me early this morning with an update. In the event, last night's meetings had gone on much longer than seemed likely at 2300. No changes were discernible in the positions of the two sides, but it was agreed that the General Secretaries of the unions concerned would meet the full BSC Board at 1130 on Monday.

It was supposedly agreed that neither side would give any details to the press other than to say that discussions had been going on. However, the unions side did reveal details of the BSC offer, and the Corporation have therefore felt it necessary to make some countering comments.

None of this changes the assessment of where matters stand. As Nick has already suggested, you will probably want to speak to Sir Keith Joseph (who will, I understand, be out between 0945 and 1300 this morning) and Mr. Prior. Mr. Gross thinks that Sir Keith will want to emphasise the need for the Government to take the line that there is more money available in the form of productivity agreements, and that this should be your theme when the matter arises in the Weekend World interview.

One further gloss on the union position: their firm adherence to the 13 per cent figure is based on the argument that the "going rate" for heavy industry is around 19-20 per cent, and that they are therefore generously recognising BSC's difficulties by indicating they will settle for a mere 13 per cent.

M.A. Pattison

5 January 1980

Reference

CONFIDENTIAL

PS/Secretary of State

cc PS/Prime Minister
PS/Chancellor
PS/Home Secretary
PS/Secretary of State DEm
PS/Mr Butler
PS/Mr Marshall
PS/Sir Robert Armstrong C
PS/Sir Peter Carey
Mr Ridley Dep Sec
Mr Mountfield CO
Mr Monck Tsy
Mr D Smith DEm
Mr Woodrow Inf
Mr Long IS(Tech)

STEEL STRIKE: WAGE NEGOTIATIONS

My minute of this morning. While "a round by round" account may lead to excessive swings between optimism and pessimism, the Secretary of State will no doubt wish to have the position as at close of play this afternoon.

2 This morning's meeting between Mr Scholey and Mr Murray was a fairly tough one, with BSC insisting on firm self-financing but with Mr Murray sliding away from any firm assurances and seeking at least 12% overall. Mr Scholey authorised Mr Murray to discuss with the General Secretaries the following offer:

2% for consolidation

plus 6% against the "central productivity" concessions as originally put by BSC to the ISTC and NUB (ie before the watering down insisted on by Mr Sirs and Mr Hector Smith on 28 December)

plus 3% minimum payment against locally engaged productivity schemes, provided they were agreed by all the unions involved. BSC proposed that this be paid on a quarterly basis. If the expected savings were not achieved in any quarter, an independent "audit" would them examine the reasons; payment for the following (ie the 3rd) quarter would be stopped if the audit determined that in any way the fault lay with the workforce

(+ a 1% lead-in payment to be conceded at the last moment by Mr Murray if needed to clinch the agreement).

3 Mr Murray later presented these terms himself to the five General Secretaries (ISTC, NUB, GMWU, T&G and NCCC (AUEW+)). They were apparently found sufficiently acceptable for

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Mr Murray to lead them back to BSC for more specific negotiations this afternoon. These negotiations are still continuing.

4 BSC have now offered 8% nationally in return for the "beefed up central productivity agreement", plus a maximum 4%, to be paid retrospectively, for locally negotiated productivity deals. For their part, the unions are now insisting on a central settlement of 13%, in return only for assurances by the Unions of their "full support for local productivity negotiations"; the TU negotiators are claiming that this would make the deal self-financing.

5 There is a short adjournment at present (6 pm) but it seems likely that agreement will not be reached this evening. It is too early to say when, if so, they will be resumed.

S J GROSS
Hd IS Division
816 Ashdown House
212 8705
4 January 1980

PA (steel)

(FROM DEPT. OF INDUSTRY)

1 "Other countries subsidise their steel industries which are also making losses"

(Attached Table for the EEC countries gives the latest figures we have).

Figures cited for the steel losses in other countries have tended to be for 1978. But the foreign companies have IMPROVED in 1979. The Dutch state company, Estel, and the German state company Klockner are now operating profitably. The Belgian state company, Cockerill and the Luxembourg company, Arbed have sharply reduced their losses and are moving towards making a profit. The French and the Italian state companies are still making losses but strenuous attempts are being made to return them to profit. BSC's losses have got NO BETTER and may well be SLIGHTLY WORSE (from £309 million for 1978/79 to something over £300 million in 1979/80, when they are paying £25 million less interest on their capital).

2 Why is Government prepared to see another loss making industry, the NCB, pay over 20% to its workers who are not even being asked to accept the sort of redundancies steel workers are?

It is for BSC to determine what they can afford. BSC are willing to pay more provided the workers produce steel more efficiently. In 1978 UK steelworkers produced 1 tonne of crude steel for every eleven hours worked. Those in West Germany produced one tonne for every six hours; those in Italy, Belgium and Luxembourg did even better.

3 Why cannot the BSC pay as much as other employers? (Fords, miners, local authorities)

We must get away from the idea of a "going rate" for pay increases. Many things affect the pay increases employers can afford, including profitability, demand, and the severity of the competition they face. The BSC is making heavy losses, and faces increasingly severe international competition over the next year or so. In such circumstances, to pay wage increases not matched by improved productivity only puts at serious risk the jobs of those remaining in the industry.

4 How can the Government go on insisting that BSC break even this year, in the middle of a drastic recession, against a strong pound and massive inflation, none of which have anything to do with the steel workers?

Job security can be given only by an industry that earns its keep by being in the black. So long as BSC is in the red, there is bound to be a question mark hanging over every job in it. So the steel workers are directly affected and they must help BSC get back into the black by improved productivity - for which there is very great scope and which is within their control.

5 Why couldn't the BSC get out of its present difficulties by selling more steel?

By comparison with other European countries, domestic steel producers in the UK - the BSC and the private sector - have a high (nearly 80%) share of the home market. But that market is if anything declining. And, so long as BSC are inefficient, they cannot compete more successfully overseas. The remedy for the latter lies in the hands of the Corporation and its workforce, but at present the prospects for increased sales at a profit are very poor. Selling at a loss helps no one in the end.

6 What about the plant? Is it good enough?

BSC is entering the 1980s with some of the most modern plant and equipment in the free world. The new Redcar blast furnace is the largest in Europe. All this investment has cost the taxpayer £2,000 million in capital investment over the last 5 years. The steelworker has all this new equipment. The taxpayer now expects him to put it to efficient and profitable use.

Data on the current financial performance of BSC's competitors is inevitably incomplete. Also, we have more information from the press on those companies whose performance has improved than on companies in France, Italy and Belgium whose performance in 1978 was worse than BSC's.

		PRODUCTION (M TONNES)	PROFIT/(LOSS) (£million)	PROFIT OR (LOSS)/ TONNE (£ per tonne)
ARBED (LUXEMBOURG)	1976	4.04	(19)	(4.75)
	1977	3.8	(72)	(17) —
	1978	4.2	(32)	(6)
	1979	losses sharply reduced in first half of 1979		
ESTEL (HOLLAND)	1976	10.4	(16)	(1.5)
	1977	9.4	(105)	(14) —
	1978	10.4	(69)	(6)
	1979	Pre-tax profits made in Q2/3 1979		
SACILOR (FRANCE)	1976	6.6	(84)	(13)
	1977	6.4	(267)	(42) —
	1978	N/A	(117)	(18)
	1979	Further heavy loss expected in 1979		
COCKERILL (BELGIUM)	1976	5.1	(18)	(6)
	1977	4.9	(116)	(24) —
	1978	5.4	(106)	(20)
	1979	N/A		
ITALISDER (ITALY)	1976	10.8	(85)	(8)
	1977	10.2	(258)	(25) —
	1978	10.4	(214)	(21)
	1979	N/A		
KLOCKNER (GERMAN) (steel interests) estimate	1976	N/A	N/A	N/A
	1977	3.75	(81)	(22) —
	1978	4.2	(62)	(15)
	1979	Group now operating profitably		
BSC	1975/6	17.2	(255)	(15)
	1976/7	19.7	(95)	(4)
	1977/8	17.4	(443)	(25) —
	1978/9	17.3	(309)	(18)
	1979/80	Loss of £300m+ expected.		

JU

PA

MJS

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
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LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

4 January 1980

Nick Sanders Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW 1

Dear Nick,

... I attach a copy of a situation report prepared by an inter-departmental group of officials during the current steel strike, chaired by Mr Philip Ridley of this Department. The group expect to produce further reports bi-weekly or weekly as necessary.

I am copying this letter to the Private Secretaries to the Members of E Committee, the Secretaries of State for Scotland and Wales, the Minister of Transport and Sir Robert Armstrong.

Yours ever,
Pete.

PETER STREDDER
Private Secretary

Secretary of State

cc All Ministers
Secretary
Mr Berman, Dep Sec
Mr Bullock, Dep Sec
Mr Dearing, Dep Sec
Mr Liesner, Dep Sec
Mr Lippitt, Dep Sec
Miss Mueller, Dep Sec
Mr Gross, IS
Mr Lanchin, G
Mr Woodrow, Inf
Mr Clay, IS3
Mrs Cohen, IS1
Mr Long, IS4
Mr Neville-Jones, IP1
Mr Spencer, IS1A
Mr McMillan, IS1A

STEEL STRIKE

The Interdepartmental Contingency Group set up under my chairmanship as a result of the E Committee remit of 12 December met again this morning to consider the progress of the strike and what further contingency work would be appropriate. For as long as the strike continues the Group will report to Ministers on Tuesdays and Fridays, and in between as necessary.

2 Following the BSC Board meeting yesterday and Mr Sirs's challenge to the BSC (and the Government) to offer a payment on account against local productivity deals, fresh contacts are today being made in an attempt to resolve the dispute. Mr Murray was meeting Mr Scholey this morning to map out the lines of a possible settlement. He had also arranged to meet the General Secretaries of the five main unions involved later in the day. His idea, we think, is to get all five General Secretaries provisionally agreed on the outline of a settlement, with the leaders of the big general unions (whose non-steel members stand to suffer in a prolonged dispute) bringing pressure to bear on Mr Sirs, and to get Mr Sirs fully committed to the terms before he goes back to his negotiating committee.* Mr Murray is prepared if necessary to attend the meeting with the latter himself. Mr Sirs has called a meeting of his Executive Committee (not identical with the negotiating committee, but closely related) for Monday 7 January. It is important that none of these moves should be mentioned publicly.

* This evening Mr Murray and the five General Secretaries are meeting BSC. No news yet (1740) of progress.

3 The BSC understand that any settlement has to be within the financing terms set by the Secretary of State for the Corporation, ie no increase in the cash limit and no financing by Government of operating losses.

4 In view of the Paymaster General's reported concern that the BSC should make more efforts to put its case across to the public, a meeting between the DoI Press Office and the BSC has been arranged for today. But in view of the current efforts by the BSC and the unions to settle the strike, the Group generally endorsed the view of the No. 10 Press Office that Ministers would be best advised not to go beyond their previous lines in public.

Effects of the Strike

5 There is little new to add to the picture set out in the Secretary of State's minute to the Prime Minister of 3 January. Steel production is at a standstill at all the BSC's works (as are deliveries from them), but is continuing at normal levels in private sector plants(though lorries have been stopped by pickets at two plants near Sheffield which are part-owned by BSC). Deliveries are continuing from private sector steel stockholders, and from some BSC-owned stockholders.

6 As regards the transport of steel, including imports, the Department of Transport has been in close touch with British Rail, the Ports and the Road Haulage industry. British Rail is relatively unimportant as a carrier of non-BSC steel. It is not yet clear what effect, if any, the rather loosely worded instructions from the NUR and ASLEF to their members is having, though there are some indications of a switch from rail to road movement of steel. The media attention on steel imports through Kings Lynn may have hastened the reported decision by dockers to unload but prevent the onward movement of steel imports there. Steel movements at other Ports seem so far to be affected very little. In relation to both the ports and the road haulage industry, it seems probable that the TGWU are relucant to issue formal and specific instructions to their local branch membership. Their statements so far are essentially equivalent to a basic minimum level of public support for the ISTC. In consequence, if the national leadership maintain this position one can expect sympathetic action by TGWU members to be very patchy and localised. The overall picture that emerges is one of less dislocation so far to normal movements and production of steel, outside the BSC itself, than the initial media reports would suggest.

7 I have just heard that the British Transport Docks Board intend to stop the pay of dockers at Hull if they persist in refusing to load a cargo of steel pylons for Indonesia despatched by a private sector fabricator. Industrial relations in Hull are traditionally volatile.*

Picketing and Other Secondary Action

8 Apart from the instances mentioned, picketing does not appear to have interfered significantly with the movement of non-BSC steel so far. The Group discussed possible responses to picketing, should this become a major problem in a prolonged dispute. Under existing laws

(i) Chief Constables can intervene to prevent intimidation (normally interpreted as threats of violence: photography of lorries by ISTC members would not qualify), obstruction or possible breaches of peace;

(ii) firms can seek an injunction from the Courts, against eg secondary picketing (bearing in mind the recent unhelpful House of Lords judgment);

(iii) employers can discipline their own workforce who are in breach of contracts of employment (eg by refusing to handle cargoes), but at the risk of provoking more general industrial action;

(iv) they can pray in aid the recently reissued TUC guidance on picketing.

These apply to all forms of picketing. They do not make any distinctions for secondary picketing. The main points are

(i) pickets should wear armbands or badges (so that unauthorised pickets are readily recognisable);

(ii) pickets should be disciplined and peaceful;

(iii) an experienced member of the union (preferably an official) should be in charge;

(iv) the size of the picket should be no larger than is necessary;

(v) the pickets should be given instructions on what they may legally say (ie to avoid intimidation);

(vi) if a union member crosses a picket line, sanctions should not be taken against him.

*According to a still later report this action has been deferred, but obstruction of steel movement on Humberside is spreading.

9 The changes in the law proposed in the Employment Bill would in due course provide firms with a civil remedy in some of the instances of secondary picketing which seemed likely to arise in the steel strike. But for the present, there seemed little the Government itself could usefully do; since little enthusiasm in support of the steelworkers had so far been shown by dockers and road transport drivers, an aggressive Government stance at this stage was likely to be counterproductive.

10 The Emergency Powers Act 1920 may be invoked only where events threaten to deprive a major part of the Community of the essentials of life, which is unlikely to occur in the case of a steel strike. The powers available under this Act are being reviewed separately by the Civil Contingencies Unit in connection with a more general review of contingency planning against strikes affecting essential services.

Use of Volunteers

11 Since it was clear that there was no scope for the use of volunteers to make steel in BSC the Department of Transport is producing a report on this subject in relation to transport for the Group's meeting on 8 January. The discussion today emphasised the importance of distinguishing between self-help by affected firms, and centrally organised activity, whether by industry (say the steel users at the CBI) or by Government itself. It also identified internal road transport and (possibly) road transport away from the Ports (assuming dockers continued to unload) as the two areas where the practical difficulties might be overcome. The fact remains that any central action would be highly provocative and put at risk any continuing movement of steel through normal channels; and would have to be on a very substantial scale to shift enough tonnage to offset what would be lost. The Department of Transport report will also cover the possibility of using non-conventional landing facilities away from normal ports.

P W Ridley

P W Ridley
Dep Sec
717 Ash. 212-6797
4 January 1980

CONFIDENTIAL

file x16

10 DOWNING STREET

From the Private Secretary

4 January 1980

I attach a copy of the note of the Ministerial meeting on the steel strike held here yesterday evening.

I am copying this letter and its enclosure to Tony Battishill (H.M. Treasury), Ian Ellison (Department of Industry), Ian Fair (Department of Employment) and to Martin Vile (Cabinet Office).

N. J. SANDERS

J. A. Chilcot, Esq.,
Home Office.

CONFIDENTIAL

PA

PRIME MINISTER

STEEL STRIKE

Solly Gross telephoned at 2315 to say that the steel talks were just about to break up, and that things were not looking at all hopeful.

In line with Ministerial instructions, the BSC have been insisting throughout on a two-part package - an 8 per cent national offer plus up to 4 per cent against local productivity settlements. The unions have stuck rigidly to a demand for a 13 per cent national settlement with no real strings attached. The parties were said to be drawing further apart as the evening wore on, and Charles Villiers is therefore calling it a day for the moment.

Len Murray was present throughout the negotiations. We have no idea what the unions will now say, but Solly Gross reported that they regard themselves as entitled to at least 13 per cent and have been completely unwilling to negotiate seriously about productivity.

At this stage it is difficult to say where we should go from here, and you may want to talk to Sir Keith Joseph and to Jim Prior. In my view now is probably the right time for Jim Prior to get in touch with Len Murray and see whether there is any hope of a settlement in the short term on anything other than the union's terms or something very like them.

Charles Villiers said to Solly Gross that in the end he supposed the Corporation might have to go to 13 per cent and finance it principally from disposals, but Keith Joseph is very much against that and the Steel Corporation would make no move in that direction without an assurance that the Government acquiesced in the policy.

N. J. Sanders

4 January 1980

JU

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PRIME MINISTER

This is scarcely helpful

MJS

4/1

DEPARTMENT OF INDUSTRY
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SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

4 January 1980

Nick Sanders Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

4/1

Dear Nick,

You may know that there has been some dispute about the basis on which productivity figures have been quoted during the current steel strike comparing BSC's output per man with that on the Continent. The Prime Minister has, I think, referred at times to a ratio of 1:2, my Secretary of State certainly has.

The Prime Minister may find it helpful to see paras 4 and 5 of the attached note which contains productivity figures which are on a comparable basis. The important point she might make if challenged about productivity comparisons is that whatever basis one uses to calculate the figures BSC's productivity is very much lower than that of its competitors.

Yours ever,
Pete

PETER STREDDER
Private Secretary

Mr Butler

cc PS/Secretary of State
PS/Mr Marshall
Mr Ridley
Mr Gross
Miss Silver Press Office
Mr Spencer

YOUR APPEARANCE ON HARLECH TV TONIGHT

I understand from BSC that Mr Peter Allen, Director of the Welsh Division will also be on the programme. He has been told that he will be asked mostly about the strike. Mr Allen has told interviewers that if he is asked about the options for reducing manned capacity at Llanwern and Port Talbot that he will only say these are being considered and will not answer any further questions.

Press Release attached

2 You will remember that BSC announced on 11 December that they wanted to reduce manned capacity at Llanwern and Port Talbot to 2.75m tonnes annually (the theoretical capacity of both plants is 5.5m tonnes, but their actual output only 3.8m tonnes last year). BSC also announced that it would discuss with the unions how this reduction should be achieved. These discussions have now taken place, and, for your own information, the unions have opted for a solution that keeps both plants open, operating with at least 11,000 fewer men. This option will go to the Board at their next meeting. Since the unions have been consulted in confidence, the Board has not even met on the subject and Mr Allen will refuse to be drawn, you should take the line that this is a matter for BSC and their unions to work out. In general your line should be that reductions in the labour force are absolutely necessary if BSC is to survive at all against international competition.

3 You have already had a lot of briefing on the strike, and a copy of our latest contribution addressed to Mr Sylvan Evans.

4 You asked, however, about Mr Sirs' complaint that BSC was "duping the workers" by comparing productivity figures based on all BSC employees with a rather different definition of 'employees engaged in steelmaking' used in the ECSC. There are 25,000 of the 152,000 BSC employees whom BSC classify as being engaged in iron and steelmaking activities who would be excluded under the ECSC definition.

5 Figures for international comparisons have been flying about in negotiation and at one point the Chairman did say, publicly, that BSC workers produced 108 tonnes annually while German workers produced 200 tonnes. These figures ARE wrong in the sense that they do not compare like with like. However, BSC use in their negotiations, and

now always use publicly figures which <u>are</u> prepared on the basis of excluding the 25,000-odd in BSC who are outside the ECSC definition. These figures are as follows:

	output per man (liquid tonnes)
BSC	140
France (Sacilor)	185
Germany (Klockner)	237

It is therefore true to say that even the French (hardly a shining jewel in the European steel crown) are more productive than BSC, and the Germans are about 75% more productive.

Janet Cohen

Mrs J Cohen
AS/IS1
801 Ashdown
212 0104

4 January 1980

Luxembourg ?

Italy?

[illegible]

CONFIDENTIAL

PRIME MINISTER

Ait.

Steel Strike

Solly Gross reported this afternoon that the meeting this morning between Mr. Scholey and Len Murray had been tough. Mr. Scholey had emphasised throughout that any new offer would have to be self-financing - a proposition which Mr. Murray had resisted.

Mr. Scholey put to Mr. Murray a package including:

2 per cent for consolidation
6 per cent against the earlier offer
3 per cent lead in payment for local productivity deals

making a total of 11 per cent, together with one per cent up Mr. Murray's sleeve as an additional lead in payment if that proved essential to sell the deal.

Despite the earlier protestations, Mr. Scholey had been persuaded to make it clear that the lead in payment would indeed be subject to termination if an independent audit after three months showed that the savings were not being achieved and that it was the fault of the workers.

Mr. Murray reacted, predictably enough, that this would not be an easy offer to sell but he went off to his meeting at 1230 with the Union General Secretaries to convey the offer to them. We have not heard how that meeting went.

Mr. Scholey had said that he regards at least 9 per cent of this offer as being potentially self-financing.

The tapes quote Mr. Callaghan as saying at the aiport on his departure for America that he could solve the dispute in a week.

CONFIDENTIAL

MS

4 January 1980

CONFIDENTIAL

c/c D Wolfson
B Ingham
J Hoskyns

Reference..........

CONFIDENTIAL

cc PS/Prime Minister
PS/Chancellor
PS/Home Secretary
PS/Secretary of State DE
PS/Mr Butler
PS/Mr Marshall
PS/Sir Robert Armstrong
PS/Sir Peter Carey
Mr Ridley Dep Sec
Mr Mountfield CO
Mr Monck Tsy
Mr D Smith DEm
Mr Woodrow Inf
Mr Long IS(Tech)

PS/Secretary of State

STEEL STRIKE

Secretary of State may wish to know that Mr Murray and Mr Scholey spoke on the telephone last night, following which Mr Murray has arranged to meet Mr Scholey and his assistants at 10.30 this morning to map out the lines of a possible settlement.

2 Mr Murray has also arranged to meet the five General Secretaries of the Unions directly concerned at 12.30 this morning. He will presumably convey Mr Scholey's ideas though this is not certain.

3 Both Mr Scholey and Mr Murray regard these moves as preferable to immediate contact between BSC and Mr Sirs. The idea is to get all five General Secretaries provisionally agreed on the lines of a proposed settlement with the leaders of the big Unions bringing pressure to bear on Mr Sirs. This would also help to ensure that Mr Sirs can be fully committed to the terms before he took them to his negotiating Committee. Mr Murray is, if need be, prepared to attend the meeting with the latter himself. Mr Sirs has summoned his Executive Committee (not identical with the negotiating Committee but closely related) to a meeting on Monday 7 January.

4 This is promising so far but BSC know they have to be very wary so that they are not pressed at each stage of the proceedings to raise the offer a further notch or two. So they may delay giving all the details of the proposed offer till next week. Mr Scholey believes that Mr Murray is reconciled to any offer being "self-financing".

5 None of the above should be mentioned publicly. for the time being and reference over the week end clearly needs to be very discreet.

S J GROSS
Hd IS Division
816 Ashdown House
212 8705
4 January 1980

CODE 18-77

3rd January 1980

THE TRUTH ABOUT THE STEEL STRIKE

The national steel strike - first for 52 years - could cripple the country. It is therefore important that the issues be understood. As British steelmen, we are appalled by the bluff and half truths put out by the Government and British Steel Corporation propaganda machines.

These are the facts ....

1. The steel unions, like B.S.C.m ARE COMMITTEED to the achievement of a 'high productivity - high pay' steel industry. But the unions are being cheated. That is what the dispute is all about.

2. On PRODUCTIVITY, the improvement has been impressive. A 16 percent improvement since 1975 says the most recent report from the National Economic Development Council (Iron and Steel Report 16th December 1979). 44,130 jobs have been taken out of the industry over the last three years - 117,500 jobs since nationalisation in 1967.

3. Today, most B.S.C. plants are as tightly manned as most of their European competitors. An NEDC study team has just completed a comparison of B.S.C's Appleby Frodingham basic oxygen steelmaking plant at Scunthorpe and Ijmuiden No.2 basic oxygen plant in the Netherlands. Its verdict: B.S.C. production manning is only 75 percent that of the Dutch level - and B.S.C's labour costs per tonne are significantly lower.

4. Yet still B.S.C. tries to give a false picture. The Corporation has said that the U.K. steelworker's productivity per man is 108 tonnes against 200 tonnes per man in Germany. That is untrue. Check with the EEC. Check with the NEDC. The Corporation 'conveniently forgets' that continental figures do not include people involved in large areas of coke making, cold rolling, tube making, research laboratories and ancilliary staffs in catering, nursing and apprentice training. If like is compared with like, the U.K. productivity figure is 192 tonnes per man against the German 200.

5. We concede that there is still SOME scope for improvement - though this is chiefly in the maintenance area. We are as anxious as anyone else to continue improving performances. BUT WE HAVE BECOME INCREASINGLY CONCERNED ABOUT THE OTHER SIDE OF THE 'HIGH PRODUCTIVITY - HIGH PAY' BARGAIN. What has happened to the high pay?

continued ......

6 ~~7~~. FACT: The British steelworker has slipped right down the British earnings league table, from 3rd to 8th. So much for high pay. It just hasn't happened. The British Steel worker has been cheated.

7 ~~8~~. Further evidence of this cheating came last month when the Corporation said it wanted TO CUT A FURTHER 55,000 JOBS - that's more than one in three remaining steelmen - yet offered in the annual pay tound ONLY TWO PERCENT increase in pay. Nothing more was possible, they said. The cupboard was bare. Now the offer stands at six percent with a lot of strings - plus a local productivity deal.

8 ~~9~~. We object to this formula because it does nothing to keep steel-workers abreast of inflation, currently running at over 17 percent. NO OTHER GROUP OF WORKERS HAS BEEN ASKED TO TAKE SUCH A DRAMATIC CUT IN THEIR STANDARD OF LIVING. Pay rises of 13, 15 and 20 percent are being offered and accepted by workers in public services and elsewhere. YET IT IS THE STEELWORKERS WHO HAVE SACRIFICED SO MUCH AND RAISED PRODUCTIVITY SO SIGNIFICANTLY.

9 ~~10~~. A pay deal with B.S.C. has got to take account of inflation. Where would the money come from? The money could be funded in a number of ways. The important thing to remember is that B.S.C. is trading at a profit. If the Government was to subsidise British coking coal to the same extent as other EEC Governments subsidise their coking coal, B.S.C. would save £135 million a year - more than enough to pay our claim in full. Savings could be made in many other ways too.

10 ~~11~~. So the picture is this.

*A high productivity - high pay objective

*44,130 jobs out of the industry over the past three years.

*Productivity has been raised by 16 percent during that period.

*But British steelworkers are still at the bottom of the EEC pay league - and slipping in the British table.

*And now B.S.C. have demanded further massive closures, further massive redundancies.

We do not like taking the action we have taken, BUT WE HAVE BEEN FORCED TO DO IT.

THE CHEATING HAS TO STOP.

PA

PRIME MINISTER'S CONVERSATION WITH THE HOME SECRETARY: TELEPHONE: 2100 HOURS: 3 JANUARY, 1980

PM The British Steel Corporation met all morning, and went on until nearly 4 o'clock this afternoon. I think the work we did yesterday had borne fruit because ~~the~~ the two Directors that we have on the Board had contacted others and had virtually managed to sell their scheme to them. As a result of which, after very extensive discussions, the British Steel Corporation authorised their Executive to negotiate with the union men on the basis of a lead payment for productivity of a modest sum, but to resume negotiations. After that meeting I understand that Villiers gave a press conference while we had a meeting of Ministers at about 6.15 when the two Directors, who'd clearly done a very good job, told us what had happened, and Sirs had in the meantime made a speech which we also knew was going to take place because my chums were ringing me up the whole time – Sirs saying look, if there's money on the table in advance of a productivity agreement, he would discuss along that basis. So I rather gathered Villiers has accepted that invitation further to discuss now. And I hope therefore they're beginning to get together next week. It's still to some extent tricky in that they could go too far with – and offered too much on targets that aren't firm. But in every single way there are dangers.

HS Always in these circumstances there are dangers everywhere.

PM Yes. Also, apparently that Villiers had said at first that, oh, the strikers burst the cash limits, and our two chaps say, not it has not. You must still keep within the cash limits, and, though it must not be repeated outside, Willie, the steel corporation has very considerable resources, you know, and subsidiaries, and land that it could sell, to meet the cash limits. So in fact, Willie, they've done a doubly good job. First, the steel corporation, the cash limit is a discipline, and you must operate within it. And secondly, that these things just won't cure themselves. We must start to negotiate, and they've sold that to the Board. All the Regional Directors have met, and had decided roughly how much productivity there was on offer locally, which enables them also to negotiate locally. So I think that the meeting we had yesterday, Willie, bore fruit, and they came back in a totally different way tonight.

HS I'm very pleased to hear that.

PM I'm very relieved. It can still go badly wrong. But it looks to me as if the negotiations will recommence next week within the cash limit.

HS Well if that's the case, that will be very good.

PM Willie, have you seen? - You've only just got back .... I haven't seen anything on the news, but there was reason to think that things are moving . And also I think that Len Murray privately was approaching the steel corporation. The private sector is working perfectly well at the moment. The picketing's not bad. 90% of imported steel is moved by lorry and not by rail. So that's reasonable, and at the moment we've got a number of strange things, Willie. I think the steel chaps are cock-a-hoop that their nationalised steel strike is absolute, so it might not be the world's best moment to get them to agree to a modest settlement. I think the negotiations will have to wander on for some time.

HS I would think as long as they're going on that's alright.

PM I think they'll probably start next week, but certainly Villiers has accepted Sirs' invitation to negotiate, and they've got the basis upon which they can negotiate.

HS Well, that's very good. Well done you.

PM But at any rate I think yesterday's meeting was reasonable. Now, what we're trying to do is to modify the press releases on any wage claims that come out. Soon, January 7, Friday, the nurses are out at 19.3; two stages. I gather that water are balloting on 13%, but that won't be through for about 3 weeks.

HS That's not too bad.

PM That's not too bad. So it could now be reasonable. But we just don't know, Willie. All I'm concerned with now is that there are certain negotiations going to take place soon with the trade unions within the cash limit.

HS I'm sure this is right. I couldn't agree with you more.

PM I'm very relieved, because at least they've started to negotiate. I was frightened to death that the British Steel

Corporation would look hard, flinty-faced, hostile. Well I think it's now beginning to go the right way. I thought, Willie, that we ought to have an E round about Tuesday.

HS Yes, right.

Farewells.

-010

CONFIDENTIAL

PA

MS

PAYMASTER GENERAL

PRIVY COUNCIL OFFICE

WHITEHALL. LONDON SW1A 2AT

3 January 1980

TO ALL MINISTERS

Attached is a speaking brief, in Question-and-Answer form, on the background to the steel strike. Also included is a note on the Department of Health and Social Security's arrangements for benefits to strikers' families taken from 'The Times' (3 January 1980), and extracts from a recent interview with the Prime Minister.

The political balance to be maintained is a delicate one. Since the Government's policy is to stand aloof from pay bargaining in nationalised industries, we must be careful not to appear to be plugging the British Steel Corporation management's case for them. But we cannot avoid answering the question put by every interviewer: 'Won't the Government have to intervene if the whole of industry is not to suffer?'

In effect that is a request to finance an uneconomic pay deal with more taxpayers' money, and the brief offers a suggested answer. The Prime Minister has also called attention to the scope for additional pay increases based on sound productivity deals. It would seem reasonable, too, to emphasise the damage to future job prospects which the strike will inflict not only on steel-workers but on workers in other industries.

It will not be easy to strike a balance between the risk of Ministers being accused of saying too much (and thus interfering in the dispute itself) and the risk of saying too little in a crisis which could become serious in its effects on the economy. The answer would seem to be, in consultation with Number 10, to respond to invitations for interviews, but to keep as far as possible to the Government's own interest - in the Budget implications and the wider industrial effects if the strike continues.

My Office and the Number 10 Press Office will always be ready to help or advise on requests to Ministers from the media.

Angus Maude

ANGUS MAUDE

CONFIDENTIAL

MINISTERIAL SPEAKING NOTE: STEEL STRIKE

(Q & A Brief)

Q Does the Government intend to intervene?

A If you mean does the Government intend just to say to the taxpayer you have got to provide bigger subsidies to steel, the answer must be no. Before the negotiations started the Government made it perfectly clear that as far as 1980/81 is concerned we are already prepared to commit some £450m to the BSC. That is equal to about £30 for every family in this country. So that money is available. It is not reasonable to ask the taxpayer for more when the steel workers can earn more for themselves. It is five years since the BSC made a profit. Since then it has made losses and the taxpayer has had to commit very heavy sums to meet the increasing losses.

Q What is on the table?

A The BSC management are negotiating, not the Government. BSC has offered the steel unions centrally some 6%: but in addition there is a tremendous amount to be got from increasing productivity, that is from earning it, and that has to be negotiated locally. 10% or even more can be got from that. So add 10% to 6% and it looks very different. But the 10% or more must be earned before it can be paid. With this sort of money to be earned it is quite misleading to talk of an attack on steel workers' living standards.

Q What is the current BSC level of productivity?

A In Britain it takes nearly 11 man hours to produce one ton of steel. In Luxembourg and Italy it takes five hours. That gives wide scope for improving productivity. I hope that the steel workers will look at it that way, given the local productivity deals on offer - up to 10% or more.

Q How serious are the effects of the strike?

A It will be very serious for the steel workers. There is already too much steel in the world. BSC will lose customers. They will go elsewhere. Individual steel workers are very unlikely to gain enough from a strike to compensate them for the loss of money while they are not working.

Q What will be the effect on industries like BL and other industries that are already in trouble?

A It is impossible to judge at this stage. Stocks are quite good - but a long strike must put non-steel jobs at risk too.

Q Why hasn't the Government called the unions to No 10?

A Negotiations should be properly conducted by management and unions. The unions have rejected higher pay through productivity. Perhaps they still expect the taxpayer to contribute more. The taxpayer has contributed nearly £4000m over the last five years. Is it reasonable to ask the taxpayer for more when the steel workers can earn more through higher productivity?

Q Is there still scope for negotiation?

A Yes, there is scope for negotiation on productivity lines. Steel workers realise their industry has got to become competitive: after all it takes twice as many steel workers in Britian to make a ton of steel as it does abroad. And it means that our rivals, the European steel workers particularly, earn very much more money because they produce more each year. Our steel workers want to be in that position. And it makes sense. They don't want to be dependent on the taxpayer for ever.

Q What are the details of Government financial support?

A The Government has no money: it is taxpayers' money. In the five years 1975/80 the taxpayer has put the following sums into BSC: 1975-6 £659m; 1976-7 £931m; 1977-8 £801m; 1978-9 £715m; 1979-80 £700m (estimated), making a total of nearly £4 billion. And we have promised a further £450m for 1980-81.

Q What plant capacity is the BSC aiming for?

A Demand for steel has fallen sharply and there are many more steel industries in the world than there were. BSC's current manned plant capacity is 21½ million tonnes of liquid steel per annum and BSC is determined that this should quickly be reduced to about 15 mtpa at which level profitable sales in the UK and overseas should, on present assumptions, be possible. This will still leave a sufficient margin to meet a revival of demand.

Q What are the employment consequences?

A BSC considers that to approach international levels of manning the total number of employees engaged in iron and steel activities, as defined in BSC, should not exceed 100,000 compared with 152,000 (including 12,000 making iron and steel at Shotton and Corby) at the present time.

Q Is BSC making a trading profit?

A Certainly not - unless you ignore depreciation and interest, which no business can do.

Q If coalminers can have a 20% pay increase why can't the steel men?

A Because coal is in strong demand and the National Coal Board can sell all it produces: steel is in surplus and BSC is uncompetitive.

Q Will the steel strike leave the industry smaller than it need otherwise be?

A A long strike would lose the Corporation more business for good. The BSC has its doors open ready to continue negotiations. Steelmen cannot be unwilling to consider the extra money earned from higher productivity. Steel workers are a very intelligent bunch of people. They must realise the damage they may do to themselves and the damage they may do to others. Just think of how much money their households are losing each week of strike.

Paymaster General's Office
Privy Council Office
68 Whitehall
London SW1A 2AT

'The Times' -
3 January 1980

Special social security centres likely

By Pat Healy
Social Services Correspondent

Social security centres to deal solely with claims from striking steel workers may be opened by the Department of Health and Social Security. The number of claims, if the strike continues, is expected to be so great in the Welsh and northern steel towns that the service to the general public would otherwise be badly disrupted.

Special centres are set up for all long strikes that involve a large number of workers. A town like Corby, which is almost entirely dependent on steel for jobs, has too small a local office to be able to handle the extra volume of claims.

Many steel workers will be disqualified from receiving benefit since it is not paid to strikers, except in cases of urgent need. Single men and women will not be able to claim, nor will married women because husbands are the heads of households under social security legislation.

Married men will be able to claim for their dependants, but the benefit will be reduced by any earnings they may have over £4 a week as well as by any strike pay or income tax rebates they receive.

A married man can claim £14.65 a week for his wife and, after child benefit is deducted, amounts for his children ranging from £1.20 a week for one aged less than five to £5.35 a week for a child aged between 13 and 15.

The earliest any striker would receive social security money would be next Wednesday. In most cases it will be a week later than that since most of the steel workers will have a week's pay in hand.

The main point to get over about the setting up of special Social Security centres for payment of Supplementary Benefit to strikers' families is that it is done <u>to avoid inconvenience to the general public</u>, and not for the benefit of the strikers.

PRIME MINISTER'S INTERVIEW WITH DAVID ROSE ON 31 DECEMBER 1979 (ITN)

David Rose: Prime Minister are you resigned to a long and disastrous steel strike starting in the New Year?

Prime Minister: Long and disastrous? No I am never resigned to a strike until it actually gets under way. There is still a few hours to go. As you know the Government has already committed itself to paying to the steel industry on behalf of the public another £450m next year. Within that sum, which is very considerable on top of all the others that have gone, there is still scope for further negotiation. It has to be along productivity lines because if people just take out more pay, without putting in more effort then it would only go on the price of steel and then we shouldn't be able to sell it and then we would lose more jobs. And within that sum there's still scope for negotiation on productivity lines and I hope the chance will be taken.

David Rose: How big could increases be out of this money, out of productivity deals on top of the 6%?

Prime Minister: Well I have understood that negotiating locally, which is perhaps one of the best ways to do it, because you are nearer management and workers there, it could be something like 10%. But they have got to produce the work before they get the pay.

David Rose: But are you refusing, is the Government refusing to intervene directly because in fact you want the country to learn the lesson now that this Government is not going to bail out strikers with public money?

Prime Minister: Well in a way you might say that committing £450m to the steel industry next year is quite a big intervention, but you really can't start as politicians to manage the steel industry. Those who are on the shop floor know far more about management than politicians. Those chaps who are working on the shop floor really should be able to negotiate with management. We have seen that this amount of money is made available. We have seen that there is within that enough to help them with redundancies, because if you are taking away a chap's livelihood you must have good redundancy money. That's the way other countries have done it and their steel industries are much, much more efficient now. Look politicians don't know how to manage business and really both the steel managers and the steel unions ought to be able to do it between them. And they must just stick together until they do. It's their industry but it affects each and every one of us. It affects no-one more than the steel workers who depend upon the efficient steel industry for their future livelihood.

David Rose: But won't you the Government, you the politicians have to intervene in the end when much of industrial Britain is brought to a complete stand-still? It seems very possible.

Prime Minister: Well I just hope that it will not come to that. Do we have to intervene in the end? We have to make contingency plans to keep things going but you know what always puzzles me about these negotiations between management and unions is that in the end they have got to agree on something and I only wish that they could agree within the money available before they go on strike and not afterwards. But let me make this point, I can't make it too strongly you can't just take out more in pay without producing steel more efficiently, because if you just take out more in pay it goes on the price, you can't sell it, because other people are producing it more cheaply, and then you are with fewer jobs. And the sooner we get that home the better. There's only one secure prospect of jobs and that's to be efficient and profit-making and keeping one step ahead of your competitors. They could do it.

David Rose: You said the Government have contingency plans, would you be prepared to use troops to keep steel moving in British industry,, if the trade unions stop it as they have said they will do?

Prime Minister: Let's not talk about that, there's still some hours to go - there's still scope for negotiation on productivity lines within the £450m that the Government has committed itself to - tax payers money - for next year.to help the steel industry.

SUBJECT

cc Master, [redacted]

CONFIDENTIAL

STEEL STRIKE

Note of a Meeting held at 10 Downing Street, at 5:15pm on 3 January 1980

PRESENT:

PRIME MINISTER
CHANCELLOR OF THE EXCHEQUER
SECRETARY OF STATE FOR INDUSTRY
SECRETARY OF STATE FOR EMPLOYMENT

MR P W RIDLEY MR S GROSS	Department of Industry
MR D B SMITH	Department of Employment
MR N J MONCK	Treasury
SIR ROBERT ARMSTRONG MR P MOUNTFIELD	Cabinet Office

MINISTERS continued the discussion of the steel strike following their meeting on 2 January. They had before them a minute dated 3 January from the Secretary of State for Industry to the Prime Minister about the strike, and a report dated 3 January from Mr Gross (Department of Industry) and Mr Monck (Treasury) about that morning's meeting of the BSC Board.

In discussion, the following points were made:

(a) Support for the strike was solid among members of the ISTC, and production had ceased throughout BSC plants. ISTC safety men remained on duty at some but not all plants; NUB safety men generally speaking remained on duty.

(b) The private sector was not yet seriously affected by the dispute. There was some picketing, both at ports and at private steel works, presumably with the object of ensuring that movements to and from private sector steel works were no more than normal. The attitude of the TGWU, which was not yet in formal dispute with BSC, was ambivalent and no clear instructions appeared to have been issued to its members.

(c) The BSC, at their meeting that morning, had authorised the Executive to make a fresh offer, based upon a productivity deal with a lead-in payment. The majority view in the Corporation was that it was unrealistic to attempt to withdraw such productivity payments once made, even when performance fell short of target. The Corporation were clear that there would be no further financial assistance from Government for such a deal, and that it would be financed from the Corporation's own resources if not covered by improved productivity.

(d) The ISTC leader, Mr Sirs, had put out a statement that afternoon which suggested that what was not proposed might provide a basis for the resumption of negotiations. The BSC had responded by welcoming his statement. The public position was therefore one of slight movement, with talks about to resume.

(e) Relations between the ISTC and the TGWU were not good. ISTC feared a possible takeover by TGWU. These problems might colour the attitude of TGWU, which was not so far not found in dispute with the BSC. It was for consideration whether an informal approach by industrialists to TGWU leadership, probably at regional and local rather than national level, would help in postponing any escalation of their action. Such an approach could emphasise the damage which the TGWU would do to its own members in other sectors of industry by an all-out stoppage of steel movement. The Department of Employment would take soundings to see whether such an approach was likely to be productive.

(f) The position of the TUC leadership was less clear. Mr Murray was bound, in public, to emphasise the solidarity of the trade unions concerned. In private, he appeared to be working behind the scenes towards a settlement. It was possible that the TUC leadership still wished to avoid outright confrontation with the Government on this dispute.

(g) The Government directors had made it clear to the other members of the Corporation that it must live within the cash limits for 1980-81. These had effectively been imposed by the Government, rather than agreed with the Corporation. It had also been made clear - and this was in practice an even stronger discipline - that Government support was not to be used to finance operating losses in 1980-81. There were signs that the industry's management welcomed this resumption of tight financial discipline. Some of the Board members were doubtful about their ability to keep within their cash limits in 1979-80 or in 1980-81. The Government directors had urged the need for realisation of assets, if necessary, in order to stay within the limits. It was undesirable to emphasise this point in public, lest the Corporation should be put in the position of a forced seller. A 'Cash Committee' of the Corporation, including some of the non-Executive members, had been set up to examine the Corporation's financial position for the coming year.

(h) The Government should stand back from the dispute so far as possible. In particular, it should avoid any appearance of seeking to determine the management's tactics through the Government directors on the Corporation. So far as possible, publicity should emphasise that the settlement of the dispute was a matter for the BSC management, within the financial limits laid down by the Government.

(i) Nevertheless, the Government should continue to keep in close touch with the situation, using the existing machinery set up by the Department of Industry. It was noted that arrangements had now been made to coordinate the publicity arrangements of the Corporation and of the Government.

(j) In further discussion, it was noted that a number of other important public sector pay negotiations were nearing a climax. It seemed possible that the Local Authority Manual Workers would reach a settlement at about 13 per cent when consultations with membership at branch level were concluded later in the month, and the NHS Ancillaries and Ambulancemen might then follow suit. In the water supply industry, one of the unions concerned - the TGWU - was balloting its members on a 13 per cent offer: if the ballot rejected the offer, there would be a risk of industrial action by TGWU members in that industry later in the month. The Clegg recommendations for nurses pay were less expensive than had originally been feared, and were for a two-stage settlement. It was less clear that there findings on teachers' pay would be acceptable; the Treasury were preparing a paper with a view to submitting further evidence to the Commission.

THE PRIME MINISTER summing up the discussion, said that no Government action was needed at this time, other than an examination by the Department of Employment of the possibility of an approach by industrialists to TGWU leadership (see (e) above), pending the resumption of negotiations between the BSC and the ISTC.

1

PRIME MINISTER

RECALL OF PARLIAMENT

Although in an overwhelming crisis the House could be recalled in forty-eight hours (as it was in 1939), under less pressing circumstances we need the best part of a week to notify all of those concerned. It follows that if you did want to recall Parliament next week you would have to decide to do so before the weekend.

Are you content that we leave matters where they are and take no steps towards a recall? The pressure has gone away for the moment and there seems to me to be no justification for any hasty action.

MJS

No need for recall but we may need a stat debate in the first week. At least we shall need a statement on Monday 14th.

MT

told Ian Ellison on 4/1

MJS

PA

3 January 1980

Nationalised Industries

/
URGENT
B.S.C CHAIRMAN SIR CHARLES VILLIERS TONIGHT WELCOMED THE PEACE PLAN SUGGESTED BY UNION LEADER BILL SIRS, AND SAID AFTER A SIX-HOUR BOARD MEETING THAT HE HOPED THERE WOULD BE MORE TALKS ON THE STRIKE AS A RESULT.
-- 1845

STEELMEN'S LEADER SUGGESTS WAY OUT
STEELMEN'S LEADER, BILL SIRS TONIGHT SUGGESTED A PEACE FORMULA TO END THE STEEL STRIKE AND GET BOTH SIDES BACK ROUND THE NEGOTIATING TABLE.

HIS PROPOSAL WAS THAT THE BRITISH STEEL CORPORATION SHOULD ''PUT ON THE TABLE'' PART OF THE EXTRA MONEY IT SAYS CAN BE EARNED IN PRODUCTIVITY.

''THAT IS THE CHALLENGE I MAKE TO THE CORPORATION AND THE GOVERNMENT,'' HE SAID.

''IF THEY ARE NOT PREPARED TO ACCEPT THE CHALLENGE THEN ALL I CAN SAY IS THAT IT IS GOING TO BE A LONG, HARD WINTER.''

MR SIRS, SPEAKING AT THE IRON AND STEEL TRADES CONFEDERATION OFFICE IN LONDON, HAD THE SUPPORT OF MR HECTOR SMITH, LADER OF THE NATIONAL UNION OF BLASTFURNACEMEN.

MR SIRS SAID THAT SIR CHARLES VILLIERS, BSC CHAIRMAN, AND THE GOVERNMENT ''SHOULD PUT THEIR MONEY WHERE THEIR MOUTH IS.''

''IF THEY ARE TELLING US THAT THERE IS REAL VALUE IN THE OFFER OF PRODUCTIVITY EARNINGS,THEN LET THM PUT PART OF IN ON THE TABLE NOW IN ADDITION TO THE OFFER ALREADY MADE, AND LET US SEE WHAT IT MEANS.

''WE DON'T WANT TO TAKE THE HARD LINE. WE WANT TO START NEGOTIATION.

''I AM NOT SAYING THIS WILL SETTLE THE ISSUE BUT IT WOULD LEAD TO HAVING NEGOTIATIONS AGAIN.''
1737

Extract from P.A. Tape 3 January 1980

Nat Ind

Ref: A01056

PRIME MINISTER

We understand that the Board of BSC, at its meeting this morning, authorised the management to go for an improved productivity deal with a "lead in" payment - very much on the lines of the sort of thing you were outlining yesterday. We understand that it would include provision for discontinuing the payment, if the productivity target was not achieved, but not for clawing back payments already made, which the BSC regard - I fear with reason - as impracticable.

2. I understand that there has also been a report on the tapes of a statement by Mr. Bill Sirs which suggests that there may be an opening on his side for this kind of discussion.

3. Your meeting at 6.15 pm will have a paper by the Treasury and the Department of Industry reporting this morning's meeting in more detail.

4. If these reports are confirmed, the conclusion of this evening's meeting should presumably be that the Government should encourage the reopening of negotiations as soon as possible on the basis of these ideas, while continuing to avoid any kind of direct or formal intervention and any kind of hint that there might be second thoughts on cash limits (there was a rather useful statement by the BSC in today's papers that they would not ask for an increase).

5. As to future handling, I am inclined to think that it might be useful for the next meeting to be on a rather wider basis early next week. Other public sector pay claims - notably those of local authority manuals and water manuals - are coming towards a climax, and there would be much to be said for monitoring the steel dispute in that wider context. Indeed, if it were possible to get the steel dispute settled reasonably quickly on the basis which now appears to be at least possible, that might have beneficial effects upon developments on the local authority and water industry claims.

6. If you agree, you might propose a meeting of E early next week - probably Tuesday rather than Monday given Ministerial absences - and you might ask the Chancellor of the Exchequer to prepare and circulate a memorandum covering not only steel but other current public sector pay issues.

RTA

3rd January 1980

Robert Armstrong

JU

PRIME MINISTER

STEEL STRIKE

In preparation for this afternoon's meeting you may find it useful to have a note of the latest situation as far as it can be discerned. We shall receive an oral report from the Government members of the BSC Board at our meeting.

Position at BSC Works

ISTC members generally have supported the strike and have not reported for work. ISTC safety men are working normally except at Lackenby, Consett, Bilston and Wolverhampton. One exception is that 40% of ISTC staff grades at Corby (computer operators, foremen and like functions) have turned up for work as usual.

National Union of Blastfurnacemen (NUB) members are also generally absent except safety men on blast furnace plants and at the coke ovens. The blast furnaces are damped down and the coke ovens are being reduced to minimum safety levels of work. At Corby all NUB employees are reporting for work and are passing through picket lines. There is, however, no production.

Most members of others unions have reported for work as normal again today, having passed ISTC pickets without difficulties. The workers are members of NCCC (craftsmen), Transport and General Workers (TGWU) and General and Municipal Workers (GMWU). Exceptions include engineers at River Don, and craftsmen and TGWU workers at Stocksbridge (Sheffield) and Port Talbot, who have refused to cross picket lines.

/There ...

There is no iron production, no steel production or rolling at any of the Corporation's plants and no deliveries of BSC steel are being made.

Three iron foundries are working normally, Distington, Dowlais and Llandore (South Wales). Stanton iron foundry, which makes iron pipes, is not working because NUB personnel have withdrawn from the melting plant.

Work is continuing at three tubes works in the West Midlands: Prothero (mainly GMWU workers), Coombs Wood and Bromford (both TGWU members).

Private Sector Picketing

In the Midlands there are no reports of pickets at private sector plants.

In Sheffield most plants are being picketed but, with two exceptions, there is no interference with normal activity of traffic in and out of the works. The exceptions have been at Templeborough Rolling Mills and at Tinsley Wire where lorries have been stopped by pickets. Local managements have contacted the ISTC in the area and sought the issuing of an instruction from the union to its members not to interfere with normal activity at the plant gates. We do not yet know the outcome.

In South Wales pickets are at the GKN plant but there are no problems.

/Both ...

Transport of Steel

Both the NUR and ASLEF have decided to handle normal internal traffic from private steelmakers, but to handle no imports whatsoever. The great bulk of non-BSC steel traffic, including imports, is by road (90% from private steelmakers, 95% from stockholders, 80% in the case of merchants and well over 90% in the case of direct user imports). The TUC, including the main general unions dominating road transport and ports, have declared full support for the ISTC and NUB, but appear as yet to have issued no instructions or guidance to their members. Declarations of international solidarity (such as that yesterday by the International Transport Workers Federation) have in the past led to little effective action. So far non-BSC steel seems still to be moving normally, both from abroad and internally.

The outlook remains highly uncertain. At yesterday's TUC discussions I understand that all the steel unions other than the ISTC and NUB said that they were not yet in dispute with the Corporation, and indeed had not yet received the latest offer rejected by Mr Sirs and Mr Smith. If the two general unions, the TGWU and MGWU, were to follow the ISTC and NUB lead, we must reckon that they would tell their members on the roads and in the ports to black the movement of steel, at any rate in abnormal quantities. The degree of response would be critical and is very hard to predict. Some haulage workers could suffer a heavy loss of earnings and by all accounts there is little enthusiasm at the moment for supporting action.

/It ...

It was to be expected at this stage that the strikers would make every effort to attract support and would put the best appearance in public on the success of their efforts. Nothing has happened to invalidate our earlier assessment that users will survive for at any rate 4 weeks in most cases without serious trouble, even in the unlikely event that all further deliveries from private steelmakers and imports were stopped. I believe that the Government tactics should be:

(a) to maintain firmly our position that we will not subsidise higher losses in nationalised industries resulting from wage increases which these industries cannot afford. If we gave way, or even appeared to give way, on this issue we would destroy the credibility of a key element in our economic policy;

(b) to keep up our efforts to secure public understanding of the issues and of the Government's attitude. So far we have secured good media coverage and comment has been almost wholly favourable, but of course these are early days and no one is yet hurt.

(c) to avoid any unconsidered move against sympathetic action by non-striking unions. It is likely to remain unclear for several days how much effective interference (as distinct from protestations) there is with non-BSC supplies, and any premature reaction on our part would risk spreading and escalating the strike;

(d) the attitude of road transport and port workers is particularly critical. We must consider what action

/is ...

is practicable to discourage the TGWU and GMWU in particular from joining the strike or at any rate extending it effectively outside BSC (e.g by discreetly moving industrialists to speak to Moss Evans, David Basnett etc about the damage to their members generally from an escalation of the strike; general unions may have more of their members at risk in firms like BL than in BSC itself);

(e) to encourage BSC to be ready to negotiate, especially on local productivity deals, but to continue ourselves to stay in the background. It will remain for BSC management to decide, always within the financial limits we have set them, whether they can afford to make an offer involving additional flexibility - such as some payment for increased productivity "on account" for a limited period and withdrawable if the improvement is not achieved. They will have to make a tactical judgment as to the best timing for any further offer to give it the maximum chance of success at minimum cost. No doubt they have the importance of keeping the general unions out of the strike well in mind;

(f) to consider what measures we can take to avoid undermining BSC's negotiating position by, for example, high wage settlements elsewhere in the public sector, not paid for by performance, particularly where the Government itself is

/the ...

the employer.

I am copying this to colleagues attending the meeting and to George Younger, Nicholas Edwards, Angus Maude, Norman Fowler and Sir Robert Armstrong.

I.E.

K J

3 January 1980

Department of Industry
Ashdown House
123 Victoria Street

Reference.................................

CONFIDENTIAL

PS/Secretary of State

cc PS/Prime Minister
PS/Chancellor
PS/Secretary of State DEm
PS/Mr Butler
PS/Mr Marshall
PS/Sir Robert Armstrong
PS/Sir Peter Carey
Mr Ridley Dep Sec
Mr Mountfield CO
Mr Monck Tsy
Mr D Smith DEm
Mr Woodrow Inf
Mr Long IS(Tech)

STEEL STRIKE: BSC BOARD MEETING TODAY

The meeting lasted from 9 am to 3.30 pm: progress was made on three issues, particularly pay.

Pay Negotiations

2 The part-time business members, Sir John Buckley, Sir Mel Rosser and Mr Halstead took a much more balanced view than either the BSC executives or the trade unionists. They pointed to the dangers of each side digging itself deeper into holes on two sides of the fence and said that some compromise solution was inevitable. Sir Mel suggested that this should be on the basis of a lead-in payment for locally negotiated productivity deals but (following my suggestion during a long talk with him the previous evening) withdrawal, after two or three months, if benefits had not been achieved. However, both the executives and the trade unionists considered withdrawal was not practical.

3 The executive members reported on yesterday's meeting of Regional Managing Directors. This had established that the local productivity deals would have to be tailored to the circumstances in each region. Thus, in Sheffield, a value added scheme would be appropriate: in Scotland a straightforward production cost reduction scheme would be preferable, while in South Wales, agreement to "super slim manning" would be considered sufficient. The Managing Directors believed these schemes would allow the following increases in local earnings:

Teesside	8-9%
Scunthorpe	10%
Wales	10%
Sheffield	5-8%
Scotland	10%
Tubes	up to 10%

4 The Worker Directors advised that the ISTC and the NUB

(We pressed for full and readily understood descriptions of the schemes to be publicized as soon as possible.)

CODE 18-77

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negotiating committees attached most importance to a central settlement consisting of more money on the table without strings; they were simply not interested in BSC's proposal to substitute, for "traditional" negotiations at national level, local productivity agreements which were a matter for local negotiators. However, they were prepared to go along with the Board recommendation below. They considered it had much more chance of success after news arrived of Mr Sirs' press conference this afternoon, in which he reportedly "challenged the Government and BSC to put on the table, over and above the present offer, a lead-in payment of about half the gains expected from local productivity schemes" (he added that "this might not obtain a settlement but would enable the unions to consider resuming negotiations").

5 The Board finally agreed on the following:

> "To achieve significant changes and viability within the Corporation, the Board authorises the Executive to consider entering into an undertaking or an enabling agreement for self-financing productivity schemes, such as the lump sum bonus scheme, which would be financed by improved performance at local level, valid only if accepted and made effective by all the unions in steel."

6 This is not very precise but the intention was to authorise the Executive to negotiate a modest centrally agreed lead-in payment (figure not specified) in exchange for agreement to the local negotiation of productivity agreements, with the lead-in payments to be offset against the initial benefits from the latter. It thereby enables the Executive to resume discussions with Mr Sirs and Mr Hector Smith. Mr Monck and I also understand, in strict confidence, that Mr Murray is making separate approaches to the Corporation on similar lines, following his meeting yesterday with the five General Secretaries.

Cash

7 Sir Charles Villiers gave revised figures for the net cost of the strike (£45 million for 4 weeks and £85 million for 8 weeks.) He claimed that the strike had overtaken the "cash limit" and "no money for operating losses" disciplines in 1980/81 set out in the Secretary of State's letter of 20 December.

8 Both the part-time Board Members, and Mr Monck and I, disagreed on different counts. The part-time Board Members considered that the pre-strike financial forecasts for 1980/81 by the Executive were unrealistic (ie too optimistic); also, they thought that the Executive were being too optimistic about the speed at which they could achieve the restructuring (and the benefits therefrom) which all agreed were necessary.

9 Sir Mel Rosser also ~~agreed~~ argued that, on the basis of the

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Executive's own figures, ~~and~~ plus the likely losses now expected from the strike, the Board might soon no longer be justified in agreeing to further contractual commitments by the Corporation, since the Corporation could no longer be described as an "on-going" business financially.

10 The Chairman responded by agreeing to set up a Cash Committee, comprising some of the part-time Board Members, to go into the cash and profit/loss forecasts for 1980/81 in more detail. He noted that, if the Corporation were a private company, they would have appointed a Receiver by now. This gave Mr Monck and me the opportunity first of reiterating that the cash limit and the "no money for operating losses" disciplines had still to be observed and, secondly, of pressing the case for disposals as a means of raising more cash, if it were needed. The possibility of saving some cash by reducing the level of redundancy payments was also raised by one or two other Members.

Disposals

11 I said that Secretary of State would expect the Corporation to fund from its own resources any operating losses next year, whether or not resulting from an increase in wages not covered by productivity improvements. Disposals were an obvious alternative and this should be considered much more extensively than had been the case so far. The Chairman claimed that we were giving a strong nudge towards the disposal of mainline assets. I repeated that all we were doing was to set out a preferred alternative to a complete break-up under receivership. The Chairman agreed that there were a number of quasi-independent profit centres that might be considered for disposal. It was agreed that the Cash Committee should look into the possibility of raising cash from disposals other than the limited ones that the Executive were considering at present.

12 An extraordinary Board Meeting is to be held on 17 January to consider progress on all the above issues.

13 This minute has been jointly drafted by Mr Monck and myself.

SJG

S J GROSS
Hd IS Division
816 Ashdown House
212 8705
3 January 1980

CONFIDENTIAL file TMP

10 DOWNING STREET

From the Private Secretary 3 January 1980

I attach a copy of the note of the meeting on the steel dispute held here yesterday.

I am copying this letter and its enclosure to Tony Battishill (Treasury), Ian Ellison (Department of Industry), Tom Jaffray (Department of Industry), Ian Fair (Department of Employment) and Martin Vile (Cabinet Office).

N. J. SANDERS

J.A. Chilcot, Esq.,
Home Office.

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TMP

FILE

cc: CON

Original with CJR 2/1

10 DOWNING STREET

THE PRIME MINISTER

Dear Mr McKay,

Thank you for your letter of 29 December about the steel dispute. As you will know, the Leader of the Opposition also wrote to me on 29 December asking for Parliament to be recalled.

In my reply to Mr. Callaghan, which was sent on 30 December, I said that I shared his views about the gravity of the situation and that a strike would do great harm to the industry, to those who work in it and to all who use its products. I went on to say, however, that I did not think it would be helpful to recall Parliament during this week. Nevertheless, we would not hesitate to do so if we conclude that the circumstances make it desirable at any point.

(sgd) M T

Alan McKay, Esq., M.P.

JU

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PS Secretary of State for Industry

2 January 1980

Nick Sanders Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW 1

Dear ~~Nick~~, Mi

MORNING STAR ARTICLE

You asked me this morning if the Prime Minister could have a note on the Morning Star article on steel which appeared this morning.

... I attach a note prepared by officials in this Department.

Yours sincerely,
Pete.

PETER STREDDER
Private Secretary

COMMENTARY FOR PRIME MINISTER ON ARTICLE IN MORNING STAR OF 2 JANUARY 1980

The article includes a number of points which are not entirely accurate or correct.

1. ACAS (Para 6)
The talks held between ACAS and (separately) BSC and the unions on Monday 31 December were only for each side to put its case. There was no suggestion that either side would be expected to compromise.

2. REDUNDANCIES (Para 6)
BSC did intimate to the unions that an award higher than what BSC could afford would have to be paid for by further demanning. The figure of 12,000 has, however, nothing to do with the pay negotiations. This is rather the elementof demanning forseen in the measures announced on 11 December to reduce capacity to 15 million tonnes, and is included in the total of 52,000 redundancies overall.

3. GUARANTEED WORKING WEEK (para 7)

The original improved offer of 5% included 3% in exchange for abandonment of the guaranteed working week. BSC's further offer of 6% no longer included this condition.

4. SIZE OF OFFER (Para 8)
The article ignores the possibility of local productivity agreements, which are no longer bound to the ceiling of 10% and could go higher. These would allow steelworkers to keep pace with the quoted rate of inflation of 17%. Any pay award must, however be earned, rather than demanded because of some notional 'going rate'. The unions have regarded the productivity payments as a bonus rather than a real pay rise. It was on this basis that they refused to consider them, especially since they would be paid in arrears, and might therefore not materialise. They demanded instead an advance payment of 5% for future productiv ty.

5 EMPLOYMENT COSTS (para 9)
The figures are highly selective and rather difficult to locate in terms of origin. Employment costs since 1970/1 made up :

	%		%
1970/71	28.1	1975/6	34.4
1971/72	31.0	1976/7	31.8
1972/73	32.5	1977/8	29.9
1973/74	30.3	1978/9	31.4
1974/75	30.7		

The 28% for present costs is difficult to trace. The last available BSC figure (for the last financial year) were 31.4. The 33% for costs four years ago may be a rounding down of the 1975/6 figure of 34.4 , which is a year favourable to their case since employment costs reached their highest percentage for the last decade then. There is no downward trend to be seen in the figures, and 1978/9 figures are very much the same as those in 1976/7, and 1.5% higher than last year.

6 PAST STEEL PROFITS/PRESENT INTEREST PAYMENTS (Paras 10-14)

Although BSC made a profit (except for a small loss in 1971/2) until 1974/5, Government has only received a dividend on two occasions, in 1973/4 (£23.7million) and in 174/5 (£10.9 million). On the other hand BSC has had over the last six years some £4000 million of taxpayers' money. That BSC is paying interest is hardly something Government has thought up for nationalised industries. All firms pay interest on capital borrowing, and is part of their profit/loss. The last Government said in its 1978 White Paper that it would undertake a capital reconstruction, and this Government has repeated the undertaking. There is no point in a reconstruction, however, until the Corporation has broken even. Made any earlier, it would only have to be repeated shortly afterwards.

7 SUDSIDIES TO FOREIGN PRODUCERS (Para 15)

The 'subsidies' quoted are actually loss per tonne figures. These are both selective and somewhat out of date (they are for 1978). They neglect the fact that, for example, in the comparable period, Estel (Holland) and Arbed (Luxembourg) both lost only £6 per tonne, while Krupp and Thyssen (Germany) did even better. Thus, while it is true that some major steel companies, especially in Italy and France performed worse than BSC in 1978, many others did better. Press reports have indicated that further improvements have been made by Estel and Arbed, and that more companies in Germany have returned to profitability.

8 DEPENDENCE ON IMPORTS (Para 16)

Overall import penetration was just under 21% in January-October 1979. This level has remained stable since 1975. A further 25% of the market is held by private sector steelmakers, whose sales are likely to increase marginally during the strike. Sources of imports are diverse and generally politically stable. Because of this and growing world capacity, there is no likelihood of any of the shortages experienced because of the OPEC actions during the oil crisis.

Department of Industry
2 January 1980

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Morning Star 2 Jan 1980

We had no choice: Bill Sirs

Steel strikers warn they're determined

By MIKE PENTELOW

STEEL workers' leader Bill Sirs has warned that the longer the national stike goes on the more determined and demanding the strikers will become.

Shortly before over 100,000 workers from the Iron and Steel Trades Confederation and the blastfurnacemen's union went on strike at midnight last night he emphasised the workers' resolve.

"If the strike goes on for a long time the position becomes more difficult," he declared. "Our people become more determined and the price usually goes up."

Large sections of the country's industry — including car manufacture, construction, engineering and food canning and processing —will grind to a halt if the strike is prolonged.

But the steel workers had no choice, stressed Mr. Sirs. "It is the last course open to us and we are forced into it," he said. "The self-respect and price of the steel workers have to be justified."

(1) The employers failed at Monday's meeting with ACAS to improve their derisory pay offer of 6 per cent plus local productivity deals tied to the further demanning of 12,000 jobs on (2) top of the 52,000 already announced.

British Steel is also demand- (3) ing a modification of the guaranteed working week whereby workers get 80 per cent of their earnings when no work is available.

(4) An offer of 6 per cent clearly represents a substantial cut in real wages at a time of 17 per cent inflation, which is expected to rise to at least 20 per cent by the time of their next rise.

(5) Already pay has dropped from 33 per cent of British Steel's total costs to 28 per cent over the last four years.

SOLIDARITY

(6) The shortsightedness of the government's refusal to finance a bigger rise has been highlighted by Mr. Herman Rebhan, general secretary of the International Metalworkers' Federation, which has declared its solidarity.

"Europe needs a healthy steel industry in Britain, and that will not be achieved by shunting British steelworkers to the bottom of the industrial wage table," he said.

The case for more government money seems overwhelming when it is considered how much profit steel has made for the government in the past, how much of its present losses are just interest payments to the government itself, and by how much other countries subsidise steel.

Mrs. Thatcher herself has laid great emphasis on the fact that the steel industry was making a profit five years ago — but she refuses to channel more of it back to finance a reasonable wage for steelworkers.

Of the present £300 million a year losses, £200 million goes in interest payments to the government.

(7) And at the time that British steel was being subsidised at the rate of £17 a tonne Italsider of Italy was losing £21 a tonne, Cockerill of Belgium £20, Sacilor of France £17, and Klochner of West Germany £15.

(8) It is also part of the steel workers' case that increased dependence on imported steel could put the country in a vulnerable position in the future as it has with oil in the past.

Solidarity in boycotting movement of steel during the strike has already been promised by the rail unions ASLEF and the NUR.

Mr. Moss Evans, general secretary of the transport union, said yesterday a decision was expected soon over dockers' refusal to handle steel. Support is also expected from lorry drivers.

The General and Municipal Workers' Union—which itself meets the BSC tomorrow — has also instructed its members not to cross any picket lines. The Scottish TUC has pledged full support.

thrown into chaos.
Only Devon, of y

Soldiers

Call for

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10 DOWNING STREET

From the Private Secretary

2 January 1980

I attach a copy of the note of the meeting held here on 31 December to discuss the steel dispute.

I am copying this letter and its enclosure to Tony Battishill (H.M. Treasury), Ian Ellison (Department of Industry), Ian Fair (Department of Employment) and to Martin Vile (Cabinet Office).

N. J. SANDERS

J. A. Chilcot, Esq.,
Home Office.

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10 DOWNING STREET

From the Private Secretary

2 January 1980

I attach for your information copies of the exchange of correspondence between the Prime Minister and the Leader of the Opposition about the recall of Parliament.

I am copying this letter and its enclosure to John Stevens and Martin Vile.

N. J. SANDERS

Peter Moore, Esq.,
Government Chief Whip's Office

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2/1

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

2nd January 1980

Dear Ian,

BRITISH STEEL

As you will know, your Secretary of State and the Chancellor of the Exchequer met in No.11, Downing Street at 9.30 a.m. on 24th December to brief the Government Directors on the Board of the British Steel Corporation, Nick Monck and Solly Gross. Mr. Ridley of your Department was also present. The meeting was strictly ephemeral, in the sense that the relevant Board meeting took place that morning, and events have moved on a good deal. There was, however, a useful discussion and you may find it helpful to have this belated note for the record.

The two Ministers first described contacts they had had the previous day. The Chancellor had been in touch with the Prime Minister, as well as your Secretary of State and the Secretary of State for Employment. Sir Keith Joseph had also seen Sir Charles Villiers. Villiers had reported an approach by Len Murray to Mr. Scholey. He had suggested as a possible compromise offer the Board's present offer of 2 per cent plus 5 per cent "on account" for future increases in productivity, plus a 10 per cent productivity increase negotiable locally, maintenance of the guaranteed week centrally, an a working week shorter by 1 hour in 1982. Mr. Scholey had taken the line that it must be for the Board to determine the Corporation's negotiating position. Sir Keith had made it clear to Sir Charles Villiers that the size and nature of the Corporation's offer must indeed be a matter for the Board. Sir Charles had told him that he was greatly relieved to know that the Government was not putting pressure on the Board to make further concessions. He personally thought it unlikely that Bill Sirs was at present in a mood for making concessions himself. The Corporation was, however, looking at its cash provision for contingencies, to see whether more could be made available. Sir Keith had

/told him

Ian Ellison, Esq.

told him that provided the Corporation stays within its cash limit, the Chancellor of the Exchequer may prove to be willing to agree to a claim on the contingencies fund, within the cash limit, and to deferment of the proceeds of all or part of a disposal of assets by the BSC if an improved offer proved necessary to reach a settlement. In Sir Keith's view, both Sir Michael Edwardes and Len Murray had been unhelpful in encouraging Sirs in their different ways to go to the brink. According to Sir Charles Villiers, he was on "an ego-trip". Villiers was convinced that a strike was inevitable. He had contemplated a strike ballot, but in your Secretary of State's and the Chancellor's view this was a highly risky proposition. Although there seemed to be less conviction at the grass roots, the negotiating representatives of the steel unions were solidly behind Sirs. If a ballot made sense at all, it could only conceivably justify the risk after the strike had started (a ballot takes 8 days to mount). Sir Charles Villiers was sure the strike would be long; it would take 4 weeks before financial pressures mounted on the strikers.

Officials noted that the Corporation had already been told that the proceeds of disposals in the first half year could be used to meet losses; and that for the second half year it was for negotiation whether proceeds could be used to meet the cost of redundancies. Furthermore, the Secretary of State for Industry had only just written to the Corporation to say that any shortfall on capital expenditure could be used only to finance redundancies. There was a difference of view between the Treasury and the Department of Industry in that Treasury officials were still prepared to cut back on capital expenditure to finance a pay settlement, whereas the Department of Industry strongly opposed this view, since if capital savings were used to offset a pay settlement, the price must be a slower rundown in BSC's workforce. Mr. Monck noted that this argument assumed that the BSC's ambitious programme of redundancies would be fully met, and that the already large sum set aside for redundancies could be fully used up. He was less optimistic.

Messrs. Monck and Gross thought that Sir Charles Villiers had deliberately played down the amount available from further disposals. There were indeed risks in disposing of BSC's mineral interests in South Africa, as Sir Charles Villiers had said; but in practice these accounted for only some £2 to £3 million, compared with engineering interests of £30 to £40 million.

/There was

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There was a general feeling at the meeting that if a strike could be averted by a central offer of 7 to 8 per cent, plus 10 per cent for local productivity improvements, it would probably be worth giving Sir Charles Villiers the extra financial flexibility he would need, provided the cash limit were maintained. But it would have to be clear that such an offer would be withdrawn if not accepted. Against this, it was in practice virtually impossible to withdraw from the table an offer once made. It was likely at the forthcoming Board meeting that Sir Charles Villiers would float the idea of a 5 per cent central offer, of which he would find 3 per cent from his contingency reserve, and hope to persuade the Government that the rest could be financed from disposals. He would be looking for advice on the likely acceptability of such an offer from worker directors. Mr. Gross said that the management of the BSC were also contemplating a central agreement on natural wastage, and Len Murray had been told that they had this in mind; your Secretary of State noted that this would underline local productivity deals.

Summing up, the Chancellor said that the Government directors should not imply at the Board meeting that the Government favoured any particular level of settlement. They should however remove any impression that the Government was either pressing management to stick to their 2 per cent offer, come what may, or to increase it with a view to averting a strike. The Government directors would of course leave the Board in no doubt that the cash limit was a firm and continuing constraint. Provided the cash limit was respected, they would not wish at this juncture to rule out or specifically endorse particular financing expedients.

I am copying this letter to Tim Lankester and Ian Fair, to Ridley and Gross in your Department, and to Nick Monck here.

Yrs ever,

Mk Hall

(M.A. HALL)

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NOTE OF A TELEPHONE CONVERSATION WITH THE HOME SECRETARY AT 2215 ON 2 JANUARY 1980

The Home Secretary said that he had had an account of the Ministerial meeting on 2 January from Robert Armstrong. He had been upset to hear that the Prime Minister had been isolated. He wondered whether the time had come for a discussion by the whole Cabinet, perhaps early in the week beginning 7 January. He was sure that Ministers generally would back the Prime Minister rather than taking a rigid line.

The Prime Minister said that Bill Sirs had castigated her on the television news for taking the Steel Corporation's line; in fact, she had only been talking common sense. At her meeting she had not been able to understand the proposed productivity scheme and the management now had to move quickly to sort it out. She was determined that the Corporation's cash limit would not be broken. She suggested that there might be a meeting of E Committee early in the week beginning 7 January, and the Home Secretary suggested that it should be on Monday. He said that the Prime Minister should not find herself outflanked in a small group of Ministers. He had already discussed the question with Mr. Prior.

The Prime Minister said that the problem was that the sensible view could not operate at once because there were no practical means of putting it into effect.

The Home Secretary said that he would telephone the Prime Minister again after her meeting on 3 January.

MJS

3 January 1980

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cc Master Sett

STEEL STRIKE

NOTE OF A MEETING HELD AT 10 DOWNING STREET
AT 3:30pm ON 2 JANUARY, 1980

PRESENT:

PRIME MINISTER
CHANCELLOR OF THE EXCHEQUER
SECRETARY OF STATE FOR INDUSTRY
MINISTER OF STATE FOR INDUSTRY (Mr Adam Butler)
MR D B SMITH (Department of Employment)
MR N J MONCK (Treasury)
MR S GROSS (Department of Industry)
SIR ROBERT ARMSTRONG } Cabinet Office
MR P MOUNTFIELD }

MINISTERS resumed their discussion, begun on 31 December, about the steel strike. The following points were made:

(a) The strike had now begun. It would cost the British Steel Corporation (BSC) at least £40 million a month. The wider effects on British industry could be very damaging if action were prolonged, leading to substantial lay-offs and bankruptcies. Government would come under increasing pressure, from the Confederation of British Industries and from Backbench MPs, to take some action.

(b) The strike would eventually have to be settled. There was still a chance that this would happen on the basis of the present offer, without further improvements. Some strikes in the private sector had apparently been settled on similar terms (although the full costs have not always been widely publicised). The details of the present BSC offer were not well understood, either by the steel workers or by the public at large. But it was possible that intransigence, and with it the cost of a settlement, would grow as the dispute continued.

(c) The Government was determined to maintain the cash limits for the industry. It was important to correct the belief, apparently held in some trade union circles, that the Government would eventually relent on this point.

(d) If the cash limits were maintained, the best hope of a settlement lay in an improved productivity deal. Ideally it should be a totally genuine productivity deal, with benefits accruing only as increased productivity was achieved. If there were to be any question of a type of 'productivity on account' scheme, the scheme must involve a measurable definition of productivity, and be capable of regular and early monitoring; it must be possible to report improvements and deterioration in performance promptly and clearly to the workforce; and there must be clear agreement that additional cash benefits should be withdrawn immediately productivity fell below the required level. Productivity in the British Steel industry was already far below that in our continental competitors: indeed at present prices the value added in the manufacturing process was not sufficient to cover labour costs.

(e) The BSC offer already left room for such schemes in principle, although the details remained to be worked out and in most cases would have to be devised plant by plant.

(f) The workforce might be more prepared to accept local productivity deals than the ISTC (with its long tradition of central negotiations and pay arrangements), which was at present strongly opposed to them. There might be scope at some stage for a postal ballot of the workforce, which could be organised and financed by the BSC without the need for legislation; at present, however, a ballot was likely to show a large majority in support of the unions' position.

(g) The BSC had decided five months earlier that it could afford no significant improvement in net earnings next year, and that the emphasis must therefore be on productivity schemes. It had taken this time to work out acceptable schemes because external events had then forced a major closure programme onto the BSC. It was understandable that the unions found it difficult to contemplate making real pay conditional on higher productivity on top of the closures which they were now being asked to accept.

(h) The strength of opposition to productivity was demonstrated by such events as the recent strike at Workington, over a local productivity scheme, which had forced British Rail to import steel rails from Luxemburg. There was sufficient demand for British products in some specialist sectors, which the industry had been able to supply. It was important to publicise the true facts in cases such as these.

(i) If It proved to be necessary to improve on the basic pay offer to supplement or replace improved productivity payment schemes, the cost could only be met, within a fixed cash limit, by reducing the level of redundancy payments in further closures. The BSC could not withdraw redundancy offers to which it was already committed for Corby and Shotton.

(j) Whatever were felt to be the shortcomings of management of BSC, it was important to back the Chairman and his Board during the present dispute, and to show no sign of wavering. The Corporation was not good at putting its case across to the public or to the unions. The workers' representatives on the Corporation might be able to play a useful role here.

(k) The Government should encourage the Corporation to publish details of its offer, together with other facts and figures about the financial state of the industry and its poor record of productivity. The figures were available but were not widely known. The Government should, however, take no further overt part in the dispute. No publicity should be given to continuing Ministerial discussions on the subject. Intervention should be left to the ACAS in its traditional conciliation role.

(l) The Government had a final political responsibility, which it could not evade, as custodians of the public money put into the steel industry, and because of the wider repercussions of a prolonged steel strike on industrial activity. It must therefore continue to watch developments in the dispute, and to stand ready to take any necessary action. In particular, it must improve the coordination of Ministerial statements about the dispute. The existing machinery, involving both the Inter-Departmental Contingency Group under Department of Industry Chairmanship, and the Government publicity machine, must be used to the full.

(m) Further problems might develop over secondary sympathetic industrial action. For example, the Railway unions were discussing with the British Railways Board the possibility of blacking imports of steel and its supplies to and from private sector steel companies. Such action was probably legal at present, in the light of the recent House of Lords judgement in the McShane case. Even where it was in breach of contract of employment, as in the case of railwaymen, management were unlikely to take the risk of spreading the dispute further by taking disciplinary action. It might be necessary to consider accelerated legislation on this subject.

(n) There might also be problems over bottlenecks in particular essential supplies, such as tin plate for the canning industry, which Department of Industry, in consultation with other interested Departments, should continue to review.

THE PRIME MINISTER, summing up, said that the Meeting would resume its discussion of the steel situation the following afternoon, in the light of a meeting of the British Steel Corporation Board the next morning.

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NOTE OF A TELEPHONE CONVERSATION WITH THE SECRETARY OF STATE FOR EMPLOYMENT AT 2145 ON 2 JANUARY

Mr. Prior said that the presentation of the steel strike on the television news had sent a shiver down his back. The case was not coming over well. The Prime Minister said that the BBC had been very one-sided and that the Steel Corporation ought to complain about it. She said that her meeting that afternoon had shown that the productivity schemes had not been sorted out yet and that there appeared to be no sense of urgency in the BSC management.

Mr. Prior suggested that there should be a productivity payment on account which could be withdrawn in, say, six months, if the productivity improvement was not forthcoming. The Prime Minister said that the explanation she had been given for the management's failure to develop productivity schemes was a perfectly sensible one: namely, that the Board had been too engrossed with their redundancies to get down to dealing with the pay claim. Ministers themselves could not draw up productivity schemes for the steel industry, but the Government Directors would report on 3 January what had happened at the Board Meeting on that day.

Mr. Prior suggested that he might ring Len Murray to find out how things stood following the meeting of union General Secretaries. The Prime Minister suggested that he should leave that for the moment. She wondered whether it might be sensible to approach one or other of the members of the BSC Board, but concluded that it would be better to wait until after the 3 January meeting.

Mr. Prior said that Douglas Smith had been right to say that there was no prospect of an easy victory. He said that a fight to the finish was not the way forward. He asked whether Woodrow Wyatt had any more information. The Prime Minister said that she doubted it; his first suggestion about the guaranteed working week had not been successful.

/ The Prime Minister

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The Prime Minister said that it was essential that the steel workers should not be paid anything on account unless it was clearly understood that any such payments would be withdrawn if the targets were not reached. Mr. Prior said that he was sure that the country would understand and accept that line of argument.

MS

3 January 1980

Not Ind.

NOTE OF A TELEPHONE CONVERSATION BETWEEN THE PRIME MINISTER AND THE SECRETARY OF STATE FOR EMPLOYMENT AT 0930 ON TUESDAY, 1 JANUARY 1980

Mr. Prior reported that further talks through ACAS had not taken matters any further forward. The BSC side seemed very relaxed about the situation. The most significant piece of information concerned the possible productivity arrangements which had been discussed by Ministers the previous day. These had proved to be not so much productivity schemes as profit-sharing schemes which would only produce a pay out if there was a profit. The Prime Minister commented that Ministers appeared to have been misled. Mr. Prior said that the situation was pretty unsatisfactory.

The Prime Minister said that both sides seemed to be even further dug in. Mr. Prior was certain that the cash limits would be breached if there was a strike lasting two or three weeks. In the circumstances would it not be possible to bring forward some money and repay it later in the year whilst remaining within the cash limits? The Prime Minister said that there appeared to have been no real negotiations. Mr. Prior said that the only negotiations had been half-hearted and late in the day. He now regretted that he had not become involved earlier, but it was a very delicate position. The Prime Minister said that the BSC board seemed to want a strike. Mr. Prior said that this was true of Mr. Scholey.

The Prime Minister asked if the finances of a strike had been properly worked out. Mr. Prior said that the £40 million figure given to Ministers the previous day showed that some work had been done, but other information seemed to be lacking. The Prime Minister insisted that there was still room for genuine productivity arrangements. Mr. Prior said that matters were now at had an impasse and he was uncertain what could now be done. The Prime Minister commented that Messrs Villiers and Scholey would learn a lesson from the strike. Mr. Prior responded that the Government might also learn one. He suggested that it might be

/useful for

useful for him to discuss further with Sir Keith Joseph the £40 million figure. He commented that a ten week strike would spend the Corporation's entire cash limit. The Government would now probably simply have to see how effective the strike would be. His own view was that it would be pretty effective, although matters were unpredictable at present, with strange currents of feelings in evidence. It was clear that the Government could no longer do anything to stop the strike. The Prime Minister said the only remaining option to stop the strike was if the Government themselves were to call in both sides but this was not on in a situation where the two parties to the dispute had not seriously negotiated. She was horrified that the Department of Industry Director had found Messrs Villiers and Scholey at home following the Ministerial meeting the previous day, not sweating it out in their offices. Mr. Prior said that Messrs Villiers and Scholey appeared to have washed their hands of the matter. The cash limit gave them an alibi.

The Prime Minister asked Mr. Prior to talk to Sir Keith Joseph again about the possibilities for productivity arrangements. She would be available at Scotney later in the day and the next morning and would be back in London in the afternoon of the 2nd. Mr. Prior said that he would get in touch with Sir Keith Joseph again. Ministers would need to review the situation again the following day, although he would be in contact with the Prime Minister in the course of the day if there were significant developments.

1 January 1980

cc Master Set.

STEEL STRIKE

Note of a Meeting held at
10 Downing Street, at
2.30 pm on 31 DECEMBER 1979

PRESENT -

Prime Minister
Home Secretary
Chancellor of the Exchequer
Secretary of State for Industry
Secretary of State for Employment
Sir Robert Armstrong - Secretary of the Cabinet
Mr D R Instone - Cabinet Office

Ministers had before them a minute dated 31 December 1979 from the Secretary of State for Industry to the Prime Minister about the threatened steel strike.

THE SECRETARY OF STATE FOR INDUSTRY said that, following the breakdown of negotiations between the British Steel Corporation (BSC) and the steel unions on 28 December, there appeared to be little prospect of averting the strike due to begin on 2 January, despite the fact that the Advisory, Conciliation and Arbitration Service (ACAS) were meeting both sides separately that day. The Government had clearly spelt out its view that negotiations should remain a matter for the BSC and the unions without Government intervention, and there seemed no case for changing that policy now. It would, however, be important to continue to emphasise publicly that there were substantial amounts of money available for pay increases through productivity, and that the unions were putting jobs at risk through strike action. In addition a close watch should be kept on the effects of the strike on other industries and on picketing.

In discussion it was argued that it was most unfortunate that the negotiations had broken down, despite the intervention of Mr Len Murray. With greater negotiating competence on both sides the breakdown might have been averted. It would be wrong for the Government to intervene directly in the negotiations or to allow any relaxation in BSC's financing. Nevertheless BSC had perhaps not done enough to emphasise that there was still room for further negotiations.

Additional money could be made available for pay increases, either through improvements in productivity or at the cost of increased job losses beyond those already announced by BSC. BSC could therefore emphasise the kind of local productivity arrangements they already had in mind; and they could point out that the unions had a choice of accepting money already offered or accepting larger amounts at the cost of greater job losses caused by the impact of pay increases on steel prices and hence demand. In all probability a settlement would be bought at a higher price once the strike had started, and BSC had in any case estimated the net cost of the strike at about £40 million per week. This suggested that, despite difficulties of calling off the strike following the breakdown of negotiations the previous week, nevertheless a really determined effort should be made by BSC, on the lines indicated, to enable further progress to be made in negotiations in the time available before the strike was due to begin; if this were done there was still a chance - though perhaps a slender one - that the strike could be averted.

In further discussion, it was noted that a close watch was already being kept on the likely impact of the strike on other industries. British Leyland was likely to be among the first to be seriously affected. Picketing should also be monitored through the usual reporting channels from the police to the Home Office, though it did not seem necessary at this stage for formal advice to be sent to Chief Constables.

THE PRIME MINISTER, summing up the discussion, said the Secretary of State for Industry and Chancellor of the Exchequer should contact the BSC, through their nominated members of the Corporation, and suggest that BSC should emphasise that there was still scope for further negotiations without breaching existing financial limits. Points to be emphasised in comment by Government spokesmen should stress the amount of taxpayers' money which had already been committed to BSC for the present and coming financial year, and should reiterate that there was still scope for negotiations on productivity and that more money without higher productivity could only mean a further loss of jobs in the industry. Guidance for use in response to Press questions about the meeting was also agreed by the meeting.

Cabinet Office

2 January 1980

Reference

Seen by the Prime Minister

MW 31.xii

CONFIDENTIAL

PS/Secretary of State

cc PS/Prime Minister
PS/Chancellor
PS/Secretary of State DE
PS/Sir Robert Armstrong
PS/Mr Butler
PS/Mr Marshall
PS/Sir Peter Carey
Mr Ridley Dep Sec
Mr Woodrow Inf
Mr Instone CO
Mr D Smith DEm

STEEL STRIKE

I spoke to Mr Scholey and Sir Charles Villiers late this afternoon on the lines the Secretary of State indicated following the Ministerial meeting this afternoon. I spoke to Mr Scholey first because Sir Charles was not available but finally reached both of them at home. I emphasised, in particular, the Prime Minister's wish that the BSC should be seen to be ready and anxious to negotiate up to the last moment.

2 Sir Charles responded by saying that he would arrange for BBC and ITV to telephone him and he would say "BSC were very anxious to get back into negotiations. Negotiations would have to come sooner or later. Why not now? Only a telephone call (ie from Mr Sirs) was needed". He agreed then to suggest to Mr Scholey that in fact he [Mr Scholey] should take the initiative himself and ring Mr Sirs (Mr Scholey told me he had anyhow been thinking of doing this).

3 However, both feared that the gap between the two sides was too wide to be bridged at this stage. In particular, they did not believe that offering more money for additional closures was a practical offer, first because the central negotiating body of the unions was totally opposed even to the 12,500 redundancies in the present proposals and, secondly, because additional closures would have to be phased over a period so that sudden steel shortages did not occur which would lose customers. Therefore, unless money was paid in advance (which would jeopardise the actual achievement of productivity gains!) there was very little scope here.

4 On the local productivity deals, Mr Scholey confirmed that the Regional Managing Directors were meeting in London on Wednesday 2 January to put more flesh on the proposals. He agreed to try and get more publicity for these schemes.

S J Gross

S J GROSS
Hd IS Division
816 Ashdown House
212 8705
31 December 1979

CODE 18-77

E. R.

Statement : Following the Meeting of Ministers Held on Monday, 31 December 1979.

Ministers met this afternoon to consider the steel situation. They noted that, within the limit of the additional £450m of tax payers' money which has been committed to the steel industry for next year, there is still scope for negotiation between management and unions on productivity lines. More money without higher productivity could only mean a further loss of jobs in the steel industry.

PM.

PRIME MINISTER

STEEL STRIKE

We are meeting this afternoon to consider this. As you know, ACAS are seeing both sides today but the chances of averting or postponing the strike remain very slight. A number of questions arise.

HOW TO HANDLE AFFAIRS AS THEY DEVELOP?

There are two aspects to this. One is to keep to a minimum the resulting disruption to industrial activity. On this, I propose that the group of officials, which I set up following our meeting in E Committee on 12 December, should continue to consider these matters with a natural increase in the intensity of their activities. We are setting up special enquiry points within this Department to cope with "distress" calls. BSC have set up their own Action group on this.

The second aspect concerns negotiations to end the dispute. We are, I believe, agreed that this must remain a matter for BSC and the Unions to hammer out between themselves with such help as may be forthcoming from third parties like ACAS or Mr Len Murray. Formal arrangements within Whitehall present an air of intervention. Therefore, I consider that our present informal contacts should continue and that we should set up no formal machinery to cover this aspect of the problem.

HOW CAN GOVERNMENT GET ITS POSITION ON RECORD?

I believe it is important to get public opinion firmly on BSC's side. It might be worth setting up a specialised team to oversee the Government publicity activity and to monitor the response. We must continue to plug the line that more money is available for more productivity and that unions are seriously risking their own and each others jobs by this strike. We back BSC 100% in its efforts to reach viability through improved productivity and all round performance.

CAN ANYTHING MORE BE DONE?

I believe that we are already doing all we properly can. Mr Len Murray's intervention last weekend was helpful in opening the way for the meeting with the BSC Board on 24 December of the five General Secretaries of the Trade Unions directly involved. But Mr Murray is now reluctant to engage himself further and risk loss of credibility. I fear that events must now take their course. But we must meanwhile seek to avoid high wage settlements elsewhere in the public sector which are not paid for by performance, since these would inevitably be provocative to the steel unions and thereby exacerbate the dispute. Meanwhile it will be important for the Department of Employment and the Home Office through the police to monitor any picketing especially by interests not directly involved in the strike and the Home Secretary may wish to consider whether additional advice on picketing should be given to Chief Constables. Management's reaction to any blacking by rail unions will also need to be considered.

CONFIDENTIAL

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I am copying this minute to members of E Committee, to the Secretaries of State for Scotland and Wales, and to Sir Robert Armstrong. & to the Paymaster General

KJ

K J

31 December 1979

Department of Industry
Ashdown House
123 Victoria Street

JU

ITN NEWS - 9.30 PM - SUNDAY 30 DECEMBER 1979.
INTERVIEW WITH JAMES CALLAGHAN ON STEEL CRISIS

Mr Callaghan said its wrong for the Government to stand aside. John Suchard asked him what Parliament could do to help?

CALLAGHAN: I think bring pressure to bear on the Government through an expression of opinion to intervene in this dispute. There must be conciliation, we cannot allow a dispute of this sort to accelerate, as I am certain it will over the next few weeks.

INTERVIEWER: But neither side, neither the Corporation or the Union has asked for the Government to intervene.

CALLAGHAN: No, that is because the British Steel Corporation's been given its orders by the Government who put it in a financial straight jacket and they have cut off financing the current operations from the 31st March next. Now this is absurd, it means that Ministers are behaving like old fashioned ledger clerks. Here we are in the middle of a world recession and they say "no more finance for the steel industry although you are in the depth of a recession". Now I think that there's obviously got to be a rationalisation, indeed it was taking place under Labour Government, and the Conservative Governments are accelerating it. But to just chop off financial support for current operations like that is in my view totally absurd. It is monetarism gone mad.

PRIME MINISTER

One more piece of news about the steel dispute: ACAS will be announcing later tonight that they have got both sides coming in for separate talks tomorrow. These talks are at ACAS's instigation.

The Department of Employment stress that they do not expect any real progress to come from these discussions, but at least it will be a sign that the conciliation machinery is doing its best.

NICK SANDERS

30 December 1979

PRIME MINISTER

Steel Dispute

You asked about the position on conciliation. The Department of Industry have told me late this afternoon that ACAS are still taking discreet soundings and are in touch with the Steel Corporation, the TUC and the Department of Employment, but do not think they can intervene with any chance of success. ACAS will be letting Douglas Smith have a further report late tonight, but there is no reason to suppose that anything will have changed.

Len Murray is reported as feeling that he has shot his bolt and that he cannot do much more himself at this stage. The Steel Corporation would like him to reconvene the meeting of union General Secretaries, but there is no sign that he is willing to do so.

Charles Villiers had another press conference this morning, with an eye to tomorrow's papers. He is sticking to the line that there is no obvious room for the Government to intervene.

Keith Joseph has let us have some suggested speaking notes for you to use tomorrow. They are attached.

NICK SANDERS

30 December 1979

For broadcast on Monday

THE STEEL STRIKE

The Government's Stance

The Government's concern, which everybody in the corporation will surely share, is for BSC to become competitive and profitable as quickly as possible. Unless it is, everybody's jobs in it remain at risk.

Strikes which drive away business, pay awards which BSC can't cover in what they earn from sales, keeping more plants than orders will fill, using more men than competing steel works, all stop BSC from being competitive.

£14 - p.w.
£9 - per week

The Government is asking the taxpayer to provide £700m. for steel this year and £450m. next year to strengthen BSC's competitiveness by financing new investment, working capital and redundancy costs. But it will not finance higher wages than the corporation can afford. Subsidising such losses would do nothing for competitiveness. On the contrary, it would only lull people in the corporation into feeling they need not be competitive.

It is not right to ask the taxpayer to find more money on top of the £450m. he is finding for steel next year to subsidise a larger pay offer when the steel workers can earn much more themselves through higher productivity.

The Government notes that the BSC's pay offer in addition to the 6% pay increase puts at least an extra 10% on the table in local productivity deals if steel workers will earn it. In that way they can all earn more and BSC can at the same time become more competitive.

30 December 1979 SIR KEITH JOSEPH

Industry

Mr faxed to Chequers 30/12. GB

PS/Prime Minister

cc PS/Secretary of State
PS/Mr Butler
PS/Mr Marshall
Sir Peter Carey
Mr Ridley Dep Sec
Mr Leeming IP
Mrs Cohen IS1
Mr Clay IS3
Mr Thompson IS1B
Mr Vile

STEEL STRIKE

I attach answers to the questions that were put to me yesterday, which I understand the Prime Minister wishes to have by this afternoon, and a description of the present offer by BSC.

S J GROSS
Hd IS Division
816 Ashdown House
212 8705
30 December 1979

BRITISH STEEL CORPORATION: PAY DISPUTE

What is BSC's present offer?

1 The offer at national level comprises consolidation, value 2% (the calculated benefit of consolidating, into normal rates of pay, past supplements under incomes policy) plus 4% against measures to improve productivity plus an additional 1%, if an agreement could thereby be concluded with productivity commitments. In addition, BSC offer in local negotiations pay improvements (no ceiling now specified: previously "up to 10%") in return for locally designed and locally agreed productivity improvements, when these are achieved.

2 The latter offer of increased pay in return for improved productivity to be negotiated and achieved locally, has been dismissed out of hand by the central union negotiators. Is this sensible? Surely it should be considered and investigated? This is the way in which the workers, the Corporation and the taxpayer at large can all benefit. Last year's national pay settlement was 8%, but local productivity agreements gave another 6%.

3 How much public money has gone into BSC in recent years?

	£ million
1975/76	659
1976/77	931
1977/78	801
1978/79	715
1979/80	700-(estimated)

The total over the five years is therefore £3,106 million, representing £221 for each family in the country (assuming the latter at about 14 million); £50 this year (1979/80) alone. Or £27 this year for each taxpayer. For next year (1980/81) we have promised £450 million, or £32 for each family in the country. Do they really want to pay more than

32

this so that BSC can continue making losses?

4 BSC Production

million tonnes

	Liquid Steel Production	Finished Steel Deliveries (including exports)
1973/74	23	18.1
1974/75	20.8	15.1
1975/76	17.2	12.7
1976/77	19.7	13.7
1977/78	17.4	13.4
1978/79	17.3	12.5
1979/80 (estimated)	19.3	13.6

(1 tonne of finished product equals about 1.34 tonnes of liquid steel)

5 BSC Productivity by comparison with main European Competitors. Productivity up by 8%?

The position on manpower productivity is set out below:

Man-Hours to Produce 1 Tonne of Crude Steel

	West Germany	France	Italy	Belgium	Lux.	UK
1977	6.5	7.2	5.4	6.2	6.1	11.9
1978	5.9	6.4	5.2	5.2	4.8	10.9
Improvement 1977-78	9%	11%	4%	16%	20%	8%

It takes BSC nearly twice as many man hours to produce a tonne of steel as its major European competitors. It is true, as Mr Sirs claims, that the British steel industry as a whole improved its manpower productivity by 8% from 1977 to 1978, but the table shows that the improvement in 4 out of our 5 main European competitors was greater than this. So, despite the 8% improvement in the UK, we are falling still further behind in manpower productivity.

6 "BSC are making a trading profit". Mr Sirs

		1978/79			1979/80 1st Half (Provisional) £ million
Sales		3,288			1,554
Cost of Sales		3,317			1,540
Difference	minus	29	Difference	plus	14 (a)
Depreciation		111			64
Trading loss after depreciation	minus	140		minus	50
Interest		208			101
Other adjustments	plus	39			included in (a)
Total loss		£309 million			151

Therefore, in 1978/79, receipts from sales were worth £140 million less than the basic cost of these sales. It is true that, in the first half year of 1979/80, receipts from sales were £14 million above the bare cost of sales (ignoring adjustments) but one cannot simply ignore depreciation and interest. Everybody has to pay interest on his house mortgage or his hire-purchases and has to make provision for replacing household goods and repairing his roof. The fact is that the value added by BSC is no more, if anything a little less, than the wage bill. So the workers as a whole are effectively contributing nothing to the national wealth.

7 UK Market Share

	BSC	UK Private Sector	Imports
1974	56	26	18
1978	53	26	21
1979 (estimated)	54	26	20/21

Figures for the past 5 years show comparatively little change. However, imports in 1970 were only 6%, and in 1973, 13%. The reasons for the increase in imports over the past decade to 20/21% are:

a entry into the Common Market and BSC's competitive weakness;

b increased capacity in the private sector;

c BSC delivery failures in 1973/74, resulting from industrial disputes and production problems, led users to "double source" as a safeguard against disruption in supplies. A strike now will only strengthen this trend to "double source" abroad.

8 BSC Profit/(Loss)

1972/73	£3 million profit
1973/74	£50 million profit
1974/75	£73 million profit
1975/76	£255 million loss
1976/77	£95 million loss
1977/78	£443 million loss
1978/79	£309 million loss
1979/80 First half year	£151 million loss
Second half year	>£151 million loss

Therefore, BSC's losses over the 5 years 1974/75 to 1979/80 will exceed £1,400 million.

450
600 Con.
700 BL
700 JR.
65 Pool.

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NOTE OF A TELEPHONE CONVERSATION WITH SIR KEITH JOSEPH AT 1015 ON 30 DECEMBER

The Prime Minister said that she wondered whether there ought not to be a further public appeal to the steel workers from the Steel Board, saying that it would be premature to go on strike when more than 10% extra was available from productivity deals. Sir Keith Joseph said that the workers were motivated by loyalty to their union. He added that ACAS would be inviting both sides in early in the week for talks.

Sir Keith Joseph agreed to provide the Prime Minister with some speaking sentences for use in her radio interview on 31 December, together with any further reports he had on the position.

The Prime Minister suggested that it might be possible to recall Parliament and put through a bill in one day to enforce postal ballots. Sir Keith Joseph said that no-one could be sure of the results of such a ballot, and that since the bully-boys were in charge it was not realistic to expect that the strike could be prevented at this stage.

The Prime Minister said that she was concerned that people who wanted to go on working should be given a reason and that all her instinct was to do everything possible to prevent the strike. But the point had to be repeated that the steel industry's competitiveness could not be allowed to deteriorate any further. The taxpayer was already finding more than £9m. a week to support the industry. Any further pay increases had to be in return for increased productivity.

Sir Keith Joseph agreed to consider whether any further press comments could be made by the Steel Corporation on 30 December and to look into the position about ACAS.

MJS

31 December 1979

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NOTE OF A TELEPHONE CONVERSATION WITH THE CHANCELLOR OF THE EXCHEQUER AT 1000 ON 30 DECEMBER

The Prime Minister said that she was very exercised about the prospect of the steel strike, and was concerned about the press coverage it was being given. The Chancellor said that the coverage could have been a great deal worse.

The Prime Minister said that she was wondering whether it might not be possible to have some sort of system whereby there would be a final arbitration attempt, similar to that which operated in Australia, for use on occasions like this. She was also worried that steel workers were comparing themselves with local authority workers - who were getting 13% for nothing.

The Prime Minister said that the Government must not look as if it was doing nothing.

The Prime Minister and the Chancellor discussed the terms of her reply to Mr. Callaghan and agreed that it would be sent on 30 December.

MS

31 December 1979

CONFIDENTIAL

Bte

10 DOWNING STREET

THE PRIME MINISTER

30 December 1979

Dear Jim,

Thank you for your letter of 29 December about the situation in the steel industry.

Like you I shall be extremely sorry if there is a strike by workers in the industry. Great harm would be done to the industry, to those who work in it and to all those who use its products.

While sharing, therefore, your views about the gravity of the situation, I do not think it would be helpful to recall Parliament this week. But you may be assured that I would not hesitate to do so if I thought that circumstances at any point made it desirable.

Yours sincerely

Margaret Thatcher

The Right Honourable James Callaghan, M.P.

GB

MR SANDERS

The Prime Minister spoke to James Prior at 1810 this evening about the threatened steel strike, asking what had gone wrong with Friday's negotiations.

Mr. Prior said there had been many crossed lines, and everything was in a muddle. Scholey and Greaves had had a row; one negotiating group had been kept apart in another room to wait for several hours, and no one was in a mood to agree anything.

The Prime Minister asked what happened when a nationalised industry went to conciliation. Mr. Prior said that Mr. Kerr of ACAS had already unofficially contacted management at BSC to see if there was room for manoeuvre. Villiers would be having a meeting tomorrow with executives to discuss this, and they would contact ACAS if there was any hope. ACAS would then approach the Unions.

The Prime Minister asked about redundancies. If workers were on strike would they lose redundancy payments? Mr. Prior thought if everyone was sacked they might get away with that, but it was a dangerous card to play. He was not sure of the legalities of the situation but would check it out.

The Prime Minister and Mr. Prior agreed to allow the situation some time to "sink in" and they should meet on Monday, with Sir K. Joseph, Sir G. Howe and Mr. Whitelaw to discuss further moves.

G. Baldwin
Duty Clerk

29 December 1979

Mufaxed to Chequers
29/12.

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PRIME MINISTER

This letter from Mr. Callaghan asking for the recall of Parliament next week was delivered to No. 10 at 1400 today. I expect, given the references in this morning's press, that it will be released later today and that it will be well publicised.

Unless you want to send an immediate reply yourself, we would propose to stick to the line which Bernard Ingham was using yesterday: namely, that Ministers see little point in an immediate recall. The Press Office would add that you will be replying to Mr. Callaghan in due course.

You could then write to him on Monday after your return to London.

Please let us know if you would prefer any other course to be followed.

MJS

29 December 1979

From: The Rt. Hon. James Callaghan, M.P.

HOUSE OF COMMONS
LONDON SWIA OAA

29th December 1979

Dear Prime Minister,

It now seems too late to avert the national steel strike that is due to begin next Wednesday but I am writing to urge very strongly the need for Parliament to be recalled next week to discuss ways and means of averting the serious damage that a stoppage will do to the heavy engineering industry, motor cars, ship building, construction, steel consumers of all kinds as well as to the steel workers themselves.

Whatever the merits of your general policy, I cannot accept that the Government will be right to continue to stand aside now that the industry has reached its present impasse. The responsibility now falls upon the Government to seek ways to end this dispute through conciliation. Otherwise attitudes will harden even further as the dispute continues.

Parliament should be recalled immediately to discuss these important issues.

Yours sincerely,

pp Jim Callaghan

Dictated by James Callaghan:
signed for him at his request.

The Rt. Hon. Margaret Thatcher, M.P.

CONFIDENTIAL

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NOTE OF A TELEPHONE CONVERSATION BETWEEN THE PRIME MINISTER AND THE HOME SECRETARY AT 1600 ON 29 DECEMBER

The Prime Minister said that she had received a request from Mr. Callaghan for the recall of Parliament. There seemed to her to be no point in a recall. The BSC had made as large an offer as was possible, and her information was that the union leaders would have accepted it but their shop-stewards and executives had prevented them from doing so. It was now hard to see how conciliation could work. She proposed to reply to Mr. Callaghan that she was just as worried as he was about the consequences of a strike, especially given the vast sums of public money which had already been poured into the steel industry. She would not rule out the possibility of a recall in the week beginning 7 January, but saw no possibility of an earlier recall.

The Home Secretary said that he thought it right that the House might have to meet in the week after next, but he was absolutely convinced that it should not meet next week. He said that he would make sure that he got what information he could and would let the Prime Minister have it.

The Prime Minister said that if the House did come back they would face calls from the Opposition for a surrender to the unions. As far as the strike itself was concerned, her main worry was the amount of secondary activity which there might be. The Government however could not push the Steel Board into giving more money than it had got to give.

She thought that one possibility would be to bring the House back on Thursday 10 January for one day, but would consult other colleagues before she reached any sort of decision. She intended to reply to Mr. Callaghan on 30 December rather than more quickly.

The Home Secretary said that he would ring the Prime Minister again on 30 December, perhaps while she was with Lord Carrington.

MJS

29 December 1979

CONFIDENTIAL

cc Mr. Ingham

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PRIME MINISTER

BSC

The BSC negotiations broke down today, and the unions have announced that there will be a national strike starting on Wednesday.

BSC improved their national offer to 6% with some weak productivity strings. (Their earlier offer had been 2% unconditional plus 3% in return for an end to the guaranteed working week.) Their new offer involved the dropping of the guaranteed week condition, and its replacement by something much weaker on productivity; and an extra percentage point on the package. The union side refused to accept this.

BSC would have been prepared to go to 7%, which they thought Bill Sirs and Smith (the General Secretary of the Blast Furnace Men's union) would have settled at. But they were convinced that neither Sirs nor Smith would have carried their executives. The executives were both present at the negotiations and were apparently in a very militant mood.

Sir Keith is of course disappointed, but feels that the Government should now stand back. Sadly, BSC management have been proved right: ie. they did not think that anything but a large improvement in the offer would be acceptable to the unions.

My contact at BSC (Charles Villiers' Personal Assistant) tells me that Scholey is putting out the following line to the press:

(i) BSC is broke and cannot afford anything more;

(ii) Steel workers cannot expect a guaranteed real wage irrespective of performance;

(iii) There are big opportunities for higher wages if only the unions will negotiate productivity deals at local level. (You will recall that

/ in

in addition to the offer at national level, BSC are willing to negotiate productivity deals at local level which could mean an extra 10%).

This is all very unfortunate. You may want to speak to Sir Keith and to Mr. Prior over the weekend to see if there is anything more we should do. Personally, I doubt whether there is. We will have to hope that:

(i) Union members fail to heed the strike call; and

(ii) The union leadership show sense and return to the negotiating table.

It will be important that the Government put out a clear line: Scholey's position mentioned above seems to be the right one. – Agreed but it is not coming over that way

Have spoken to Keith this morning. (Sat)

MT

T.

28 December 1979

NOTE OF A TELEPHONE CONVERSATION BETWEEN THE CHANCELLOR OF THE EXCHEQUER AND THE PRIME MINISTER AT 1700 HOURS ON SUNDAY 23 DECEMBER

The Chancellor of the Exchequer said that he was dismayed by what he had heard from a Treasury representative on the British Steel Corporation Board. The Prime Minister said that she had spoken to the Secretaries of State for Industry and Employment the previous day. She was most concerned that the strike would get under way and prove very expensive. She had said that, as long as a settlement did not breach the BSC cash limit, it would be cheap at the price.

The Chancellor of the Exchequer said that a different message had come through to the British Steel Corporation. This was that Ministers had met and did not want a strike and would therefore be prepared to contemplate a settlement within the norm. The picture was further complicated by Mr. Len Murray's attempts to push a five-point plan, which included productivity payments to be made on account and to be monitored locally by the TUC and others.

The Prime Minister said that she had told her colleagues that she would be prepared to see a 2% or 3% real increase in the offer, in addition to the 2% consolidation and 3% to be found from provision for guaranteed work. There was no question of a norm. The Chancellor said that he had already expressed his concern to Sir Keith Joseph, who would be in touch again with Mr. Prior. Sir Keith would stress his concern, shared with the Chancellor, that Ministers must in no way be seen to interfere. It was a matter for the British Steel Corporation management. They themselves would no doubt see, as did Ministers, that a strike would be most damaging. The Chancellor said it would be most helpful if he could go back to Sir Keith Joseph confirming that the Prime Minister agreed with this line. The Prime Minister said that she would be grateful if he would do this.

31 December 1979

MAP

TRANSCRIPT OF A TELEPHONE CONVERSATION BETWEEN THE PRIME MINISTER AND SIR KEITH JOSEPH ON SATURDAY 22 DECEMBER

Prime Minister: Keith. I'm sorry to chase you on the Saturday before Christmas.

Sir Keith: Not a bit.

Prime Minister: But we've been having varied conversations about steel, Keith, and I'm very worried about it because I don't think the unions want to go on strike and that all my information is in that direction. I think that both Villiers and Scoley are not handling it very well but what I'm fearful of is that if we let them go on strike without making further effort we'll not only have them out, we'll have very, very bad feeling and we'll have British Leyland finished as well and I feel that to avert that - if we could let just a few millions of the investment money go so long as we hold the cash limit I would rather do that. I've just been trying to find out, 1 per cent extra I gather costs 10 million so I would imagine they could let up to 30 or 40 million go - I would say 30 million go - if that in fact would do the trick.

Sir Keith: Well, we could talk to them privately about some way in which that could be done without breaching the cash limit.

Prime Minister: Yes. What I'm concerned about is that they should not breach the cash limit and they should leave a goodly amount left for investment. But I just think that there's too much at stake. You know, if we can get a really low settlement it's to our advantage, if we can carry through the new attitude of unions willing to settle for low settlements, it's also to our advantage. If we can keep British Leyland going for the time being, that's also to our advantage. Now I've been on to Jim Prior and said that I really don't think we can just leave it because I think Villiers and Scoley are both wooden.

Sir Keith: I don't think Scoley is all that bad. He's been handling it.

Prime Minister: Well, I wonder if you could get on to Jim. I've spoken to Jim. He's at his house in Suffolk. He says you have the number because I don't think we can leave it.

Sir Keith: The danger is that once some more is offered, the unions will push for more still and we shall .....

Prime Minister: ..... well, I think that the negotiations have been very badly handled because you know I have a private line in from some chums and they tell me that it has been extremely badly handled but we can't do it directly but I think Jim's got a line to Len Murray and I think there are one or two suggestions - not that Jim, but three or four of them, should be allowed to get together privately. perhaps aided and abetted by Douglas Smith in their Department whose marvellous. He used to be in the Cabinet Office. Do you think we've got the stupidity that

/they are

they are wanting to settle but that they've got such a wooden management that they ~~can't~~.

Sir Keith: But you know that the concession of 3 per cent was organised behind the scenes.

Prime Minister: Yes, but that wasn't new money. That was just switching money round and I thought that we might offer 2-3 per cent of new money to get a low settlement. Or we might authorise that which would mean not breaching the cash limit which I would not do but taking just a little - a few millions, a few tens of millions - of the 150 million investment money which would be cheaper than letting them go on strike.

Sir Keith: But the judgement is whether that will solve it or whether they will then say, well we've got them on the run, we'll ask for 15 more .....

Prime Minister: ......that's a judgement, but I think we'll leave the judgement to them provided we've got reasonable people negotiating.

Sir Keith: Yes, well that's up to Jim to know whether how far Douglas Smith can help out. Well, I'll certainly phone Jim.

Prime Minister: All right, bless you Keith. And I'm so sorry to bother you.

Sir Keith: Oh, of course not. Any time. I'm here from now on.

Prime Minister: Yes. You're not alone over Christmas are you?

Sir Keith: Oh, I'm with the family, it's all right thank you and you've kindly asked me to a buffet on Thursday. Very nice.

Prime Minister: That's right, and then you're going to the States later?

Sir Keith: I probably am cancelling because of all this steel.

Prime Minister: Well all right. Let's hope we can get it sorted out.

Sir Keith: Thank you, Margaret.

Prime Minister: All right, Keith. Goodbye.

TRANSCRIPT OF A TELEPHONE CONVERSATION BETWEEN THE PRIME MINISTER AND MR. JAMES PRIOR ON SATURDAY 22 DECEMBER

Prime Minister: Hello, Jim. You've got problems.

Mr. Prior: We've all got problems.

Prime Minister: I don't think we can just sit back and let this happen, bearing in mind we don't seem to have skilled negotiators on our hands.

Mr. Prior: Well we certainly haven't and Murray tells me that Villiers just hasn't a clue and that he's not very impressed by Greeves but gets on well with Scoley.

Prime Minister: Well why did the Scoley thing not work? I thought they were negotiating with Scoley yesterday.

Mr. Prior: Well, it's really Greeves and Scoley but Murray, when he went down to try and sort the thing out yesterday, Villiers pushed him straight into the place with all the others instead of letting him have a private talk with Sirs first which was most unhelpful. I think we shall have to talk about it on Monday morning and try and get a little bit of movement somewhere.

Prime Minister: Well I think so because I think they're just all sitting back to let something happen which I don't believe Bill Sirs wants to happen.

Mr. Prior: No. I think that's absolutely right. But, of course, they must have something but they've been ... I mean I've told him and Murray's told him he's got to give something as well.

Prime Minister: What Bill Sirs or Villiers?

Mr. Prior: I think that Bill Sirs has got to give something in exchange for Villiers giving something.

Prime Minister: I looked at what happened and I thought they got just about 5 per cent which I thought was what would take the trick.

Mr. Prior: Well, it was unfortunate you see. The 3 per cent of it was this business of getting rid of the guaranteed week and I think they wrongly maintain that that is really losing money on one hand and that therefore they won't touch that.

Prime Minister: That's the same money. So they want 2 per cent clear really?

Mr. Prior: Well it was the 2 per cent which was the consolidation from last time which was already on the table. What I think is going to be necessary is for us to, Sir Keith and myself anyhow to talk, to see whether we can't then have a word with Villiers to see if there's anything more he can do.

/Prime Minister

Prime Minister: He's such a wooden person.

Mr. Prior: Well, he's such a very conceited man actually.

Prime Minister: But isn't there anyone else who they could negotiate with there?

Mr. Prior: Well Scoley they can but of course Villiers would have to approve it.

Prime Minister: And he and Scoley don't get on very well together?

Mr. Prior: No.

Prime Minister: Well, why doesn't he hand it over to Scoley while he has Christmas off?

Mr. Prior: That would be ideal I think but I don't know whether that's possible.

Prime Minister: You know, on the basis that he needs a holiday, etc. etc. I just don'tthink...... I mean, Jim it's going to be the end of British Leyland if they're not careful.

Mr. Prior: Oh, I think Murray..... you know he's calling together all the union leaders involved on Monday?

Prime Minister: Oh, well that's good news. Can you get on to him and ask him who he would negotiate with?

Mr. Prior: Well, what he would like to do is he would like to have a private meeting between Sirs and one of his people, plus Scoley and Greeves with Murray himself there and he would like to rehearse with them what is possible and until that has been properly rehearsed he wouldn't want anything to go back to a bigger meeting.

Prime Minister: I think that's right.

Mr. Prior: But I think that we would have to talk a bit to Scoley and Greeves a bit before the meeting took place ....

Prime Minister: ....as to what they could offer. I mean, quite honestly, Jim, I don't mind a bit of the investment money going to wages.

Mr. Prior: No. Well all I'm concerned about is that, I mean as far as the cash limit's concerned, if we have a strike they're much more likely to break the cash limit by more than if we use some of the cash limit for the wages and then try and grab it back later on.

Prime Minister: I think you can probably do that only your going to have a list of cash limits - they've got 150 apart from redundancy haven't they. I would have thought they could use, let me think, there was 100,000 in steel or 200? 100,000 in steel?

/Mr. Prior

Mr. Prior: It's 10 million for 1 per cent roughly I gather.

Prime Minister: 10 million for 1 per cent. Well I would have thought they could use 30 or 40 million wouldn't you?

Mr. Prior: I would have thought so. You see, Murray's last words to me today were look I don't know, he said, but Sirs keeps talking about 8 per cent as being the increase in the productivity that they had last year and why can't they aim for this sort of figure this year. Now, whether that's the figure that's in Sirs' mind or not we just don't know.

Prime Minister: What does he mean, 2 per cent consolidation, 3 per cent guaranteed week, 3 per cent neat?

Mr. Prior: Well, that would mean ....yes, and that would mean, well 3 per cent in exchange for something. I'm quite certain that we mustn't let the steel corporation just give it without getting something .....

Prime Minister: ..... something for it.

Mr. Prior: Well, it won't be copper bottomed what they get, but we must get what we can.

Prime Minister: You get some promise of some reduction in restrictive practices.

Mr. Prior: Yes, yes.

Prime Minister: Well, Jim, I would use 30 or 40 million of it for that because it's cheap at the price.

Mr. Prior: Well now, Margaret, the only thing is that I shall have to talk to Keith about this. I think I'll have to come up on Monday morning.

Prime Minister: I will not be there until Monday night. I've got a heavy day on Monday, or I'll be here Monday night, I've got a heavy day on Monday.

Mr. Prior: Well, have you talked to Keith or not?

Prime Minister: No, I haven't. I had to.....I was at No. 10 until 1230 this morning and then David talked to you and then David talked to me. I can talk to Keith.

Mr. Prior: Would you like to talk to Keith.

Prime Minister: I'll talk to Keith.

Mr. Prior: And then if he would like to give me a ring - either tonight or tomorrow morning - I mean I'm perfectly happy to come up to London on Monday morning or tomorrow if necessary.

Prime Minister: I would have thought we could do it on the 'phone Jim. I don't really want to bother you the moment you've got there. Anyway it's going to snow in your part of the world isn't it?

/Mr. Prior

Mr. Prior: Well, there are conflicting weather reports like everything else but you know obviously I would rather not come up but I don't want to upset anyone else or leave anything to chance because I think we must keep some momentum going.

Prime Minister: So do I.

Mr. Prior: If you wouldn't mind talking to Keith I think that would be right, then I think I could talk to, after talking to Keith myself, I could talk to Murray and then I would let, I think, Douglas Smith talk to Greeves and Scoley so that I'm not involved. I don't want to get into the front line if we can avoid it.

Prime Minister: No, I don't want to get in the front line but I don't want a strike. We'll talk to Keith. Now does he know your telephone number in the country?

Mr. Prior: Yes, he does.

Prime Minister: I'll get on to him now if I can find him.

Mr. Prior: When I've spoken to Murray if I think I need to come back to you I will.

Prime Minister: All right, I'm here, and it's not going to leave my mind so I might as well do something about it.

Mr. Prior: OK.

Prime Minister: All right, Jim. Sorry to bother you.

2

~~PRIME MINISTER~~ PA (steel)

You were not in the House yesterday when Mr Callaghan said (see the attached extract from Hansard) that the steel strike could be "the biggest catastrophe since 1926" and went on to ask for consideration of a recall of the House if the strike went ahead.

Since the news from the negotiations seems to be gloomy, we shall need to give some thought to this request after Christmas. It would not make much sense to recall the House before Monday, 7 January, and my own view is that there will probably be no justification for doing it at all. But I thought I should register the point with you at this stage. Ideally, we would need 48 hours to consult the Speaker and The Queen - but let us hope that the need does not arise.

MJS

21 December 1979

to the Leader of the Liberal
my hon. Friend the Member
Ir. Lyon) on the casual an-
this afternoon of an impor-
nent policy? I refer to the
ernment decision not to pro-
prosecution of British com-
have broken British law.

t our debates on the Zim-
was plain that the amnesty
ed was an intra-Rhodesian
gned to bring about concili-
n the parties to the dispute.
question of our public posi-
st of the world—whether we
e say, and our reputation for
-is at stake in Bingham. It
nough to dismiss this matter
sory way.

ohn-Stevas: The right hon.
s confusing two different
first issue is the question
on by the Director of Public
not to proceed with pro-
hat is a matter not for me
DPP. The second issue
inquiry. The right hon.
opinion is that an inquiry
ful. That is not the Govern-
on. We believe that an
s nature is unnecessary and
would be liable to damage
tation and cause embarrass-
ime when peace is, thank-
to Rhodesia.

lder: Since the Common
nission is stalling in its pro-
he French Government for
w British lamb into France,
vernment provide time so
se can demonstrate its con-
French action and for the
rket Commission?

hn-Stevas: It is most im-
the law should be obeyed,
domestic law or international
exert what influence I have
nch President in order to
n to comply with that

er: Is the Leader of the
that if the predicted steel
place early in the new year
hon. Friends who represent
el communities and heavy
as will feel that it is neces-
back to Parliament a week

early to take the opportunity to educate the Tories into ending their lunatic policy of allowing imported coal into Britain? Is he aware that that policy is shutting down pits in South Wales and elsewhere? The Government should establish a decent wage, at least in line with the cost of living, for the many thousands of steel workers.

Mr. St. John-Stevas: Of course I agree that there is a serious situation in the steel industry. I understand that a meeting is taking place tomorrow. We must all hope that there will be a reasonable settlement to the dispute.

Mr. George Robertson: I am sure that the Minister is considering the possibility of a debate on the consultative document on the structure and management of the National Health Service in Scotland. While he is doing that, will he consider the remarkable statement that was made yesterday at Scottish Question Time by the Under-Secretary of State for Scotland, who said of that document, which is still not in the Vote Office

"However, there is no question of a consultative document of that nature being put in the Vote Office."—[*Official Report*, 19 December 1979; Vol. 976, c. 603.]

Will the Leader of the House reflect that his Scottish colleagues are increasingly running the Scottish Office by press release from Edinburgh rather than through the House?

Mr. St. John-Stevas: The document to which the hon. Gentleman referred was published by the Stationery Office. It was not a White Paper, nor was it a Parliamentary Paper. The hon. Gentleman is right in saying that the normal procedure is to make such copies available to the Library. That should have been done. I regret that it was not.

Mr. James Callaghan: Following the question from my hon. Friend the Member for Bolsover (Mr. Skinner)—[HON. MEMBERS: "Ah."] Well, if I were in a trench I would sooner have my hon. Friend with me than some Conservative Members.

Mr. Speaker: Order. Hon. Members are getting very excited. I know that we rise tomorrow, but we must deal with today's business first.

Mr. Callaghan: Christmas is breaking out all over. I want to follow up my

hon. Friend's question, because the Opposition have been considering how to use parliamentary procedures in order to get a debate on the serious situation into which we seem to be drifting in coal and steel. We have not forced this issue, because we understand from the Leader of the House that negotiations are going on, and we do not wish to prejudice them. I am sure that the Leader of the House understands that if there were a steel strike and consequences flowed from that it could be the biggest catastrophe since 1926. I am sure that that is being borne in mind by the negotiators. Will the right hon. Gentleman give an undertaking that in the event of such a strike on 2 January, he will consult the Prime Minister in order to ask Mr. Speaker to recall the House at an earlier date?

Mr. St. John-Stevas: As the right hon. Gentleman pointed out, I appreciate the importance of saying nothing at this stage that could exacerbate the situation. The Government are always watching to see whether such a recall of Parliament is necessary. However, it would be inappropriate to give the right hon. Gentleman such an undertaking.

Mr. Michael Brown: Does my right hon. Friend accept that the best way to meet the Leader of the Opposition's request is for the general secretary of the Iron and Steel Trades Confederation to accept the considerable body of opinion that is now hardening within his union, and within my constituency, against the strike? This morning I received more than 500 signatures from members of that union expressing opposition to a strike. Does my right hon. Friend accept that perhaps there is no feeling for a strike among members of that union?

Mr. St. John-Stevas: This matter is under negotiation, but I am sure that we would all agree that a strike should be used as a weapon of last resort, after every other effort to secure conciliation and peace has failed.

Mr. Faulds: Is not the handling of the Blunt case, the abandonment of the Bingham report and the proceedings arising from it, concerning the breaking of oil sanctions—which prolonged the rebellion in Southern Rhodesia and the civil war, with a consequent increase in loss of life and damage to neighbouring countries—further evidence of a decline

Tim Lankester

PRIME MINISTER

STEEL STRIKE

Villiers' original offer had already received Government backing before we could make any recommendations. Here are some immediate thoughts about the impending strike.

1. Villiers' offer was ridiculous. Norman told Keith this, who repeated it on the spot to Jim, just before E on 10 December. It is the fundamental indexing problem. You cannot expect one group of workers to accept a substantial <u>real cut</u> in wages, when other <u>comparable</u> groups (miners, civil servants, railwaymen) are being treated differently. Even the most moderate union leader, like Sirs, is forced to fight back.

2. As we said in our earlier note on the miners' claim, if Government is going to get involved in the long term (ie if things really escalate) then it is involved at the outset. Government cannot disengage in industries where it is already setting constraints on cash limits, break even etc. BSC can't raise prices to foot the bill, because they can't sell the stuff anyway. By all means encourage management to manage, but Government cannot be completely uninvolved. It is much better that Government should get involved early than have to climb down, late.

3. Other less moderate unions will leap at the chance offered by the steel strike. Here are nasty Tories and bosses being really unfair to moderate workers already facing closures and job losses. It's the perfect chance for worker solidarity etc.

4. The Government should therefore move fast. Keith should intervene, making it clear that he realises that the offer was unrealistic and, most important of all, <u>simply not fair</u>, in the circumstances.*

5. Possible proposals might be to allow BSC to increase their offer, within cash limits, by diverting funds from investment; or alternatively Government offering, in this particularly difficult situation, to help towards redundancies. The Department will know what is possible here.

6. If this looks like expediency, that is exactly what it is. The situation was never properly thought through at the outset, so that Villiers could be properly briefed to handle the thing sensibly.

We are available on call over Christmas week, if you want us to come in.

JH

JOHN HOSKYNS
21 December 1979

* With skill, it need not look undignified. The mere action by KJ could give Sirs the chance <u>he</u> wants to get off the hook by at least postponing the strike, long "hard" talks, can ensue.

Is there any hope of a ballot of members

Prime Minister

CONFIDENTIAL

Has Villiers offered it?

PRIME MINISTER

[illegible]

TL 21/12

BSC STEEL STRIKE

Negotiations between the BSC and ISTC broke down this afternoon after several hours' discussion.

BSC offered a 5% central increase to include 2% on consolidation plus 3% against withdrawal of the guaranteed week arrangements (which provide for minimum wages in the event of short-time working etc). The offer would be correspondingly increased if a detailed assessment of the guaranteed week payments showed them to be worth more than 3%. The 10% offer for locally negotiated productivity deals was also confirmed. BSC also offered to introduce a shorter working week as from January 1982. The ISTC insisted on a central offer without any productivity strings or payments and said that since no such offer was being made the strike would take place as from 2 January 1980.

The Corporation remain ready to resume negotiations over the holiday if the ISTC seek them. At this moment it is still not clear where the other steel unions or the TUC stand.

Departments concerned have set in motion machinery to monitor the effects of a strike and the Department of Industry is setting up a central enquiry point.

It would not be sensible or practical for the Government to try to allocate supplies, but officials will be able to provide steel users seeking alternative sources of supply with contact points in the industry (in BSC, with the private sector steelmakers, and stockholders etc).

... I attach a note on the stock and supply position in the main steel-using sectors. It broadly confirms the assessment in my minute of 17 December. Only the event will show users' success in getting alternative supplies from abroad, the private sector etc.

Once it began a strike could well last for some time. The ISTC will not pay strike money, but because of tax refunds, savings and the traditional willingness of local shops, building societies etc not to press for payment there will not be rapid financial pressure on strikers and their families; the threat of further permanent job losses in steel and elsewhere will percolate gradually. If imports were disrupted the survival of British Leyland after a month or so could be in jeopardy; and there would be progressive dislocation, with the possibility of other failures, in the steel-using industries generally. There is also the risk that in a prolonged strike the pay and closure issues would become inextricably mixed (as the line taken by the Welsh TUC already indicates), and perhaps of spreading strikes involving miners and other unions as well as steel.

There will accordingly be vocal pressure from the Opposition and the union movement generally for the Government to bring about a settlement.

We need to be aware of these risks in determining our attitude. Experience hitherto has been that at the end of the day a settlement has nearly always had to be made at the price of further concessions which, if given earlier, might well have prevented the strike. If we decide to continue to leave the Corporation, under their present financial constraints, to follow their own judgment, we must be prepared to face the risks and to sit things out until they win.

I believe that we must do so. We really have no choice. Any relaxation of the Corporation's financing regime would critically damage our credibility with their management and employees in insisting that they must do what is necessary to return to profitability in 1980/81. Moreover, such a move would be seen generally as a first step to the abandonment of our general policy of firm financial discipline in the public and private sectors and of facing employers and employees with the consequences of their actions. I also believe that public opinion will be on our side, the more so because this strike will make very little impact on daily life outside the industries concerned.

Leyland?

Over the holiday period we should in my judgment stand back from any further discussions between BSC, ISTC and the TUC. If any of the union leaders ask to see me it might be counter-productive to refuse; but I would make it absolutely clear that I do not intend to intervene or to modify the financial obligations I have laid upon the Corporation. I understand it is open to ACAS on its own initiative to offer its good offices to both parties to the dispute. It might raise the temperature unnecessarily if we tried to dissuade the Service from such a move, but we should not encourage it.

I am copying this minute to Cabinet colleagues + MoS for Transport and to Sir Robert Armstrong.

KJ

K J
21 December 1979

Department of Industry
Ashdown House
London SW1

Effects on Major Suppliers, Service Industries and User Sectors of a Strike at BSC

A. Suppliers of raw materials

BSC is a major user of iron ore, scrap, heavy fuel oil, coking coal, ferroalloys, oxygen, electricity, gas and refractory materials.

(a) Iron ore is mainly imported, but some home ore is also used from BSC's own mines. The main effects of a stoppage would be reduced ore through the ports and on British Rail.

(b) Scrap used is partly recirculated and partly purchases from companies within membership of the British Scrap Federation. The scrap trade supplies 40% of its UK sales to BSC 30% to the private sector and 30% to iron foundries. They are also exporting considerable quantities of scrap during the current recession. A strike restricted to affecting supplies to BSC would thus have a limited impact on the scrap trade, unless it were prolonged, although there may be local problems.

(c) Coking coal is mainly purchased from NCB, but imports are becoming increasingly important. BSC also buys some coke from NCB's subsidiary - National Smokeless Fuels. BSC accounts for £350m per annum out of a total NCB turnover of nearly £3000m, and this represents 9% of actual NCB coal production. Department of Energy officials suggest that NCB would continue to put coking coal into stock rather than any general lay offs. If a strike were prolonged it might bring forward the closure of one or two pits which are already vulnerable

(d) Ferroalloys BSC accounts for about a third of the sales of the UK ferroalloy industry, and a further 50% of its output goes to exports. The impact of a BSC stoppage could be absorbed for a limited period, consistent with the alloy makers being to finance stocks of high value.

(e) Oxygen is used at major steel works from tonnage oxygen plants adjacent to the works. Two thirds of the BOC production of argon for industrial use is derived from those tonnage oxygen plants. Stocks of argon amount to 4 weeks consumption, so that only a prolonged stoppage would affect this sector.

(f) Refractory materials are used extensively by BSC. The Corporation takes 65% of the refractory industries output which totalled £240m in 1978. In the event of a strike the companies would make for stock but could have problems if the dispute was prolonged. If refractories plants were a target for any secondary picketing, then the industries 16% of sales to exports would be jeopardised.

B. Service Industries

(a) Electricity Service is widely used but loss of load can readily be accommodated by CEGB.

(b) Gas Supply is used to a limited degree and no problems are envisaged here.

(c) British Rail service is essential to the Corporation for movement of coal, iron ore, and products. Loss of BSC revenue would be at the rate of about £1.2m per week (£60 million per year). This represents 16% of the total freight revenue of British Rail which is £385m per year. Freight revenue represents 36% of the total British Rail revenue of £1082m. In some cases the BSC uses whole trains but in the case of supplies of semis to the private sector individual wagons or part trains are used. It is thus not possible to identify specific employment implications, if any, from temporary loss of BSC business. It is estimated that about 1,000 of the 39,000 footplatemen and guards in British Rail are involved in transportation for the steel industry as a whole.

(d) Port Services London, Immingham and Goole are the most important docks for imports and Immingham, Middlesborough Liverpool and Scunthorpe for exports, but many other ports are used also. Total movement of iron and steel associated materials amounts to 26m tonnes per year of which 16mt is iron ore, 2mt coal, 4mt imported steel and 4mt exported steel. Total employment in the industry is 11,600 of which 5070 are registered dock workers. Reduction of BSC imports and exports may be expected to have only limited impact overall, given that direct steel imports by users, merchants and stockholders might be increased.

(e) Road Transport The Corporation total expenditure on road haulage is in the order of £50m per annum but this accounts for only 1½% of the total turnover of the UK road transport industry of £3500m. 70% of the BSC use of these services is in steel deliveries. Given the expected increased activity in steel movements from stockholders and the flexibility that road transport has, it does not appear that this industry would suffer unduly from a strike at BSC.

C. User Industries

The pattern of consumption of major user sectors, based on the quarter ended September 1979 was:-

	%
Railways	2.4
Shipbuilding	2.2
Construction	12.8

	%
Electrical Engineering	3.6
Mechanical Engineering	19.4
Vehicles	11.4
Holloware (incl. canning)	9.3
Wire and Wire products	13.7
Other	25.1

(a) Railway equipment British Rail engineering reports having 40 weeks supplies. Private sector companies have much less but are less heavily dependent upon steel.

(b) Shipbuilding Whilst published stock figures (end June 1979) indicate quite large stocks representing many weeks requirements (and this is the case at Harland and Wolf), British Shipbuilders are less well placed. Because of their financial stituation they have run their stocks down in recent months. They are due for substantial deliveries in January to schedules and a lengthy stoppage of supplies would be damaging to some vessels under construction, although in some cases fitting work could continue if steel supplies dried up. SPB say that smaller shipyards could be hardest hit, but how much flexibility exists when the difficulties arise could only be assessed on a day to day basis.

(c) Offshore fabricators BSC does not hold stocks of steel for offshore structures so that an impact would be felt well within a month. In particular during the first quarter of 1980 materials are required to programme for BP Magnus and Amoco North West Hutton structures. The oil companies might have to move to imports for these if the strike were prolonged to avoid large financial penalties for late delivery.

(d) Electrical Engineering This sector employs over 120,000 people. Whilst the overall stock figures suggest a two month endurance, the sector is diverse, (turbines, generators, electric motors, switchgear transformers) and sensitivity to shortage of steel varies for example within the GEC group between 4 and 8 weeks. After 8 weeks major problems could arise and major export business would be jeopardised. The Corporation is a major supplier of electrical steel for transformers from the S.Wales plants.

(e) Domestic electrical appliances Stocks are considered to be good covering 6-8 weeks normal consumption of steel. 20% of this industry's output is exported.

(f) Heavy Engineering Process Plant Stocks would generally permit of continued production for 6-8 weeks, but with some disruption in specialised areas perhaps developing within 4 weeks. This situation would relate to such companies as NEI and Babcock.

(g) Drop Forgings Forging comapnies carry 3-4 weeks of stocks, 65% of steel normally being drawn from BSC, with individual cases of greater dependance. There is limited scope for increased private sector supplies of these steels. Effects on drop forging companies would depend upon their customers, substantially in the vehicle sector to take their product.

(h) Industrial fasteners Companies carry 3-5 weeks stock of wire and wire rod. There is heavy dependance directly, or via wire drawing companies, on BSC (80%). Problems are envisaged after 4 weeks particularly in the West Midlands where the industry's 30,000 workforce is largely concentrated.

(i) Bearings 80% of steel used for bearings is supplied by BSC and there are some imports. British Timken is 100% dependant. Stocks of bearing steel average 4 weeks production. Companies in this sector which employs 20,000 and serves a wide range of industry estimate considerable problems after 4 weeks.

(j) Hand and Engineers Tools Hand tools makers are heavily dependant on BSC. Engineers tools are more in the private sector domain with special and alloy steels. Stock levels for steel are in the range of 3-10 weeks.

(k) Heating and ventilating equipment a fragmented sector but with about 20% exports. Employment about 48,000. Between 60 and 80% dependant on BSC this sector has a potential endurance of 4-8 weeks.

(l) Agricultural Machinery Average stock levels indicate 4-6 weeks endurance.the three major companies involved.

(m) Mining Machinery This is a sector which carries only small stocks and exports about 10% of its production. Effects would vary widely between companies but some could be affected well within a month, depending on whether supplies available from stockholders are of the right types of steel.

(n) Motor Vehicles In the case of British Leyland which is heavily dependant on BSC for sheet steel and indirectly for steel for components. Sheet steel stocks would carry BL into February, and thereafter would depend heavily on imports. On the component side the most sensitive area is forgings, but 4 weeks endurance is indicated at the moment. Vauxhall have sufficient stocks to last through January, but our information is very limited. Ford also consider they can continue until end January.

(o) Diesel Engine Manufacture Typical stocks at companies are 8 weeks at least.

(p) Gas Industry British Gas are taking delivery of 42" diameter pipe for a land line from BSC Hartlepool. Potentially a strike of 3-4 weeks would affect their programme but there would be scope for catching up after a settlement by BSC working more shifts.

(q) Canning Industry Stocks of tinplate are 6-8 weeks and this is a relatively quiet season for the use of this material by the canmakers and users. Baby foods and pet foods are potentially more vulnerable than general food canning requirements.

(r) Wire - Tyre making This is an important use of wire and the makers of tyres carry stocks for 3-4 weeks. Such material is normally readily available via imports.

IS Division

20th December 1979

Nat Ind

CONFIDENTIAL

P.0177

PRIME MINISTER

THREATENED STEEL STRIKE

To be raised orally at E on 18 December

In folder (A minute from the Secretary of State for Industry to the Prime Minister is relevant)

P.

BACKGROUND

1. E discussed steel last week and concluded:-

i. No intervention in BSC's closure plans;

ii. No change in the cash limit, despite the deteriorating outlook;

iii. Mr Prior would talk informally to BSC about their pay negotiations;

iv. Sir Keith Joseph would arrange for any necessary contingency planning over the threatened strike.

2. Sir Keith Joseph's minute to you of 17 December fulfils iv. above. He concludes that although the situation should be closely monitored, there is little else the Government should do, except perhaps publicly to emphasise the damage of a strike.

HANDLING

3. The main questions you might like to pursue are:-

A. Likelihood of a strike.

B. Effects of a strike.

C. Handling of publicity.

D. Any other action the Government should take.

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A. Likelihood of a strike

4. You might ask Mr Prior to report on his informal soundings. I understand these have been both with the BSC management and with Mr Len Murray and Mr Sirs. As of today his officials think there is some chance (no more than that) that the strike could be called off. Points to watch include:-

a. The TUC's attitude. The TUC General Council is meeting on Wednesday morning; and Mr Prior may be able to report on its attitude;

b. The Welsh TUC have called for strike action in late January over the steel closures; this could help to deflect pressure for a strike over pay in early January;

c. For the Iron and Steel Trades Confederation (ISTC) a crucial issue is BSC's insistence on local (rather than national) productivity deals (to ensure that they stick) whereas the Union seeks to keep pay negotiations at national level; but the BSC may be able to accept some kind of national framework arrangement which would satisfy the ISTC.

B. Effects of a strike

5. Sir Keith Joseph's note suggests user industries would have about one month's endurance. But this is very uncertain and there are likely to be wide variations. A lot depends on how far the rail and dock unions take sympathetic action. Statements from these unions have not been very clear so far; there are some signs that sympathetic action may be less than total. You might seek Mr Prior's and Mr Fowler's views.

6. The most vulnerable industry looks like being the motor industry and above all British Leyland: being located mainly inland BL have less ability to import steel for car bodies than Ford. You might ask Sir Keith Joseph about the financial effects on BL, in view of the next item on the agenda. And how far will the cash limits of other nationalised industries be affected if they cannot get steel? Is any nationalised industry particularly vulnerable (eg coal through pit-props) and is there any measure of the risk? What are Mr Walker's views about the effects on tinned food - especially babyfood (probably not too bad, as there are thought to be about two months' stocks of tinplate)?

C. Publicity

7. The main question is whether Ministers should emphasise in speeches the damage to the economy - and especially to jobs in steel and user industries (eg BL) - caused by a strike. You might ask Mr Prior's views - as well as Mr Maude's. Timing will be crucial: if there is a chance the TUC could put diplomatic pressure on the steel unions not to strike, or that the BSC could settle, then a Ministerial intervention might be counter-productive.

D. Other Government Action

8. There are two possibilities; but both present difficulties:-

a. Use of troops This does not really look a starter - and Mr Pym (who would almost certainly be opposed) has not been invited. The main reason is simply that steel does not meet the normal 'civil emergency' definition of being vital to the life and health of the community. Tinned food is the only thing that gets near this definition, but even this seems marginal. Also relevant is the impact of any announcement on BSC's negotiations or on the TUC.

b. Dismissing strikers - or sending them home without pay. This could in theory be used against steelworkers or others taking sympathetic action and is raised in Sir Keith Joseph's minute. The key question is whether the Government should intervene, or whether such action should be left to the managements themselves.

CONCLUSIONS

9. You may want to record conclusions on:-

i. The Government's general stance: do colleagues agree with Sir Keith Joseph's line - essentially hands off except for publicity?

ii. Publicity: if a campaign is to be mounted there will need to be close liaison between Sir Keith Joseph, Mr Prior and Mr Maude.

iii. Any other Government action - including especially arrangements for policy consideration during the Christmas period. (The simplest arrangement might be to confirm that it will be Sir Keith Joseph's responsibility to keep senior colleagues in touch with developments and to consult them as necessary when he judges that action may be needed).

P Le CHEMINANT

Cabinet Office
18 December 1979

N ✓ AD

CONFIDENTIAL

Prime Minister

PRIME MINISTER

THREATENED STEEL STRIKE

Following our discussion on BSC on 12 December (E(79)19th) E Committee wishes to discuss further on 19 December the position as regards the threatened steel strike.

There is little new to report on the closure front. On 15 December I met Mr Murray and the TUC Steel Committee, led by Mr Sirs, on BSC's proposed closures and my financial targets. The Steel Committee's responsibilities do not cover pay. Nevertheless, it is of interest that neither the Committee nor even the ISTC have really tried to link the closure and pay issues. And the threatened closure areas, particularly in South Wales, appear to be less than keen on strike action over pay since this could clearly facilitate and advance the closures.

Mr Sirs of the ISTC has resumed informal discussions with BSC on pay and these are continuing. BSC's efforts to inform public opinion of the underlying issues have been quite successful so far and they are today issuing a statement to their workforce setting out some details of the offer on more pay (up to 10%) for more productivity. It is too early to judge what effect this will have. There seems to be some behind-the-scene pressure against the strike from other unions.

In accordance with the E Committee recommendation of 12 December, officials have started their examination of the effects of

/strike ...

strike action. Their first assessment has been presented to me and to the Secretaries of State for Employment, Transport and Trade. The position so far is very much as set out in the last two pages of my minute of 11 December except that, since then, the rail unions have told the ISTC that they would not handle steel if the strike took place. I understand that the Department of Employment judge that this is likely to result in fairly widespread efforts by these unions to impede imports of steel, at any rate by BSC's customers. I invite my colleagues to consider whether any steps such as sending those concerned home are feasible to discourage members of the unions concerned from such action.

On the surface accessible stocks at users works and stockholders of 16 weeks' consumption noted in my earlier minute implies a fairly comfortable endurance. Also BSC are trying to deliver as much steel as possible to customers before Christmas, and have set up their own arrangements to import for their customers. However stocks are much lower in some important areas like tinplate (about 6 weeks supply for cans), sheet steel for automotive use and electrical engineering. In complex manufacturing processes, shortages of specific components or sizes of material can disrupt total production. Our initial assessment suggests that some firms making mechanical engineering components (eg forgings), car manufacturers and some parts of heavy engineering (eg process plant) could be affected within a month, particularly if imports were halted. In the case of fabricators making offshore structures

/for the ...

for the North Sea, which BSC is treating as first priority, the industry faces substantial financial penalities if later delivery causes them to miss the short "weather window".

In sum, our initial appraisal suggests that some serious dislocation, probably in the motor industry or some other specialised sector of engineering, could begin within a month particularly if imports were stopped. However, experience suggests that industry is resourceful in keeping things moving, and that the impact usually turns out to be slower and less damaging than the statistics suggest.

The first review by officials of possible contingency measures suggests that the most effective action to mitigate the consequences of any stoppage is self-help by users and their suppliers. Although we shall no doubt be criticised for inaction I think that overt efforts by Government to facilitate (eg by trying to organise alternative road transport) or allocate supplies could well be counter-productive, and anyway would for the most part be impracticable. Officials will continue to study the possibilities and meanwhile arrangements to monitor the effects are being set in train. I believe that the most useful thing for us is to keep trying to bring home to the public the opportunities which lie before a competitive steel industry and the lasting damage which a stoppage would do to this objective.

/I am ...

18 DEC 1979

CONFIDENTIAL

I am copying this letter to Members of E Committee to the Secretaries of State for Scotland and Wales and to Sir Robert Armstrong.

PJS

PP K J
17 December 1979
(approved by the Secretary of State and signed in his absence)

Department of Industry
Ashdown House
123 Victoria Street
London SW1

P.A. Tape.

13.12.79.

Nat Ind.

NO STRIKE OVER JOB CUTS - STEELMEN'S LEADER

STEELWORKERS WILL NOT TAKE INDUSTRIAL ACTION IN THEIR FIGHT AGAINST BRITISH STEEL'S PLAN TO AXE 52,000 JOBS, IRON AND STEEL TRADES CONFEDERATION GENERAL SECRETARY BILL SIRS SAID TODAY.

BUT THEY WOULD MAKE URGENT REPRESENTATIONS TO THE GOVERNMENT, HE SAID.

THE STEEL UNIONS HAVE ALREADY SAID THEY WILL GO AHEAD WITH A NATIONAL STEEL STRIKE FROM JANUARY 2 OVER THEIR TWO PER CENT PAY OFFER.

MR SIRS WAS SPEAKING BEFORE HE PRESENTED A REPORT TO THE TUC ECONOMIC COMMITTEE IN LONDON TODAY, THE DAY AFTER BRITISH STEEL CHAIRMAN SIR CHARLES VILLIERS ANNOUNCED THE JOB CUTS.

MR SIRS WAS NOT CONVINCED THAT SIR CHARLES WOULD STAY FIRM ON THE CLOSURE PROPOSALS.

''HE'S ALREADY WITHDRAWN FROM WHAT WAS ORIGINALLY SAID IN SOUTH WALES - SO THEY DO CHANGE THEIR MINDS.''

1141

CONFIDENTIAL

Nat Ind

DEPARTMENT OF INDUSTRY
Room 717, ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 -6797
SWITCHBOARD 01-212 7676

Douglas Smith Esq
Deputy Secretary
Department of Employment
St James's Square
London SW1Y 4LL

12 December 1979

cc Mr Duguid

Dear Douglas,

BRITISH STEEL CORPORATION : THREATENED INDUSTRIAL ACTION

Ministers are, as you know, resolved not to intervene in BSC's pay negotiations (over which the Iron and Steel Trades Confederation are threatening a national steel strike on 2 January) or in the other slimming-down measures which the Corporation have embarked on to make themselves competitive and profitable. My Secretary of State has, however, asked officials to consider the possible consequences of industrial action on the economy generally, to keep Ministers informed and to advise them as appropriate.

Reg Long here has already set up consultations with the people listed in the annex. They are looking primarily at the stock and supply position, at the consequences of any shortages on particular industries and the scope for (and constraints on) alternative supplies from abroad. They aim to have a first report ready for weekend boxes.

and I

I think it would also be useful if you, John Sanderson, ~~and~~ Gerry Lanchin, were prepared to meet regularly to hear reports from Reg Long, to take an overview of the situation as it develops and to consider the implications for the Government's stance - always of course in the context of not interfering with BSC. I have in mind particularly the objectives set out in Sir Keith Joseph's minute of 6 December to the Prime Minister of doing everything possible to support the Corporation and of winning the backing of public opinion.

I hope that you can attend, or be represented at, a first meeting here on Friday 14 December at 1030. I suggest that we arrange provisionally for further meetings at the same time on Tuesday 18 and Friday 21. I do not think we can look beyond that for the moment.

/over

CONFIDENTIAL

I am copying this letter to John Sanderson and Gerry Lanchin, also for information to Tim Lankester at Number 10 and Wade-Gery at the Cabinet Office.

Yours sincerely,

Philip Ridley

P W Ridley

bc PS/Ministers
PS/Secretary
Deputy Secretaries
Mr Gross, IS
Mr Leeming, IP
Mr Woodrow, Inf
Mrs Cohen, IS1
Mr Clay, IS3
Mr Long, IS4
Mr Spencer, IS1A

Reference

cc Mr Kerrison IS4
Mr Spencer

Mr Ridley
Dep Sec

CONTINGENCY PLANNING ON THREATENED BSC STRIKE

You asked for a list of our contacts.

They are:-

BSC - Mr Peter Broxham, Director of Industrial Relations
(who will give us further contacts as necessary)

BISPA - Mr Ian Blakey

Council of Ironfoundry Associations - Mr Derek Farrant

Dept of Industry Divisions - M, V, MEP, SBP, (CT being added today)

Dept of Energy - Gas, OSO (Coal & Electricity being added today)

Department of Transport/DOE - Mr F H Elders
- National Ports Council - Mr Cartwright

Department of Employment - Mr Wake

MAFF - Mr McCall

Department of Trade - Mr Lanchin (who has been told we are preparing a paper).

R L Long

R L Long
IS4
Room 714 Ashdown
Ext 0205
12 December 1979

CODE 18 77

British Steel Corporation
News Release
PRESS AND INFORMATION OFFICE · 33 GROSVENOR PLACE · LONDON SW1X 7JG 01-235 1212

cc ? Lankester
?. Sanders, etc.

Statement by Board of BSC

The Board of BSC has considered the problems arising from the sharp and pronounced falling off in demand for steel products in the UK and in its other markets, and the fact that no upturn is in sight. The problems have to be tackled urgently:

(a) in relation to BSC's plant capacity, and

(b) in relation to the contribution of employees to BSC's productivity,

so that BSC will not run out of money or lose its market share by failing to satisfy its customers.

A. Plant and Capacity

BSC's current manned plant capacity is 21½ million tonnes of liquid steel per annum and the Board is determined that this should quickly be reduced to about 15 mtpa at which level profitable sales in the UK and overseas should, on present assumptions, be possible.

The Board considers that the new plant at Redcar/Lackenby on Teesside should work up to a liquid steel output of about 3½ mtpa.

The Board also considers that the electric arc plants at Sheffield should operate at an output of about 3½ mtpa.

/...

The steelmaking operations at Scunthorpe (now part of BSC Yorkshire and Humberside) will be reduced to about 3 mtpa, at which level single vessel operation will apply at both Appleby-Frodingham and Normanby Park steelmaking plants. Back-up facilities will be reduced accordingly.

Consultation will now begin with the Trade Unions and Workforces concerned about proposals for closure of BSC's works at Consett and Hallside.

The termination of iron and steel making at Shotton and Corby has already been announced.

Taking into account market prospects, BSC will still have an unsustainable overcapacity of plant for strip mills products. It will therefore be necessary:

(a) to operate Ravenscraig at the level of about 2 mtpa at which it will be required to break even, and

(b) to begin consultation at Port Talbot and Llanwern in South Wales on ways to reduce costs and modify capacity to relate to a liquid steel tonnage at or around 2¾ million tonnes in 1980/81: it will therefore be necessary for very radical reductions in manning to be effected if operations in South Wales are to be reorganised on a basis of costs which will allow South Wales to compete internationally in the future and provide some possibility of expansion. There remains very little time for this to be settled; available financial resources demand the utmost urgency.

As a result of the further reduction of steelmaking to about 15 mtpa and in order to load plants to capacity, some rolling mills will also have to be closed and consultation about this will begin in January.

The Board considers that this reduction in effective manned capacity is in the medium and longer term interests of BSC and it leaves BSC with substantial reserve capacity to be utilised if its prospects in its UK or overseas markets improve in the future.

B. Contribution of employees to BSC productivity

The planned reduction of BSC's manned capacity to about 15 mtpa of liquid steel will inevitably result in a reduction of BSC's total of employees. The Board considers that to approach international levels of manning the total number of employees engaged in iron and steel activities, as defined in BSC, should not exceed 100,000, compared with 152,000 (including 12,000 making iron and steel at Shotton and Corby) at the present time. Even then the tonnes made per man year at BSC will be lower than its principal international competitors. Therefore BSC has to aim at still higher productivity, with higher wages following when it has reached the point of financial viability, which is the basis of job security in the future.

It is also very necessary that working practices throughout BSC are as flexible as those of its competitors; otherwise BSC would continue at an unbearable disadvantage in cost and efficiency which would be as dangerous to the future of steelmaking in Britain as overcapacity and overmanning. In some parts of BSC this flexibility already exists.

The Board considers that, as the decentralisation of BSC proceeds, it is increasingly necessary that pay and certain working conditions are settled at local level where the effects of manning, working practices and investment are clearly seen.

BSC is now at a critical moment in its twelve year life. If it does not tackle its problems with vigour and a sense of reality it will wither, because its customers will turn to imports rather than pay the unnecessary costs of overcapacity, overmanning and non competitive working practices.

These are the problems to be solved. When that has been done, the excellent plant in which BSC has invested and the slimmed down workforce will enable the customers to be increasingly satisfied, revenue to be increased, costs to be reduced, productivity to be raised, and higher wages to be paid.

The historic steel communities will inevitably suffer greatly and BSC will do what it can by way of severance payments, counselling on jobs and, through BSC (Industry) Ltd., the introduction of new businesses to alleviate this. Nevertheless, it remains, in BSC's view, an obligation of Government energetically to assist the process of essential industrial change. More advance factories at key centres are needed. The maximum assistance should be obtained from the European coal and steel community. Small businesses must be helped and encouraged. Only in these ways can the changes necessary to BSC's survival be made less damaging for the regions principally affected.

December 11, 1979 NR/883

Ref: A0928

PRIME MINISTER

BRITISH STEEL CORPORATION

To be raised orally at E on 12 December

BACKGROUND

The basic issue is whether to accept the implications of low steel demand and tight cash limits for the British Steel Corporation (BSC). These now imply both substantial plant closures and fairly small pay increases, because of deteriorating circumstances since the cash limit was fixed in June.

2. As described in Sir Keith Joseph's minutes of 28 November and 11 December, the main components of the deterioration are:-

a. BSC will fail by a long way to meet their target of break-even by March 1980: they now expect losses for the second half of 1979/80 to be even worse than the £150 million loss in the first half.

b. Instead of a profit in 1980/81, BSC expect a loss of at least £76 million with "downside risks of £200 million or more."

3. BSC's main proposed responses are:-

i. Closure or "mothballing" of one quarter of BSC's effective capacity, half of it in South Wales and half in the North East, leading to perhaps 30,000 fewer jobs in 1980/81 (in addition to those already planned to go at Shotton and Corby).

ii. A 2 per cent (plus productivity) pay offer.

4. The Secretary of State for Wales feels that the case for BSC's proposals is not made out. His main grounds for complaint are:-

a. The Government does not have enough information about the assumptions behind BSC's proposals to be assured of their validity;

b. We cannot just leave it to the management because their competence is open to question.

5. You agreed that the issue should be discussed at E this week because of the Supply Day debate on steel on Thursday.

HANDLING

6. You might ask Sir Keith Joseph to introduce the subject and then call Mr Edwards as he has requested the discussion. You might suggest that some of the key issues are:-

a. How far should we question BSC's judgment? Should they have given us more information? When the cash limit was set in June (this is the one Sir Keith Joseph thinks BSC should continue to work within), the Department of Industry and Treasury did not have a great deal of information about the assumptions (eg market share forecasts) underlying BSC's proposals. This contrasted with the position in earlier years when BSC had submitted regularly a 5-year corporate plan (and it contrasts with eg British Leyland now). Even now we do not have much detailed information on BSC's assumptions for their new closure proposals. The arguments against having this information were twofold:-

i. So as not to "second-guess" the BSC management;

ii. Because unlike (say) BL, BSC were not proposing significant new investment which needed industrial appraisal.

Do colleagues feel these are satisfactory distinctions? Or should the Government reach its own view on steel demand as the Welsh Secretary suggests? The trouble with this approach - apart from the general undesirability of second-guessing management - is that on the whole the Government's forecasts are mostly even more pessimistic than BSC's. (See, for example, the latest information on import penetration and the falling demand from the motor industry, for which you asked, set out in the Department of Industry letter of 11 December.) An independent assessment of BSC's assumptions might therefore put more pressure on them to close more capacity than they are proposing? Do colleagues want this - with the implied responsibility for closures - or are BSC going ahead with closures as fast as is realistic?

b. Are we justified in sticking to the cash limit in view of the deterioration in BSC's performance. There are two fundamental difficulties in altering the cash limits to make them more generous. The first is the impact on the credibility of the cash limit system (though circumstances in steel are exceptional). The second is the reduced pressure which would be exerted on BSC to achieve closures or otherwise put their house in order.

c. Offsetting Measures. The Welsh Secretary argues that the Government cannot risk the economic and social disruption which the BSC's plans involve. But if the Government stands firm on cash limits, there is very little else which it can do to help. One possibility (which you asked should be considered) is the limitation of imports - at least by the public sector (steel rails from Luxembourg). The scope for doing much here, within the Treaty of Paris, is very limited. Another is to secure trade union support for improved productivity. Despite problems like the ban on coking coal imports, BSC and the unions are probably doing as much as is feasible in the short term - ie this financial year and next. That leaves only remedial measures to offset (not avoid) closures. Mr Edwards has little money left for further advance factories, roads, etc to bring new work to run-down steel communities. Nor - in the present public expenditure climate - is there much prospect of further funds being made available. But he will at least want to argue the case.

d. Pay and Strike Action. You have already indicated support for BSC's sticking to their firm line. You might ask what the likely results are going to be. Will the steelworkers cave in - fearing for their redundancy payments? And can the economy stand a prolonged strike as most people instinctively think? Sir Keith Joseph's latest minute says that vehicle manufacturers' steel stocks are low; this suggests BL for one may be badly hit. In short, do we need room for manoeuvre on the pay front or is this the example which drives the message home?

e. <u>BSC Management Changes</u>. You might ask the Secretaries of State for Industry and Wales to substantiate any doubts about present BSC management. Do they have any possible suggestions?

CONCLUSIONS

7. You may wish to record conclusions on:

a. whether to maintain the requirement to break even on 1980/81 (as Sir Keith Joseph proposes) or to allow some easement;

b. whether to stand firm on pay;

c. any suggestions about the management;

d. any further measures to reduce the need for closures or ameliorate their effect on local communities.

MA
pp
ROBERT ARMSTRONG

11 December 1979

CONFIDENTIAL

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

11 December 1979

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Tim

BRITISH STEEL CORPORATION

I am sorry that it has taken us so long to reply to your letter of 3 December which sought further information for the Prime Minister following my Secretary of State's minute of 28 November.

Recent Trends in Steel Imports

... I enclose two tables showing the overall trend in import volume and market penetration and a breakdown by major product groups. These indicate that imports of finished steel rose sharply in 1974 and 1975, when industrial disputes and BSC production difficulties caused many UK steel users to look for a second source of supply abroad. Between 1975 and mid-1979 imports of finished steel remained fairly stable at about 21% of total deliveries to domestic consumers. A further 2% of deliveries are of finished steel made from imported semi-manufactured steel, much of which is imported by BSC for conversion when their own steel production is disrupted. Since mid-1979 imports have risen, probably because BSC prices are higher than those on the Continent. The product breakdown shows that import penetration is particularly high in the case of sheet and plate (over 30%). Our exports exceed our imports by about ½ million tonnes per annum.

Imports of Rails

Normally, there is little import of standard rails and BSC have a substantial and profitable export business. BSC did, however, import a quantity of rails from continental producers, including Arbed of Luxembourg, between June 1978 and March 1979. This was to make up a shortfall in deliveries to British Rail caused by an industrial dispute at the Workington mill. Small quantities of special rails not made by BSC have to be imported.

Trade Union Opposition to Coking Coal Imports

The recent dispute concerned BSC's plan to import a cargo of US

/coking ...

coking coal, not coke, for Llanwern. The steel trade unions have throughout supported BSC access to imports of coking coal and they opposed import controls under the last Government. The Wales TUC organised meetings of the steel and coal unions, together with BSC and NCB, which cleared the way for the discharge of the 'Maria Lemos' cargo. The price for settling this immediate problem is the purchase by BSC of an equivalent amount of NCB coking coal but at the same price as paid for the US coal. The two union sides are to continue discussing the problem, with the likely outcome being pressure for the subsidisation of NCB coking coal sold to BSC to bring it to the world price level.

Performance of the Motor Vehicle Industry

The reduced consumption of steel by the UK motor vehicle industry, as a result of its loss of market share, is estimated at about 750,000 tonnes p.a. out of the total decline in UK steel demand of some 3½ million tonnes p.a. between 1973 (the peak year) and 1979. We estimate that at present the vehicle industry obtains around two-thirds of its steel requirements from BSC and possibly about half of the balance comes from the private sector.

I am sending copies of this letter and its enclosures to the recipients of yours.

Yours ever

Ian Ellison

I K C ELLISON
Private Secretary

FINISHED STEEL (EXCLUDING MATERIAL FOR CONVERSION) : IMPORT PENETRATION

		Imports ('000 t)	Net home deliveries + imports ('000 t)	Import penetration (%)
1972		2,143	16,859	12.7
1973		2,506	19,798	12.7
1974		3,338	18,868	17.7
1975		3,280	15,830	20.7
1976		3,374	16,360	20.6
1977		3,096	15,220	20.3
1978		3,245	15,480	21.0
1979	Q1	616	3,623	17.0
	Q2	922	4,462	20.7
	Q3	912	3,834	23.8

STEEL FOR CONVERSION : IMPORT PENETRATION

		Imports ('000 t)	Estimated UK consumption of steel in crude steel equivalent ('000 t)	Import penetration (%)
1972		518	22,210	2.3
1973		272	24,130	1.1
1974		470	23,130	2.0
1975		456	21,440	2.1
1976		720	21,130	3.4
1977		623	20,520	3.0
1978		422	20,545	2.1
1979	Q1	59	5,194	1.1
	Q2	147	5,242	2.8
	Q3	125	4,489	2.8 (provisional)

Source: ECS3e

STEEL IMPORTS AND IMPORT PENETRATION

'000 Tonnes

	1972	1973	1974	1975	1976	1977	1978	1979 Q1	1979 Q2	1979 Q3
FINISHED STEEL										
Imports	2143	2506	3338	3280	3374	3096	3245	616	922	912
% Penetration	13	13	18	21	21	20	21	17	21	24
of which:-										
SHEET										
Imports	912	977	1252	1178	1664	1435	1418	253	337	327
% Penetration	24	24	34	44	46	45	41	34	34	33
STRIP										
Imports	70	76	169	96	71	84	85	19	27	25
% Penetration	8	9	20	17	9	10	11	9	12	14
PLATES (over 3mm)										
Imports	366	425	742	909	833	832	662	111	211	195
% Penetration	15	15	26	35	36	35	28	22	29	33
OTHER HEAVY ROLLED PRODUCTS										
Imports	42	111	134	64	102	123	119	26	57	N/A
% Penetration	3	6	7	7	8	13	9	8	15	N/A
BARS, RODS AND OTHER LIGHT ROLLED SECTIONS (except for reinforcing)										
Imports	694	618	549	436	287	402	435	82	126	118
% Penetration	17	13	13	12	11	16	17	13	18	N/A

NOTE: Penetration is Imports as percentage of UK consumption

11 DEC 1979

JU

CONFIDENTIAL

PRIME MINISTER

BRITISH STEEL CORPORATION

You will have seen my minute of 28 November and that of the Secretary of State for Wales of 6 December. This minute is to bring us up to date for our discussion on steel at E Committee tomorrow.

Following their meeting yesterday, the BSC Board this afternoon issued the attached Statement on their capacity target and plant strategy for 1980/81. It confirms the intention to reduce manned plant capacity to 15 million tonnes liquid steel per annum by closing the Consett Works in Durham (4,000 redundancies) and the small works at Hallside in Scotland (600 redundancies) and by reducing operations at Scunthorpe.

...

For South Wales, the Statement sets a liquid steel production in 1980/81 of 2¾ million tonnes for Port Talbot and Llanwern (as against a capacity of 5½ million tonnes now). It given the local management and workforce the opportunity to propose a credible alternative (which would probably still involve a reduction in manning of some 10,000) to the Executive's "dog leg" proposal (steelmaking at Port Talbot and processing at Llanwern) for producing this tonnage within the financial target. The Board would consider this in January and then reach a decision on South Wales.

The Statement confirms the target of 100,000 employment in iron and steelmaking compared with 152,000 now (including the 12,000 to become redundant at Shotton and Corby). The target reduction in

/1980/81 ...

1980/81 is 30,000. It also says that, with increasing decentralisation of BSC, pay and other working conditions should be settled at local level. Otherwise the statement does not refer to the current pay dispute.

I gather that the discussion was a long and thorough one and that the documentation to the Board supplied by the Executive was a good deal more detailed and substantive than on 29 November. It answered many of the questions raised by Board Members and in Nicholas Edwards' minute of 6 December. The discussion demonstrated that the Board is properly carrying out its duty to subject the Executive's proposals (which were disclosed by Sir Charles to Nicholas and me before the first Board meeting) to detailed and critical analysis. The procedure suggested by Nicholas Edwards, namely, for the Government to examine the Corporation's diagnosis and cure and consider alternative strategies, e.g a slower route to the same objective, could readily turn into a Conservative Government's "Beswick review". I am convinced we must at all costs seek to avoid this, given particularly the sorry past history of Government intervention in BSC and its harmful effects on both management and workforce. I agree with Nicholas Edwards that we must consider urgently how we can best deal with the grave social and economic consequences of the closures now proposed, but this is not a reason for intervening in the closures themselves.

However, we can and should check the Corporation's assessment of overall demand and this I have done. The latest forecast by my

/economists ...

economists shows a UK steel demand in 1980/81 of 13.8 million product tonnes: this is slightly below the Corporation's estimate of UK demand 14-14½ million product tonnes (equivalent to 19-19¾ liquid tonnes). Commissioner Davignon has corrected earlier ECSC reports on this. As to the longer term, the present proposals are not, in BSC's view or mine, inconsistent with the likely profitable demand for BSC steel. Quite apart from the pessimistic outlook for GDP, there is the more rapid decline in our steel-using industries (see graph, Annex 2). And, even if we and BSC are wrong and demand recovers rapidly, BSC would still have much latent capacity for producing engineering steels at Teesside, Scunthorpe and Sheffield and flat products at Ravenscraig and Teesside, which could be brought into production quite quickly.

Extract on Appointments files.

As you know from my minute of 21 September about a new Chairman and Chief Executive, I share some (though not all) of Nicholas Edwards' misgivings about the present top management of the BSC. The candidate I then proposed declined and, despite hard search, including the use of professional headhunters, I have still not found credible candidates willing to accept the jobs. We have already had 7 or 8 firm refusals; the fear of Government interference is one of the main deterrents!

However, we have a right and a duty to impose overall financial discipline on the Corporation. I believe they now feel that they will not be able to break-even in the first half of 1980/81, even if their present proposals are implemented quite quickly, but will earn sufficient profits in the second half to compensate. I propose not to relax the present targets. While this needs further study,

/I ...

I have in mind maintaining the requirement to break-even over 1980/81 (perhaps, now, over the year taken as a whole) and also the position that our cash should not be used to finance operating losses; at least in the short term, the Corporation should have recourse to other means of raising cash to cover any operating losses, such as running down their present high stocks, selling off ancillary activities etc.

I welcome your agreement that we should back the Corporation in their current pay negotiations. As regards steel supplies, about 55% of UK demand is met by the BSC and a further 25% by the private sector, which, however, draws from BSC about one third of its supplies of semi-finished steel for conversion. Imports provide the balance, a little over 20% of finished steel. The speed with which a strike at BSC would affect their customers' activities depends principally on the stock position, which is generally good. BSC itself had total stocks of 3.1 million tonnes at end October, and the private sector a further 0.9 million tonnes, though stocks held by the BSC would not be accessible once a strike had begun. Consumer stocks at end-September (the latest available figure) were about 4 million product tonnes, with a further 1 million product tonnes held by stock-holders, together equal to 16 weeks' consumption. BSC are now trying to persuade their customers to take quick delivery of orders, though the imminence of Christmas and the need for a progressive shut-down of plant ahead of a strike for safety reasons means that such efforts can only have a limited impact.

However, while the general stock position is good, some users would be hit more quickly unless they can get access to imports. The

/tin ...

tin plate users (Metal Box, etc) currently hold only 8 weeks' stocks. The automotive industry also holds below average stocks, particularly of sheet and coil. (Ford would be less hard hit since at present they rely mainly on imports). Shortages in other individual cases would inevitably emerge after a few weeks.

In the event of a prolonged dispute, there is no shortage of foreign (European) steel capacity to meet any shortfall on the UK market, though there could be some hiccups in areas where the current stock position is short. Steel imports could be vulnerable to sympathetic action by dockers and transport workers, particularly if the level of imports were to rise noticeably above the present norm at the various ports of entry. We should consider whether as a Government we could and should be doing anything to reduce this risk.

Given that BSC's current prices are already above those of European competitors and also possible difficulties arising from plant closures, any strike action, or even the present threat of one, is liable to cause long term damage to the BSC's market share.

I am copying this to other members of E Committee and Sir Robert Armstrong and the Secretaries of State for Scotland and Wales.

KJ

K J

11 December 1979

Department of Industry
Ashdown House

11 DEC 1979

British Steel Corporation
News Release
PRESS AND INFORMATION OFFICE · 33 GROSVENOR PLACE · LONDON SW1X 7JG · 01-235 1212

Annex 1

Statement by Board of BSC

The Board of BSC has considered the problems arising from the sharp and pronounced falling off in demand for steel products in the UK and in its other markets, and the fact that no upturn is in sight. The problems have to be tackled urgently:

(a) in relation to BSC's plant capacity, and

(b) in relation to the contribution of employees to BSC's productivity,

so that BSC will not run out of money or lose its market share by failing to satisfy its customers.

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The Board also considers that the electric arc plants at Sheffield should operate at an output of about 3½ mtpa.

/...

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Consultation will now begin with the Trade Unions and Workforces concerned about proposals for closure of BSC's works at Consett and Hallside.

The termination of iron and steel making at Shotton and Corby has already been announced.

Taking into account market prospects, BSC will still have an unsustainable overcapacity of plant for strip mills products. It will therefore be necessary:

(a) to operate Ravenscraig at the level of about 2 mtpa at which it will be required to break even, and

(b) to begin consultation at Port Talbot and Llanwern in South Wales on ways to reduce costs and modify capacity to relate to a liquid steel tonnage at or around 2¾ million tonnes in 1980/81: it will therefore be necessary for very radical reductions in manning to be effected if operations in South Wales are to be reorganised on a basis of costs which will allow South Wales to compete internationally in the future and provide some possibility of expansion. There remains very little time for this to be settled; available financial resources demand the utmost urgency.

As a result of the further reduction of steelmaking to about 15 mtpa and in order to load plants to capacity, some rolling mills will also have to be closed and consultation about this will begin in January.

The Board considers that this reduction in effective manned capacity is in the medium and longer term interests of BSC and it leaves BSC with substantial reserve capacity to be utilised if its prospects in its UK or overseas markets improve in the future.

B. Contribution of employees to BSC productivity

The planned reduction of BSC's manned capacity to about 15 mtpa of liquid steel will inevitably result in a reduction of BSC's total of employees. The Board considers that to approach international levels of manning the total number of employees engaged in iron and steel activities, as defined in BSC, should not exceed 100,000, compared with 152,000 (including 12,000 making iron and steel at Shotton and Corby) at the present time. Even then the tonnes made per man year at BSC will be lower than its principal international competitors. Therefore BSC has to aim at still higher productivity, with higher wages following when it has reached the point of financial viability, which is the basis of job security in the future.

It is also very necessary that working practices throughout BSC are as flexible as those of its competitors; otherwise BSC would continue at an unbearable disadvantage in cost and efficiency which would be as dangerous to the future of steelmaking in Britain as overcapacity and overmanning. In some parts of BSC this flexibility already exists.

The Board considers that, as the decentralisation of BSC proceeds, it is increasingly necessary that pay and certain working conditions are settled at local level where the effects of manning, working practices and investment are clearly seen.

BSC is now at a critical moment in its twelve year life. If it does not tackle its problems with vigour and a sense of reality it will wither, because its customers will turn to imports rather than pay the unnecessary costs of overcapacity, overmanning and non competitive working practices.

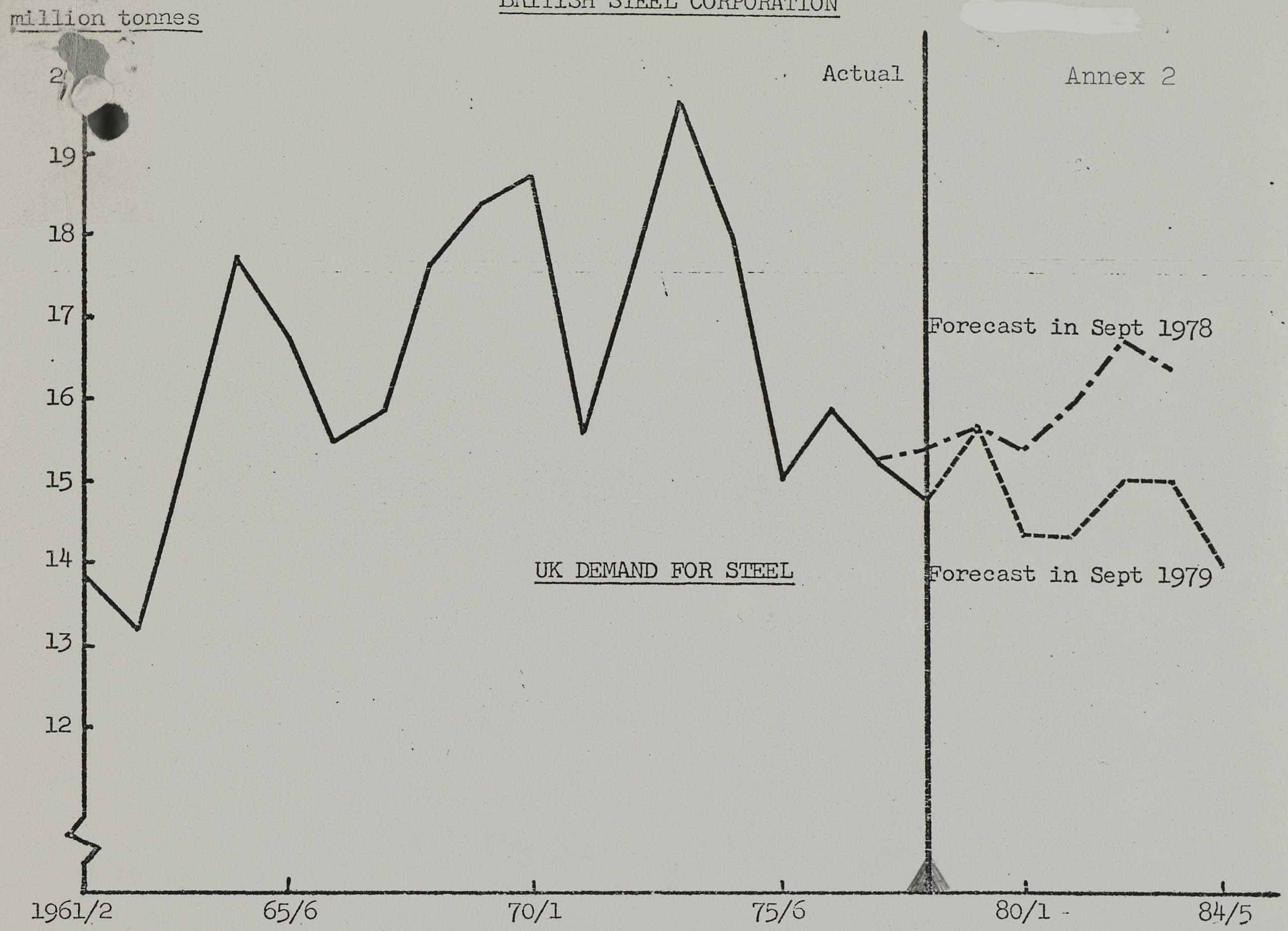
These are the problems to be solved. When that has been done, the excellent plant in which BSC has invested and the slimmed down workforce will enable the customers to be increasingly satisfied, revenue to be increased, costs to be reduced, productivity to be raised, and higher wages to be paid.

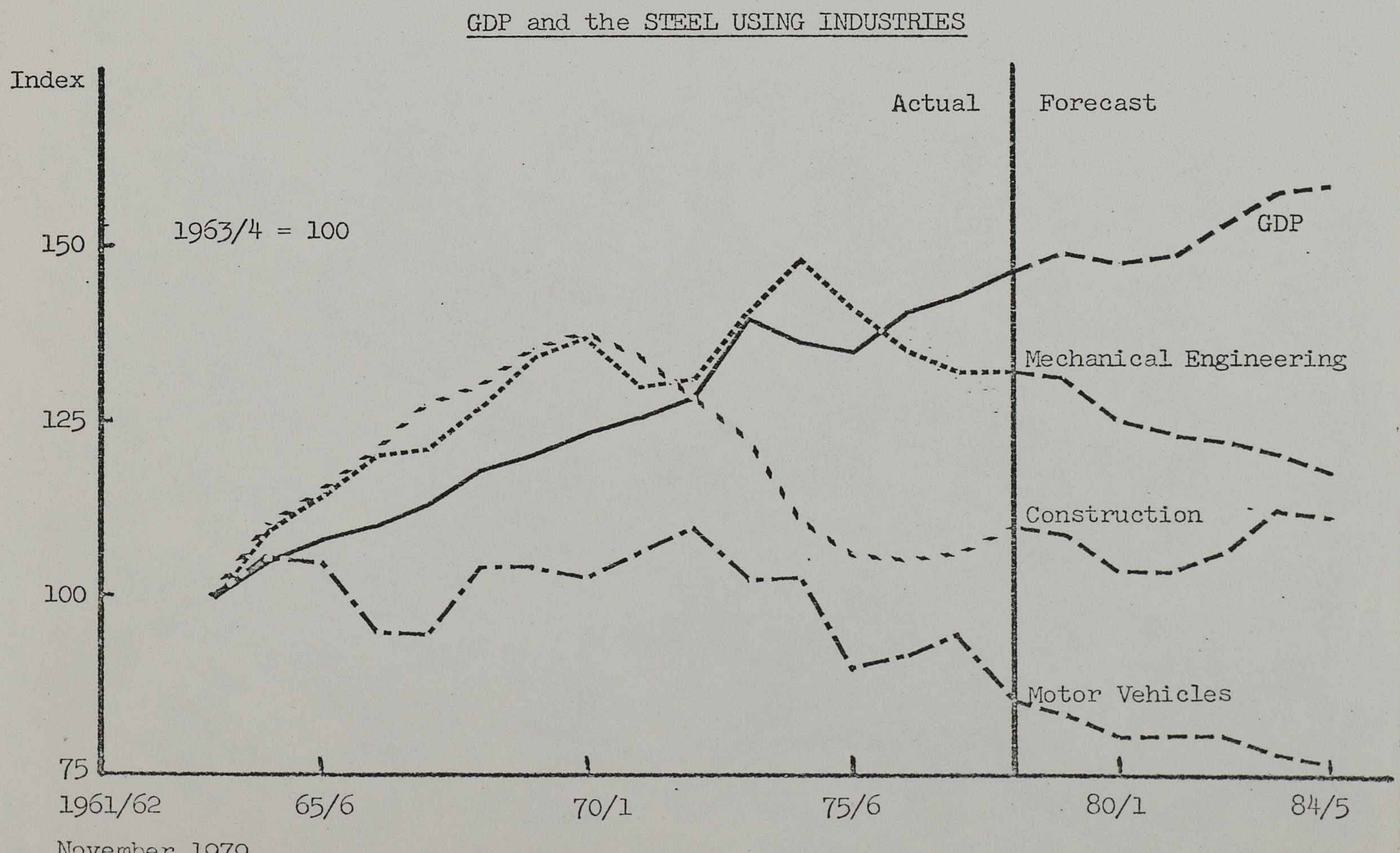
The historic steel communities will inevitably suffer greatly and BSC will do what it can by way of severance payments, counselling on jobs and, through BSC (Industry) Ltd., the introduction of new businesses to alleviate this. Nevertheless, it remains, in BSC's view, an obligation of Government energetically to assist the process of essential industrial change. More advance factories at key centres are needed. The maximum assistance should be obtained from the European coal and steel community. Small businesses must be helped and encouraged. Only in these ways can the changes necessary to BSC's survival be made less damaging for the regions principally affected.

December 11, 1979 NR/883

BRITISH STEEL CORPORATION

Annex 2





November 1979

CONFIDENTIAL

Prime Minister

In view of x, I think we probably should take steel this week. We could do it on Wednesday at E by dropping the Profit Sharing and Enterprise proposals until next week. (Agenda and paper for Wednesday E are in your box).

Agree? Yes MT

Told W... D..., C.O.

PRIME MINISTER

x Since I wrote on 6 December the Opposition have indicated that they intend to allocate a Supply Day on Thursday to a debate on the Steel Industry and the Leader of the Opposition has made statements over the weekend stressing the importance which he attaches to the subject. Against this background I think it would be very valuable if our collective discussion could take place before the debate on Thursday.

10/12

I am copying this to the Chancellor of the Exchequer, Secretaries of State for Industry, Employment, Scotland and Energy and to Sir Robert Armstrong.

RNE

10 December 1979

CONFIDENTIAL

DSG

Fine

10 DOWNING STREET

From the Private Secretary

10 December 1979

BRITISH STEEL CORPORATION

The Prime Minister has read your Secretary of State's minute of 6 December, and has agreed that there should be a collective discussion of BSC's latest plans. The Cabinet Office will be arranging this discussion - probably for "E" Committee on 19 December. It would be helpful if the Secretary of State for Industry could circulate a paper on BSC's proposals. In view of the threatened steel strike, it would no doubt be useful if this paper could also cover this aspect as well. Sir Keith Joseph's minute of 6 December about BSC's pay negotiations indicated that officials are making an urgent assessment of the likely impact of a steel strike: this assessment ought to be included in the paper for "E" Committee.

You should be aware that the Prime Minister does not think that the Government can readily substitute its own judgement for the judgement of BSC management. Moreover, even if it may be shown that the present management is lacking, it is by no means clear to her whether it would be possible to find better people to take it over.

I am sending copies of this letter to Martin Hall (HM Treasury), Ian Fair (Department of Employment), Godfrey Robson (Scottish Office), Ian Ellison (Department of Industry), Bill Burroughs (Department of Energy) and Martin Vile (Cabinet Office).

T. P. LANKESTER

George Craig, Esq.,
Welsh Office.

CONFIDENTIAL

DSG

CONFIDENTIAL

Pie VS

Nat. Ind

c Cabinet
Transport.
CO.

10 DOWNING STREET

From the Private Secretary

7 December 1979

The Prime Minister was grateful for your Secretary of State's minute of 6 December about BSC's pay negotiations. She agrees with his general line - and in particular his view that the Government must back the Corporation in facing the risks and bringing home to the steel unions the harm which the consequences of a strike would do to their members.

I am sending copies of this letter to the Private Secretaries to members of the Cabinet and Martin Vile (Cabinet Office).

TPL

Ian Ellison, Esq.,
Department of Industry.

VS

CONFIDENTIAL

cc A Duguid

Prime Minister

Mr Edwards wants a discussion – presumably in E. I think Sir Keith and Treasury Ministers would say this ~~would~~ is unnecessary: BSC should be allowed to get on with their plans. However, it may be unreasonable to deny Mr Edwards his request. We could fit this in for E on 19 December if you wish.

T. 7/12

CONFIDENTIAL

This is a plea to substitute our judgement for theirs. We cannot do that. We can only well-meaning. But it would be unwise & unrealistic to expect reliable statistical answers in steel. Further – who would take it over as a Government Department? But we should meet as Mr Edwards has asked. We shall discuss. MT

PRIME MINISTER

Flag A

I have seen the Secretary of State for Industry's minute of 28 November reporting Sir Charles Villiers' talks with him and me last week.

I have to say that my conversation with Sir Charles and with Mr Scholey caused me to have the most profound doubts about the competence and judgement of BSC's management at this critical time when they are involved in decisions which will have the widest economic and social consequences. I therefore feel strongly that before we are irretrievably committed by their decisions to a particular course these issues should be discussed collectively.

My anxieties are caused, not just by the questions which I put to them and which they were unable to answer, but by a conviction that many of the crucial questions have not been asked at all (though fortunately some are now being raised by members of the Board). For example, though BSC now face the probability of large losses in 1980/81, apparently no serious attempt has yet been made to estimate what the losses are likely to be if the planned reductions in capacity are made. Equally important, no serious attempt has been made to judge the effect on customer confidence and therefore on market share of these drastic measures. At least some in BSC fear that the switch by customers to more certain alternative markets may more than offset the gain from improved competitiveness. The answers given to me also seemed to indicate that there was as yet no firm view as to the practicality of re-activating plants that have been mothballed; and that no clear assessment has been made of the industrial relations implications of the proposals and the cost of the planned redundancies. Similarly Mr Scholey was unable to give me any clear target for the manning levels they hoped to work towards in the remaining parts of the enterprise or the numbers that would be required in individual plants.

We can't manage for them

I understand that we have no reason to challenge the Corporation's forecast of demand (though it may be rash to reach firm long term conclusions on the basis of a very recent and sudden deterioration in the order book, and the ECSC appear to take a differing view according to reports last week); but in view of the fact that by almost every single performance indicator in relation to such things as capital utilisation, manning, debt collection and stocking BSC are performing worse than their competitors, we are entitled to question whether the

/existing management

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If not them - who?

existing management are the right people to decide the future of the industry. At least it would be more reassuring if the Chairman was not known to lack confidence in his Chief Executive. It would also be reassuring to know that positive steps were being taken to improve the trading performance of what is left, to safeguard remaining markets and improve upon BSC's persistently poor performance in delivery, quality and price compared with their European competitors.

The Corporation seem to be embarking on a programme of major importance to the economy and industry generally, on an insubstantial basis of fact and analysis without tackling some of the existing management failures and more important without considering the practicality of what is proposed and its consequences for others. We have taken the view in the case of the coal industry, that if the Unions are not to disrupt the programme we have to proceed more slowly than we might otherwise wish. I share the view of the Secretary of State for Industry that the Corporation's ability to secure manning reductions of the order proposed must be open to doubt; and I am concerned at the effect of what they propose upon the coal industry and on industrial relations in that industry. BSC's measures will lead to a rapid acceleration of the coal closure programme. It is now being suggested by senior officials of the NCB that the closure programme for Wales next year will have to amount to 11 pits, with a loss of 8,000 jobs. The consequences for industrial relations in the coal industry could be very unfortunate and it would not be for the management of BSC to deal with them.

On their present course BSC now forecast the loss of £76 million for 1980/81 with downside risks of an additional £200 million or more, and the reductions in capacity to avoid it are very big ones. In the absence of information one must question whether even if their plans for avoiding loss are feasible the Corporation's proposals will in fact achieve commensurate savings to the Exchequer. I can see why the Corporation want to move quickly but it is at least conceivable that a slower route to the same objective accompanied by measures to put BSC on track for the future might cost the Country considerably less in total.

/In short

CONFIDENTIAL

In short, the risks of the course of action proposed by the Corporation - particularly in industrial relations - are very high and the consequences for Government are uncertain, and I wonder whether we should not satisfy ourselves that the Corporation's diagnosis and cure are soundly based before we are all committed to their plan. A collective discussion would also give an opportunity for considering how the Government should deal with the grave social and economic consequences of closure on this scale. These are obviously of particular concern to me, since well over 20,000 jobs are at risk in industrial South Wales alone. Bearing in mind my commitments to the 3 steel closure areas in Wales (Cardiff Ebbw Vale and Shotton) the fact is that I have not got the resources for fresh counter measures on anything like the scale required.

/ I am copying this to the Chancellor of the Exchequer, Secretaries of State for Industry, Employment and Scotland and to Sir Robert Armstrong and to the Secretary of State for Energy in view of the consequences to the coal industry.

NE.

6 December 1979

Progress report

PROGRESS REPORT

DECEMBER 1979

Report to the National Economic Development Council by the Iron and Steel Sector Working Party

REPORT NUMBER 16

Iron and Steel
MLH Nos 311 (Part)
312

National Economic Development Office
Millbank Tower
Millbank
LONDON SW1P 4QX

National Economic Development Office
Millbank Tower Millbank London SW1P 4QX

SEC[hole]ON 1 THE STRATEGIC POSITION OF THE INDUSTRY

a Developments in the Industry over the last year

1.1 In 1978 the British Steel Industry produced 20.3 million tons of crude steel compared with 20.4 million tons in 1977 and 26.6 million tons in 1973. Production in 1979 will be in the range 21-21.5 million tons. Deliveries of finished steel products to both home and export markets in 1978 were 16.2 million tons and represented no change over the previous year. The United Kingdom achieved a surplus of steel exports over imports of £41 million and half a million tons in volume. Despite fierce competition in the market, British steel producers held their home market share at around 80% in 1978. It has remained at this level for the last four years.

New plants coming on stream, Redcar

1.2 The last year has seen the commissioning of several major investments in the industry which represent the fruits of its relatively high level of investment over the last five years. On Teesside the British Steel Corporation has commissioned its new Redcar blast furnace which is one of the largest in Western Europe and has the capacity to produce one quarter of the total United Kingdom production of iron. In 1978 the total UK iron production came from no less than 29 separate blast furnaces. The commissioning of the blast furnace at Redcar followed earlier commissioning of associated sinter, pellet, and coke-oven plants. The British Steel Corporation also inaugurated its new ore terminal at Hunterston on the Clyde estuary as part of its £400 million expansion of steel-making in Scotland, and opened its new coated sheet steel complex at Shotton with a very healthy order book. Three automatic forging machines were commissioned at works in both the public and private sectors. Amongst several significant investments in the private sector was the commissioning of a new electric arc steelworks at Llanelli by Duport Steels which replaced open-hearth steel-making at both Llanelli and Briton Ferry.

Hunterston linked to Ravenscraig

Sheet steel complex at Shotton

New electric arc steelworks at Llanelli

1.3 There were several mergers and take-overs in the industry: for example the acquisition of Bidston mini-mill in Birkenhead by Manchester Steel, the takeover of Edgar Allen Balfour by Aurora who also own Osborns, and in stockholding the acquisition by the British Steel Corporation of Dunlop and Ranken, Herringshaw Steels, and the Hall Brothers group of companies.

1.4 There has been a further fall in the numbers employed in the industry resulting from both job reductions and complete works closures. The numbers of people employed in the industry (M.L.H 311 and 312) fell from 285,000 at the end of 1977 to 258,000 at the end of the June quarter 1979. Major plant closures in 1979 included open-hearth steel-making at Bilston, the Consett plate mill, closures of iron-making plant on Teesside associated with the commissioning of the new Redcar blast furnace, and the Lanarkshire section mill in Scotland.

1.5 The level of profitability in the steel industry remains inadequate. Whilst the private sector in general remained in the black the return on investment is unacceptably low. The British Steel Corporation lost £309 million in the financial year ending April 1979 and is forecast to lose over £300 million in this financial year.

b Prospects for 1980

1.6 The short-term general economic outlook for the United Kingdom is not at all good. H.M. Treasury is forecasting a fall in gross domestic product in 1980.* The three most important industrial sectors in terms of steel demand are construction, mechanical engineering, and motor vehicles. These last two major sectors of UK manufacturing industry have fared as a whole much worse than other sectors of manufacturing industry such as electrical and electronic goods. There has been a strong rising tide of imports of finished manufactured goods which has had a significant impact on these sectors and hence on their demand for steel. The Working Party fear there is a real danger that the present strength of sterling principally brought about by the build-up in North Sea oil production will seriously undermine the competitive position of a significant part of United Kingdom manufacturing industry. In steel, the high value of sterling combined with a rate of cost inflation above those of our major competitors, is reducing the profitability of export business.

1.7 The consensus of forecasters within the industry is that the United Kingdom domestic demand for steel is more likely to fall than to rise in the next couple of years. This means that any expansion of output by the steel industry in the immediate future can only come from an expansion in export business.

1.8 Although the market prospects for steel on the continent are a little less gloomy, the European Commission is proposing

* Treasury Economic Progress Report, November 1979

an extension of many of the elements of the anti-crisis measures for iron and steel (the so-called Davignon Plan) until the end of 1980. Whilst some West German steel companies have returned to profitability in their steel business in recent months the major companies in Belgium, France and Italy all remain seriously in the red and are not forecasting breaking even before the end of next year. Commissioner Davignon has stressed that his package of measures are not meant to be permanent and increasingly he will be looking for a progressive relaxation in them over the next two years.

1.9 In 1979 world steel production is likely to have surpassed last year's figure which was also the highest output ever. Although the United States steel industry has prospered in the last year as a result of the United States Government's trigger price mechanism and higher home demand for steel, most of this expansion in demand and production has come from the developing world - particularly Latin America. Although countries such as Venezuela and Brazil have long term plans for self sufficiency in steel, over the next few years the growth in steel demand is likely to run ahead of capital expenditure in new steel works meaning that these countries still offer export opportunities for the most competitive of the steel producers in the developed industrial countries.

c Strategy for the 80's

1.10 The Sector Working Party set out the main elements of its strategy for the 1980's in its last year's report. Nothing has occured in the last twelve months to change the validity of this strategy. It may therefore be briefly restated.

- The industry must react to the fundamental changes occuring in the market, and further discussions are needed on action to to bring supply and demand into closer relation.
- Future sales will be based increasingly on quality rather than quantity.
- New applications for steel will need to be developed and marketed.
- Delivery, performance and reliability in the customer's eyes must be improved.
- The industry should concentrate on the United Kingdom and EEC customers without neglecting other world markets, particularly for higher quality steels.
- Rationalization of production facilities may take place in both the private and public sector.

- Major public expenditure will be required to ameliorate the social consequences of these changes.
- Production efficiency must improve through better use of raw materials, equipment, and manpower.
- The industry needs to attract and retain more skilled people - engineers and technicians to work in the increasingly technically sophisticated industry of the 80's.

SECTION 2. OBJECTIVES AND MONITORING

Objectives

2.1 In last year's report the SWP set an objective for the industry of a home market share of between 80% and 85% in 1980 and 1985 and net exports of steel products of up to 3 million tons. The industry sees no reason to revise these objectives for either time horzon.

Monitoring

2.2 Selected Statistics for the industry are set out in the appendix to this report

SECTIO[hole]. THE SECTOR WORKING PARTY'S 1979 WORK PROGRAMME

a Productivity

3.1 The major part of the Sector Working Party's 1979 work programme has been devoted to productivity which it believes is the key to the industry's survival. The SWP's contribution has been a series of international comparisons of steel works efficiency with the following terms of reference:

> "To examine relevant variables in specific processes in matched pairs of steelworks in the United Kingdom and Europe; to assess the reasons for differences in performance and to report to the Working Party with proposals for action".

3.2 Six man joint trade union and management study teams under the leadership of the Sector Working Party's secretary have visited continental plants to compare plant operations. Except for the NEDO representative all study team members work on the UK plant involved. The continental plants were chosen on the basis of as closely matching the U.K. plant as possible in terms of age, technology, and size. No UK plants were considered which were either under threat of closure or have obsolete technology. The Working Party has compared the best as well as the not so good plants in the United Kingdom. The comparisons have been between individual units of plants within a works rather than a whole integrated works. The disadvantage of such an approach being outweighed by the advantage of studying operating practices in greater detail, with the increased prospect of identifying specific practical measures to improve performance. Most importantly the emphasis of the studies have been on all aspects of efficiency - plant and equipment, use of materials as well as labour, since one cannot be satisfactorily studied in isolation without reference to the others.

3.3 The first two studies have involved the British Steel Corporation's Appleby-Frodingham B.O.S. steel-making plant at Scunthorpe which was compared with the Ijmuiden No. 2 B.O.S. plant in the Netherlands, and the British Steel Corporation's Clydebridge plate mill in Scotland which has been compared with a Swedish Mill. Reports written and agreed by all the members of the study teams following their overseas visits have been submitted to the Sector Working Party. These reports and their far reaching conclusions are presently being considered by the SWP and will be the subject of wide consultation both nationally and at the individual plants involved.

Results

3.4 The study teams found that both the British plants had notable strengths as well as areas where their efficiency was not as good as at their continental competitor. In the steel-making comparison the British plant matched its Dutch opposite number in the use of key cost items such as refractories and moulds. Production manning was only 75% of the Dutch level but maintenance manning was found to be 20% higher. However the Scunthorpe steel plant has a design capability far in excess of that which can be supported by the iron-making plant and was consequently producing 45% below the Dutch level of output. As a consequence both the labour output per ton and the capital utilization rates were poorer than on the Dutch plant, although in the case of labour costs, since employment costs per man were twice as high on the Dutch steel plant the labour cost per ton of steel produced must have been lower at Scunthorpe.

3.5 In the plate mill comparison the conclusions on physical productive efficiency of the plant were made more difficult by certain differences in the types of plate produced on the two mills. Comparisons based on tonnage produced were more unfavourable to the Scottish Mill than comparisons based on the number of separate plates produced. The Scottish Mill came out well on the use of material and on the quality of semi-finished steel available to it, but less well on it's specific energy consumption and on manning levels. As at Scunthorpe the greatest discrepancies were in the number of maintenance staff.

General issues common to both studies

3.6 The most important issues to emerge as common to the two plants were the relationship and demarcation between production and maintenance employees. The production workers on the continental plants are trained and willing to work on several jobs as required across the plant and also provide the semi-skilled support for maintenance work. There are many fewer separate crafts on the continental plants with a mechanical fitter typically combining those of the plumber, welder, boiler-maker etc. There is a complete absence of "mates". This last factor accounts for the much higher level of maintenance manning in the U.K. even though there are no more skilled craftsmen employed. (Indeed, the continental plants employed more in certain skills, for example instrument technicians) Flexibility between production and maintenance employees is assisted by a single trade union covering both, and the existence of common grading and pay structures.

3.7 The significant levels of overtime common in both British plants are not found on the continental plants. A willingness to work light and rotate jobs to provide cover on a shift to shift basis may be compared with the rigid seniority systems and an insistance on manning up or sharing wages found on the U.K. plants. Generally terms and conditions of employment and the standard of amenities provided were much higher on the continental plants. Employees were generally all treated the same and this was accompanied by a high degree of responsibility and involvement shown in their work by employees at all levels.

b Maker/User Liaison

3.8 The Chairman of the Sector Working Party held a meeting with several other major steel using Sector Working Parties to discuss steel supply issues. The Sector Working Pary also raised the issue of steel imports with the Ford Motor Company and British Shipbuilders. British Shipbuilders were approached by the Sector Working Party on behalf of companies in the private sector who were concerned at the significant foreign steel content of the Polish shipbuilding contract - particularly the steel used in components bought by British Shipbuilders. Discussions with British Shipbuilders revealed a major difference in the price of some forgings and castings between the United Kingdom and foreign sources of supply. The Working Party is setting up a further meeting between the British Shipbuilders and the United Kingdom forging companies to discuss the issues raised by this

Import Substitution

3.10 Work was undertaken to quantify the relative contribution to the overall decline in United Kingdom steel production accounted for by the steel industry's own loss of home market share and that accounted for by the loss of market share by the major steel consuming sectors of British manufacturing industry. The analysis indicates that in the early 1970's the United Kingdom's own loss of market share was more significant. However in the last four years the steel industry has held imports at a constant percentage level and the main cause for the continuing fall in steel production has been the poor performance of steel's major customers, with the decline in domestic car production being the most important single sector. The rapid rise in the imports of finished manufactured goods into the United Kingdom is a very worrying development for the United Kingdom steel industry since it reflects a weakness in the competitiveness of its major customers.

Research and Development

3.11 The Sector Working Party asked the Office to undertake an initial survey of R and D in steel. This identified a potential dilemma between the short term necessity of cutting back R and D expenditure in the face of low profitability and the longer term strategy identified by the Working Party for the industry of providing a high value more R and D intensive product. There are proposals for further work on this subject in the Working Party's 1980 work programme.

Communications

3.12 The Sector Working Party has made a major effort to publicise its work and its strategy for the steel industry in the 1980's. Five thousand copies of the 1979 end of year report were distributed to managers and employees in both the British Steel Corporation and the private sector steel companies, major customers through trade associations, and to full-time and lay officials of the trade unions through the TUC steel Committee. Fifteen thousand copies of a six page leaflet entitled "Strategy for Steel" which summarized the full report were distributed widely amongst people working in the industry. The report was reproduced in full or featured in the British Steel Corporation's internal papers "Steel News" and "Steel Manager", the Iron and Steel Trades Confederation journal "Man and Metal", and several private sector companies house-journals.

3.13 The Chairman of the Sector Working Party introduced the work of the Working Party at three joint British Steel Corporation/Trade Union consultative conferences. One of these at Redcar in July was the first occasion when all the TUC Steel Committee trade unions had come together with senior managers in the British Steel Corporation to discuss and debate strategic business issues. Dr Atterton, gave the opening address to this conference and the National Economic Development Office mounted an exhibition to accompany the conference which illustrated "key issues in steel" and described the SWP.

SECTION 4. PROGRESS ON RECOMMENDATIONS CONTAINED IN THE 1979 REPORT

(a) Customer service

4.1 "The industry must aim to provide a level of customer service, a quality of product, and reliability in delivery that equals the best". There is an increasing awareness amongst all those who work in steel that quality and delivery are crucial for the industry's survival. Although the capital expenditure programme has been restricted by low profitability and cash constraints, significant expenditure is still being overtaken and overwhelmingly this is concentrated on improving product quality. Delivery performance has been improving but both the engineering dispute in August and September and more particularly the road haulage strike at the beginning of the year caused disruption to deliveries which took several months to overcome.

(b) Capacity and demand

4.2 "The implications of the strategy outlined in terms of action to bring supply and demand into closer relation must be given prompt and careful consideration".
The Minister of State at the Department of Industry, Mr Adam Butler, said in the House of Commons on the 23 October 1979 that the United Kingdom steel industry has come a long way down the restructuring path and was well ahead of most other European countries. He noted that in the last two years some five million tons of steel-making capacity have been closed and 24,000 jobs have been lost. This reduction in the size of the industry has occured mainly in the public sector. The British Steel Corporation has announced its intention to end both steel making and hot rolling at Corby and Shotton. These closures would cause very grave social problems for the communities involved since they are so dependent on steel-making for employment. It is estimated that immediately following the closures unemployment in the Shotton travel to work area will rise from 6.6% to 19% and at Corby from 6.4% to 24% (31% for males). These estimates only take account of those directly employed by the Steelworks and ignore the secondary employment effects of the closure on the communities. The British Steel Corporation and the Trade Unions are in dispute over these closure.

4.3 In 1979 United Knigdom steel-making will probably be between 21 million and 21.5 million tons whilst installed capacity is currently around 31 million tons including approximately 3 million tons of capacity at the Shotton, Corby, and Cleveland electric arc Works of the B.S.C.

Although it is true that a margin is required for fluctuations in demand and that the trend for ever higher qualities of steel tends to reduce effective capacities over time, the present gap between capacity and demand is still large. Management and Trade Unions do not fully agree on the emphasis of action to solve this problem. Trade Unions emphasise the need to keep capacity open against the possibility of a change in the future demand prospects, whilst management, particularly the British Steel Corporation, believes further plant closures are inevitable. Whatever is the correct balance between these views there is clearly an urgent need for the UK steel industry to find ways of breaking even at lower levels of capacity utilisation.

(c) Special steels

4.4 "The pressure on the EEC Commission to extend the Davignon anti-crisis measures to certain special steels should be maintained. Industry should give prompt consideration to measures to improve its long-term competitiveness".

Pressure from both the British Government and the United Kingdom steel producers on the EEC Commission resulted in progress being made in the early part of this year on discussions between European steel producers on the market problems for special steels in the United Kingdom which the SWP noted in its last report. The Sector Working Party welcomes this development but remains concerned for the survival of this important sector of the British steel industry. Market forces led to the merger of two of the most important companies in this area (Aurora and Edgar Allen Balfour) during the year which should strengthen the British industry's competitive position in the medium term.

(d) Industrial relations

4.6 "Historically industrial relations disputes have undermined the Industry's image as a reliable source of supply and on new plant caused serious delays in their construction. Within the industry discussions which have led to recent improvements in industrial relations should continue. Similar efforts are required by unions and management in the plant construction industry".

Industrial relations in steel in the last year have generally been good, and new plant has been commissioned without major delays. The recent lighting of the Redcar blast furnace may be contrasted with the long drawn out wrangles and delays associated with the lighting of the last new blast furnace in the United Kingdom at Llanwern in 1975.

4.7 However the much-publicised dispute at Hunterston terminal on the Clyde involved relatively few men but threatened major consequences. The (£94 million) iron ore terminal was opened in June but no ore carrier discharged its cargo until mid-November. This long delay undermined the viability of both the project itself and the associated £300 million development at the British Steel Corporation Ravenscraig Works which raises steel making capacity there from 1½ million to 3 million tons per annum. Ravenscraig steelworks supplies nearly all the bulk steelmaking requirements of the Scottish steel industry.

(e) Recruitment

4.8 "Present efforts should be expanded in promoting the steel industry in schools and colleges as a challenging and interesting career for a young person with the skills required for the technically sophisticated industry of the 1980's".
The Working Party sees no value in covering areas of work which are already competently covered by the Iron and Steel Training Board which is itself a tripartite body. However the recruitment of new blood into the industry is of strategic importance and therefore the Working Party welcomes the efforts made in the last year by the Iron and Steel Training Board to improve its contacts with local education authorities and schools.

(f) Scrap

4.9 "The implications of the strategy outlined for the scrap requirements of the U.K. steel industry should continue to be jointly studied".
A joint scrap industry/steel industry Working Party agreed a new set of specifications for steel scrap supplies last year and these were introduced this summer. The Government announced from 1st September 1979 licenses for the export of scrap to third countries will be issued freely. Its preference would be to remove all remaining government controls on the free market

for scrap but in view of the UK steel producers' concern about the effects of abolishing controls and continued licensing control in other Community countries, the government has retained licensing as a surveillance measure for a trial period of 6 months.

SECTION 5. RECOMMENDATIONS

5.1 Despite the progress recorded in the previous section on the recommendations contained in last year's report, the SWP believes that a lot remains to be done and therefore all their previous recommendations remain valid. In addition in the light of the analysis contained in this report it makes the following recommendations:

To Industry Productivity

5.2 Not-withstanding the outcome of discussions on the proposed closure of steel-making at Corby and Shotton, the steel industry is likely to have a capacity in excess of the likely level of demand for the immediate future. Accordingly there is an urgent need to introduce changes in working arrangements to improve the efficiency of the industry and enable it to break even at lower levels of capacity utilization than has been the case previously. The industry is urged to give prompt and serious consideration to the recommendations contained in the efficiency studies which the SWP has undertaken.

Image

5.3 Because of the large financial losses being incurred in the industry it has a poor public image which is not helping an informed discussion of its problems. The SWP believes that those involved in steel can help by presenting the general public with a more balanced picture of the industry's achievements.
For example the general public is probably unaware of the impressive nature of the steel industry's recent investments and that the steel industry possesses plants with world beating performances in many areas. There is a lot to be proud of.

To Government
Scrap
5.4 The Sector working Party recognises the desire of government to reduce its interference in the operations of the market for scrap. It also recognises the need to maintain a flow of material for the financial viability of the scrap processing industry. However scrap is the basic raw material for over half the steel produced in the United Kingdom and it is also a energy rich material. The government's decision to retain licensing for a trial period is matched on a European level by the Commission's proposals to the Council of Ministers for at least a precautionary regime to be maintained. For these reasons

free market the Working Party would urge caution in dismantling the machinery controlling scrap exports since at some future date these might be required to ensure a continuity of steel and hence scrap supplies for UK manufacturing industry.

Enlargement of the EEC

5.5 The accession of Spain (whose steel industry has been greatly expanded - particularly in scrap-based electric arc steelworks) to the EEC will require the alignment of the country's policy for steel with the general restructuring policy for steel at present operated under the Davignon plan. The SWP urges the government to have regard for the interests of the UK steel industry in negotiations over the entry of Spain and Portugal..

Government Support for the Steel Industry

5.6 The industry recognises that a major responsibility for restoring the fortunes of the industry lies with its management and employees but it urges the government to adopt an approach as regards the level, type and duration of support given to the steel industry which is no less favourable than that adopted by the governments of countries with whom it has to compete, especially the E.C.S.C countries. If recommends that the nature of this support should be carefully studied. Further that the government's basic objection to intervention in the market should not prevent it from consideration of sound cases put forward for special trade measures to match those of other countries to protect the country's industrial base.

SECTION WORK PROGRAMME FOR 1980

6.1 The SWP's main areas of work during 1980 will be taken from the following: (a) efficiency studies
The Sector Working Party will conduct a major exercise to publicise the reports of its efficiency studies to seek action on their recommendations both at the particular works involved and at a national level. A third study will be conducted at a British Steel Corporation plant and a private sector company may also be studied.

(b) Research and Development

6.2 The Sector Working Party will conduct a survey of Research and Development in the steel industry.

(c) Energy

6.3 The steel industry is a major user of energy. The Sector Working Party will commission a study of energy costs and usage comparing the United Kingdom steel industry with its major competitors. This will enable it to contribute to the general debate on energy policy and pricing matters with specific examples drawn from its own industry.

(d) The impact of imports on steel

6.4 The SWP will undertake further work on quantifying the impact on the British Steel Industry of the performance of British manufacturing industry, particularly the mechanical engineering and motor vehicle sectors.

(e) User/Maker Liaison

6.5 The SWP will continue to provide a link between the steel industry and its customers through its contact with other SWP's. This is to supplement and to support and not to replace the existing commercial relations between companies.

APPENDIX:MONITORING STATISTICS FOR THE BRITISH STEEL INDUSTRY

(a) UNITED KINGDOM STEEL INDUSTRY SHARE OF WORLD TRADE

TABLE 1

U.K. Steel Exports as a percentage of the exports of 12 main steel producing countries
(Belgium, Luxembourg, France, West Germany, Italy, Netherlands, Sweden, Japan, Canada, U.S.A., Australia, U.K.).

Year	U.K. Export Tonnage (million tons)	% 12 Country Total
1975	3.2	3.7%
1976	3.7	3.9%
1977	4.4	4.6%
1978	4.4	4.3%

A.1 The United Kingdom has been holding its share of exports of industrial countries fairly steady at approximately 4½% in the last two years. This is at a slightly higher percentage than for the previous period from 1974 to 1976. In tonnage terms exports in 1978 (including wire and steel castings) were 4.4 million tons with a total value (f.o.b.) of £1,027 million.

TABLE 2

UK Steel Trade Balance - by Country/Region

	Net Exports ,000 tons	
	1977	1978
E.E.C	(1185)	(950)
Other Western Europe	278	(218)
Eastern Europe	(141)	(57)
Africa	263	210
North America	811	600
Latin America	213	189
Asia	302	755
Oceania	6	33
TOTAL - Tons	547	563
- Value £m	56	41

A.2 The United Kingdom was a net exporter of just over 500,000 tons of finished steel products in 1978. The figure was very similar to that achieved in 1977. However, the surplus in value fell from £56, million in 1977 to £41 million in 1978.

A.3 In terms of countries there was a slight improvement in the trade balance with other EEC countries but the deficit in 1978 was still nearly 1,000,000 tons of finished steel- with West Germany and the Benelux countries taking the lion's share. 1978 also saw a dramatic turn round in our trade with other West European countries moving from a surplus of 278,000 tons to a deficit of 218,000 tons accounted for by increased tonnages imported from Norway, Spain, Austria and Sweden. Asia was the major area of market expansion particularly India, China, Iran and Saudi Arabia.

A.4 In terms of products Britain's success overwhelmingly comes from rods, bars and light sections where Britain is a significant net exporter. The most worrying area continues to be flat products - sheets and plates in both coated and uncoated form and stainless steel where Britain is a high net importer of steel.

(b) SHARE OF THE UK MARKET

TABLE 3

Import Share of UK Home Market Deliveries

Period	Deliveries to UK Consumers		
	Total (Million Tons)	Imports	% Imports
1975	15.01	3.03	20
1976	15.65	3.15	20
1977	15.01	2.97	20
1978	15.24	3.24	21
1979 -			
Qtr 1	3.44	0.54	16
2	4.28	0.93	22

Notes: Seasonally adjusted

A.5 Imports took an additional 1% share of the United Kingdom deliveries to consumers rising to 21% penetration in 1978. A worrying development was the importation of rails for the first time because of disruptions to domestic production. This represents some 35,000 tons of rail imports by the British Steel Corporation. Other sectors showing a favourable trend were: tubes and pipes and heavy plates. The very heavy import penetration of the market for sheet is a continuing cause for concern.

(c) OUTPUT IN REAL TERMS

TABLE 4 - Steel Output

Year	Crude Steel production (million tons)	Finished Steel deliveries (million tons)
1970	28.3	21.3
1971	24.2	19.2
1972	25.3	19.0
1973	26.6	20.8
1974	22.3	18.2
1975	20.1	15.3
1976	22.3	16.2
1977	20.4	16.2
1978	20.3	16.2

A.6 Crude steel production in 1978 was 20.3 million tons. Net home and export deliveries were 16.2 million tons of finished steel. This was 22% below the 1973 level. 1978 was the second lowest level for crude steel production since 1955 whilst blast furnace production at 11.4 million tons was the lowest for 25 years. The drop in blast furnace output of 800,000 tons compared with 1977 indicates that the integrated iron and steel works took a bigger fall in production than the electric arc steel works. The percentage of total steel-making accounted for by electric arcs rose to a record 35%.

A.7 Employment in Iron, Steel and Steel Tubes (M.L.H. 311,312) fell by 20,000 during 1978 to 265,600.

(d) PRODUCTIVE EFFICIENCY

TABLE 5

Average use of energy per ton of crude steel - U.K.

	10^9 Joules/ton
1973	24.7
1974	25.0
1975	24.9
1976	24.4
1977	24.5
1978	22.8

TABLE 6 Average use of coke per ton of iron

(Kilograms)

	W. Germany	France	Italy	Belgium	Netherlands	Luxembourg	U.K.
1977	483	502	477	450	527	497	603

A.8 Average use of energy per ton of crude steel produced fell by 7% in 1978. This resulted from three factors: the increasing use of continuous casting, the closure of open hearths, and the increasing percentage of total steel-making using scrap rather than pigiron. Coke consumption in the blast furnace improved by 2% over 1977 but remains 23% below the average for EEC Countries.

TABLE 7

Percentage of liquid steel output which is continuously cast

%	W. Germany	France	Italy	Nether-lands	Belgium	Luxem-bourg	U.K.
1977	34	24	39	0	15	0	12
1978 - 11Q.	37	28	42	0	20	0	15

A.9 The proportion of steel-making which is continuously cast rose from 12 to 15% in 1978. The British Steel Corporation reports that it continuously cast 11% of its output in the financial year 1978/79 which implies that the private sector steel companies continuously cast some 38% of their production. This contrasts with the figure of 37% reached in West Germany, 42% in Italy and 28% in France. The United Kingdom is below the average for all EEC countries, but the proportion should rise with the new plant now being commissioned.

TABLE 8

U.K. Labour Productivity Index - U.K.

End of Year	Manpower on books - MLH 311 312	Productivity Index 1970 = 100
1970	333,800	100
1971	312,900	96
1972	302,700	98
1973	299,900	109
1974	302,100	94
1975	292,300	82
1976	287,600	88
1977	285,200	89
1978	265,600	95

TABLE 9 - International Comparisons: Man-hours to produce 1 ton of crude steel (manual workers only)

	W. Germany	France	Italy	Bel.	Lux.	U.K.
1977 1978	6.5 hrs 5.9 hrs	7.2 6.4	5.4 5.2	6.2 5.2	6.1 4.8	11.9 10.9
% Improvement 77-78	9%	11%	4%	16%	20%	8%
% of total workforce made up of manual workers	74%	65%	80%	82%	77%	68%
% overtime working - manual workers (Oct 1978)	4%	n.a.	3%	1%	6%	11%

A.10 Labour productivity rose in the United Kingdom by approximately 7% in 1978 as a result of plant closures and a reduction in employment of 20,000. Labour productivity has now risen 16% since 1975 but remains 13% below 1973 levels. International comparisons of labour productivity are open to many criticisms - differing definitions of the industry, the extent to which sub-contractors are used, etc. For this reason table 9 restricts the comparison to other EEC countries and Treaty of Paris products. Despite the 8% improvement in output per manhour in the United Kingdom recorded in the statistics between 1978 and 1979 the gap is widening with other EEC steel producers because of greater percentage improvements recorded last year there.

TABLE 10 - Capacity Utilization: International Comparison: 1977

%

	W. Ger.	France	Italy	N.L.	Bel.	Lux.	U.K.
Blast furnaces	57	67	67	56	57	56	70
Steel	58	66	69	60	59	59	71

TABLE 11 - Output per Unit of Plant: International Comparison: 1977
Units: thousand tonnes per annum

	W. Ger	France	Italy	N.L.	Bel.	Lux.	U.K.
Blast furnace	658	507	883	1307	449	446	336
BOS vessel	806	492	1045	1538	538	429	834
Electric Arc.	40	35	76	77	47	6	79

A.11 United Kingdom has a higher capacity utilisation than its EEC competitors - although this may reflect more conservative rating of capacity in the United Kingdom. Output per unit is above average in the United Kingdom for steel plants but significantly below the average for blast furnaces.

MEMBERSHIP OF THE IRON AND STEEL SWP (1979)

CHAIRMAN

Dr D V Atterton	Managing Director, Foseco Minsep Ltd

MEMBERS

Mrs J Cohen	Assistant Secretary, Iron and Steel Division, Department of Industry (From 1st October 1979)
Mr J Driscoll	Adviser, Corporate Strategy, British Steel Corporation
Dr D Grieves	Managing Director, Personnel and Social Policy, British Steel Corporation
Mr S J Gross C M G	Head of Iron and Steel Division, Department of Industry
Mr L Hancock	Executive Councilman, Amalgamated Society of Boilermakers, Shipwrights, Blacksmiths, and Structural Workers
Mr A H Mortimer	Director General, British Independent Steel Producers Association
Mr J H Pownall	Assistant Secretary, Iron and Steel Division, Department of Industry (until 30 September 1979)
Mr A Reddrop	Head of Heavy Engineering Section, National Economic Development Office
Mr G H Sambrook	Managing Director, Commercial, British Steel Corporation
Mr W Sirs	General Secretary, Iron and Steel Trades Confederation
Mr S Williams	Director, British Independent Steel Producers Association

SECRETARY

Mr I D N Christmas	National Economic Development Office

JU

cc Mr Wolfson
Mr Hoskyns

CONFIDENTIAL

Prime Minister 2

I am sure Sir Keith's line is right. (The further information which you asked for on imports of steel is coming tomorrow.)

TL 6/12

THE PRIME MINISTER

BRITISH STEEL CORPORATION: PAY NEGOTIATIONS

The British Steel Corporation are telling their unions that they cannot afford any general wage increase from 1 January apart from the (unavoidable) consolidation of certain additional rates agreed last year (which amount to 2%) and that any further increase must be negotiated locally and be conditional upon equivalent improvements in productivity. This move follows their intimation to the unions last week of the need to scrap or mothball another 5 million tons of surplus capacity on top of the closure of iron and steel-making at Corby and Shotton (my minute of 28 November to you). The leading steel union, the Iron and Steel Trades Confederation, led by Mr Bill Sirs, is threatening strike action, which could begin in early January.

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The Corporation recognise the damage which a prolonged general stoppage would do to their own market position, as well as to the national economy, especially if sympathetic action by dockers and transport workers impeded substitute steel imports. They argue, rightly in my view, that action both to reduce capacity to match demand and to oppose unrequited wage increases is nevertheless essential if they are ever to regain profitability and provide secure jobs for a slimmed down labour force (besides of course staying within the external financing limit which I have set them for 1980/81).

Officials are making an assessment of the likely impact of any stopppage on the economy. If there had to be one, the next few

/months ...

months would probably be the least unfavourable time. Demand for steel is falling, stocks with both BSC and distributors are high and foreign supplies, as long as they can get through, are plentiful and cheap.

The Government's attitude will be regarded as a critical test of our determination to curb inflation and public expenditure, and to make nationalised industries stand on their own feet. I believe that we must back the Corporation in facing the risks and bringing home to the steel unions the harm which the consequences of a strike would do to their own members. It will be of the greatest importance, in trying to avoid a strike or, if it comes to it, containing and defeating one, to win the support of public opinion. I am encouraging the Corporation to make every effort to put over the facts of their case, in particular that substantial wage increases are attainable only if they are paid for in productivity. It is equally important for the Government, in its public attitude and in its own wage negotiations, not to undermine the Corporation's stand. I hope that other public (and indeed private) sector employers will recognise their own interest in the Corporation's success on this issue.

I am sending copies of this minute to Cabinet colleagues and to Sir Robert Armstrong.

KJ

K J

6 December 1979

Department of Industry
Ashdown House

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file X/6

10 DOWNING STREET

From the Private Secretary

3 December 1979

BF 7/12.79

BRITISH STEEL CORPORATION

The Prime Minister has now had an opportunity to consider your Secretary of State's minute of 28 November reporting on latest developments at BSC. She would be grateful for some further information. First, what are the recent trends for steel imports, both in total and for different types of steel? The Prime Minister understands that, for example, we are importing railway lines from Luxembourg - which seems totally unnecessary. Second, she wonders whether the trade unions concerned cannot sort out the question of coke imports amongst themselves. She very much hopes that the steel unions will press the view that BSC must have access to cheap coke where it is available. Third, how much of the decline in domestic demand for steel is due to the performance of the automobile industry?

I am sending copies of this letter to Martin Hall (H.M. Treasury), Ian Fair (Department of Employment), Godfrey Robson (Scottish Office), George Craig (Welsh Office), and to Martin Vile (Cabinet Office).

T. P. LANKESTER

I. K. C. Ellison Esq,
Department of Industry.

CONFIDENTIAL

GB

Shotton Steelworkers' Action Committee

Please reply to:

Development Engineering,
Drawing Office,
British Steel Corporation,
Shotton Works,
Deeside, Clwyd.

PPS?

30th November, 1979.

1/12

NBM

12 4/12

The Hon. Adam Butler, M.P.,
Minister of State for Industry,
Department of Industry,
Ashdown House,
123 Victoria Street,
LONDON.
SW1E 6RB

Dear Mr. Butler,

Further to your letter of 6th November 1979, in which you re-affirm the Government's attitude towards a privately-financed proposal for investment in steelmaking at Shotton, I would wish to stress to you the importance of retaining certain items of plant at the works in good order in the event of the British Steel Corporation's closure proposals going ahead.

I refer in particular to the two roughing reversal mills and the seven-stand finishing train which make up the hot strip mill department, and all finishing equipment from thereon.

The reason for this is that should the Government accept a privately-financed proposal which would embrace the installation of say new electric arc steelmaking furnaces and continuous casting, the hot strip mills would be required. In fact, they would be absolutely vital to the future plant configuration.

In addition, we consider it important that the building which contains the existing open heart furnaces, and which incidentally, has recently been refurbished at great cost, should also be retained, as it would probably be required to accommodate the new electric arc furnaces.

There is every possibility that the British Steel Corporation will press ahead early in 1980 with the demolition of plant which becomes surplus to their immediate needs, and this would react against a privately-financed venture for the works.

It would be a great encouragement to the workforce here to know the H.M. Government, and in particular, your Department is fully aware of the situation and is prepared to take the necessary steps to safeguard the future interests of Shotton.

Contd.

The Hon. Adam Butler, M.P.,
LONDON.

30th November, 1979.

Finally, I would re-assure you that the proposal for a privately-financed take-over of the works has aroused considerable interest and enthusiasm among the workforce, the Deeside community and national and local trades unionists.

Yours sincerely,

M G Hughes

M.G. Hughes,
Chairman.

c.c. Prime Minister,
Hon. Peter Morrison, M.P.,
Rt. Hon. Nicholas Edwards, M.P.,
Rt. Hon. Lynda Chalker, M.P.,
David Hunt, M.P.,
Barry Porter, M.P.,
Sir Anthony Meyer, M.P.

JU

This information has been requested

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Prime Minister.

More bad news, I am afraid.

28.xi

Can we know more about imports. How much of what kind? Luxembourg told me they were exporting railway lines to us which is ridiculous. Also can the Welsh not sort out the coke position whereas BSC must have the cheapest coke. Further - how much of the decline in demand is due to the position of our own car industry? MT

PRIME MINISTER

BRITISH STEEL CORPORATION

Sir Charles Villiers is announcing tomorrow afternoon BSC results for the half year April-September 1979. Losses at £145.6 million have been contained within the initial forecast of £150 million but the expected substantial improvement in the second half of 1979/80 will not be achieved; BSC now forecast that losses will, if anything, be worse than in the first half. This means that BSC will not meet their target (not mine) of breaking even by the end of the year.

My target was that they should operate in profit in the financial year 1980/81, and with no Government money going to finance operating losses. On their present course, BSC now forecast a loss of £76 million for 1980/81, ~~with downside risks of~~ possibly an additional £200 million or more. So BSC management are putting to their Board tomorrow, and, subject to its agreement, will be discussing with the main steel union on Friday, severe corrective action designed to bring them back onto the road towards profit in 1980/81. This is in accordance with what I told them in July, namely, that they should prepare contingency plans so that if they were off course they could implement the changes needed to bring them back on.

Their proposals are in line with the broad policy that the previous Administration in their time acknowledged - as now do I - to be the correct one, namely to bring capacity more into line with demand. The position is serious. Demand for steel continues to deteriorate. Indeed, the estimates of home steel demand in 1980/81 by the Treasury and our own economists are even more pessimistic than those now made by BSC. To meet this, BSC propose to reduce effective capacity next year by about 5 million tonnes or nearly a quarter of present capacity. Half of this reduction would come from mothballing iron and steelmaking

/at ...

at Llanwern and rolling operations at Port Talbot, both in South Wales. Steel would be made at Port Talbot's better "heavy" end and sent to Llanwern for rolling and finishing; this accords with customers' preference for the Llanwern finished product. The other half of the reduction would come from the East Coast, with the closure of Consett in County Durham and a reduction of operations at Scunthorpe. I should warn colleagues that even this drastic reduction in capacity may not be enough; demand may fall even faster than BSC anticipate and BSC's proposed actions may themselves cause problems. BSC hope that their drastic actions will also help them secure more efficient manning at the remaining works. They look to a total reduction in manpower of well over 20,000 as a result, of which half or more would be in South Wales. When this reduction is complete the general result should be a substantial increase in output per man year. But BSC's ability to secure reductions at this level must be open to serious doubt.

Sir Charles presented these proposals to me this afternoon, explaining that they have been carefully designed to have the minimum adverse effect on customer confidence. But he agrees that the trade unions are likely to be very critical.

I told Sir Charles that I "took note" of the management proposals. I acknowledged that his proposed corrective action was in line with the contingency planning I had asked him to undertake in July. Therefore, I would not hold management back in any way from putting them forward on their own responsibility. Equally, I was in no position, given in particular the short notice, to say positively that I agreed with or supported the proposals. They are, in my view, anyhow essentially a matter for the management and the Board, given the financial targets I have set them. In saying this, I acknowledge the serious political and social effects that are likely to follow.

I also welcomed the fact that Sir Charles was seeing Nicholas Edwards immediately afterwards to explain the proposals to him. Sir Charles is being asked to see Adam Butler next week to give him the reactions of the Board and of the unions to the proposals. Meanwhile, I am letting you know the position, in case there is a leak in the next few days following the Board discussions.

I am copying this to the Chancellor of the Exchequer and the Secretaries of State for Employment, Scotland and Wales and to Sir Robert Armstrong.

KJ

K J

28 November 1979

Department of Industry
Ashdown House
123 Victoria Street

28 NOV 1979

PART 1 ends:-

Welsh Off to Industry 12.11.

PART 2 begins:-

S/S Industry to PM 28.11.