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P.01096

PRIME MINISTER

Miners' Pay

The purpose of the meeting is to consider the line to be taken in this year's miners' pay negotiations. We understand that the National Coal Board's (NCB's) first negotiating meeting with the National Union of Mineworkers (NUM) is to take place on 27 September.

2. The starting point for the meeting will be an oral report from the Secretary of State for Energy about the NCB's present thinking. I understand that he will probably say that the NCB is at present disposed to look for a settlement lower than last year's and in line with current movements in the Retail Prices Index (RPI).

3. The main issues for discussion are:

- i. the level of pay settlement to be sought;
- ii. tactics and presentation.

In considering the level of settlement to be sought, the following factors will need to be taken into account:

- a. the likelihood of a strike and the prospects of withstanding a strike if it occurs;
- b. the interaction between the line to be taken on pay and that to be taken on pit closures;
- c. the effect of the miner's pay settlement on the pay round generally.

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Likelihood of, and prospects for, withstanding a strike

3. It would be useful to have the NCB's judgement about how far the miners are currently in a mood to take strike action. In two successive years they have decisively rejected a call to strike over pay, and the NUM has so far been unsuccessful in stimulating strike action over individual pit closures. Mr Scargill's standing among his members has presumably been affected by his recent bad publicity. The present impression from the outside appears to be that the miners are still likely to be reluctant to strike over pay and that a strike would be more likely to arise from a major and dramatic attempt to accelerate the pace of pit closures.

4. If a strike were to occur, there would be a better prospect of withstanding it than in the past. The present level of power station coal stocks in Great Britain is 32 million tonnes compared with 24 million tonnes a year ago, and they are estimated to last for 26 weeks. Stocks of ancillary materials are expected by November to reach 20 weeks and we have been told that the CEGB believes that they are extendable in practice to 26 weeks. Power station endurance should therefore be about 6 months overall compared with the estimate of around 4 months this time last year. The endurance of coal burning industry has also improved since last year, although it is considerably less than power station endurance (perhaps 10 weeks for major consumers and 5 or 6 weeks for small firms). The scope for further increasing endurance by November 1984 is only modest (say a month or so). Any further substantial increase in endurance will not be possible until 1986 onwards when the nuclear power stations come on stream and when some of the other options for increasing endurance in the medium term might be attainable.

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5. This analysis suggests that there is no case for making a special effort to avoid a miners' strike this year in particular, or for adopting a weak line in the pay negotiations because of fears of a strike. On the other hand it would probably not be sensible for the NCB to go out of their way to provoke a strike. Despite the better prospects for endurance, a strike would be costly. It would need to be brought to an end eventually, and there is always the danger that the eventual settlement might result in higher pay than would otherwise have occurred and in assurances on matters such as closures which would constrain freedom of action in the future.

Interaction between pay and closures

6. You will be discussing the closure strategy in the second half of October when the Secretary of State for Energy ought to be ready to put forward options after discussion with Mr MacGregor. Meanwhile however the NCB and the Secretary of State for Energy may argue that it would be unwise to be too ambitious about pay since this might inhibit progress on closures. Admittedly, a substantial programme of closures would, if it could be achieved, do more to improve the viability of the coal industry, and to reduce the burden which it places on the economy, than a marginal reduction in the level of the miners' pay settlement. On the other hand we must be careful to avoid agreeing to an over-generous pay offer now because of concern about closures, only to discover later this year that, for a variety of other reasons, only a modest acceleration in the closure programme is deemed feasible.

7. This analysis suggests that, while the interaction between pay and closures should be kept in mind, it should not be allowed to shade the judgement about the desired level of pay settlement very much.

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Effect on the pay round generally

8. The table below compares the last two miners' pay settlements with what has happened in the same round in the public trading sector and in the economy as a whole.

	<u>Miners</u>		<u>Public trading sector</u>		<u>Whole country</u>	
	<u>Rates</u>	<u>Earnings</u>	<u>Settlements</u>	<u>Earnings</u>	<u>Settlements</u>	<u>Earnings</u>
	%	%	%	%	%	%
1981-82	9.3	7.4	7	9½	7	9
1982-83	7.2	6.5	6	7	5½	6½-7
	plus incentive scheme					

9. It is a feature of miners' pay that, by contrast with what appears to happen in many other sectors, the percentage increase in earnings is always argued to be considerably less than the increase in basic rates. You will recall that the deliberate policy in recent years has been to ensure that the offer, presented in terms of basic rates, appears generous before the ballot and that the earnings figure has been publicised subsequently to minimise the repercussive effects of the settlement. It seems that, as the table indicates, settlements in the subsequent pay round tend to average out at something less than the miners' settlement. Some of the groups (notably electricity supply) who aspire regularly to pay settlements at the upper end of the range tend to look on the miners' settlement as a benchmark for this purpose.

10. This analysis suggests that, in fixing the objective for the miners' pay settlement, it is not necessary to choose a figure which is as low as the average outcome sought in the forthcoming pay round. It is however desirable that the miners' settlement

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should be clearly seen to be lower than last year's in terms both of rates and of earnings as this will have an important influence on whether other groups are prepared to accept less than they had last time.

11. Ministers will also wish to consider the relationship with movements in the RPI. When last year's settlement was achieved, the most recent published RPI figure (that for September) was 7.3 per cent. It was however well known that inflation was falling sharply and might soon be 6 per cent or less, as indeed became apparent early in the new year. Last year's settlement was therefore at a level close to the level of inflation prevailing at the time, but was somewhat higher than the expected level of inflation. This year, although the rate of increase in the RPI is lower than it was a year ago, it has been rising from the 3.7 per cent figures for May and June. The August figure to be published at the end of this week will be around 4½ per cent. The current forecast for September, which will be published on 14 October, and may be close to a ballot on the pay offer, is 5 per cent. Expectations outside Government, as within Government, are probably that the figure will be between 5 and 6 per cent by the end of the year.

12. It will therefore be necessary to clarify what the NCB has in mind as a settlement in line with current movements in the RPI. Presumably this means aiming at a settlement not higher than about 5 per cent on basic rates. If it can be demonstrated later that the effect on earnings is rather less - say around 4 per cent - a settlement on these lines should help to create expectations of a pay round averaging out at a level substantially lower than last year, say at 4 per cent rather than 5½ per cent, and with some settlements at less than 4 per cent.

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Tactics and presentation

13. When a clear view has been taken about the level of settlement to be sought, it may be useful to touch briefly on the tactics to be adopted. Ministers will probably wish to leave the tactics entirely, or almost entirely, to the NCB since, as experience has shown, they are best placed to assess the situation. It will also be desirable to avoid giving any impression that the Government is a backseat driver in the negotiations as this would strengthen Mr Scargill's hand. It would nevertheless be useful to know whether the intention is to put forward, as last year, an initial offer slightly lower than the final offer and, if so, what the timing of the various offers is likely to be. Much will no doubt depend on the NCB's judgement about whether the NUM will wish to have genuine negotiations and their attitude to a ballot of their members.

14. At an appropriate stage (perhaps after the NCB has made its initial offer) it will be necessary to put the Cabinet generally in the picture so that, as in earlier years, Ministers can avoid statements and actions which might inadvertently make the NCB's task more difficult.

CONCLUSIONS

15. You will wish to reach conclusions on:

- i. the level of settlement which should be sought;
- ii. the level of any initial offer and any other tactical issues on which the Government may need to have a view.

PLG

P L GREGSON

14 September 1983

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