

EXTRACT FROM DRAFT MINUTES OF THE MEETING OF THE ENGINEERING  
INDUSTRIES COUNCIL HELD IN THE BOARD ROOM OF VICKERS PLC  
ON 12 DECEMBER 1983.

3 DISCUSSION WITH THE PRIME MINISTER

8 The Chairman welcomed the Prime Minister on behalf of Council: it was an honour and a pleasure to have the opportunity of discussing with her the problems and prospects of the engineering industry.

9 The following is a summary of the main points raised in discussion.

10 In mechanical engineering, demand for consumer goods was buoyant, and for automotive parts improving, but for heavy capital goods it was very depressed.

11 A similar pattern prevailed in electrical engineering, with marked lack of demand for heavy products. The electronic sector was much more lively, however, though shortages of skilled recruits were causing conc

- 12 The outlook for small engineering firms was described as disastrous. There had been widespread erosion of the subcontracting base over the last three years, which was likely to continue into 1984.
- 13 Present prospects for world trade in engineering were tough, despite the strong recovery in the United States. There was still much over-capacity in Europe. Competitiveness was essential.
- 14 The Prime Minister asked why, in that case, were some wage settlements so high, at a time when wages were actually being reduced by some competitors abroad. This was a most disturbing trend, when Government was doing all it could to reduce costs on industry.
- 15 A number of members observed that they had successfully concluded low wage settlements. In many companies the wage bill was falling. As far as costs were concerned the problem was often as much one of too many people as of too high wages. There had been some improvement in cooperation from the labour force.
- 16 The Prime Minister agreed but said there was still a long way to go in changing attitudes to get the kind of flexibility that existed in the USA. Trade Union law was beginning to pay off: it was important that employers should support it. *and be prepared to make use of US pensions.*
- 17 The Prime Minister asked how it was that the industry had not managed to achieve a bigger share of both UK and world markets. To have lost so much ground to the USA and Japan in electronics was a major failure. In response to a comment that the market base for electronic machine tools in Japan was many times that in the UK, the Prime Minister referred to the great opportunities open in the EEC, with its 280 million population.

- 18 Reference was made to the problem of skill shortages in the electronic sector. The Prime Minister paid tribute to the work of the Manpower Services Commission in this area, and to the various imaginative projects in hand.
- 19 It was observed that some sectors of the industry were concerned over competition in aid. Many would prefer no such competition; if it had to be, it was suggested that Britain should give more bilateral and less multilateral aid.
- 20 The Prime Minister agreed it was desirable to get rid of competition in subsidies, as far as possible, but only a small amount of trade was affected. On the second point, the UK got more out of the World Bank than it put in. It was not true that British aid was directed more towards rural development while that of our competitors was directed towards high technology, as many examples showed.
- 21 Asked how the battle to set limits to local rates was progressing, the Prime Minister said <sup>be Government's legislative programme</sup> it would take two years to be <sup>complete</sup> fully effective. She appealed to industry for maximum support.
- 22 A plea was made for more expenditure on roads. The proportion of funds raised from road-users and returned to road-building was low by comparison with other European countries, and road budgets appeared to be consistently under-spent.
- 23 The Prime Minister ended her visit by saying that things were improving in many areas but the fight was far from won. There was a great deal still to do, but she remained optimistic.

24 The Council expressed their thanks to the Prime  
Minister with acclamation.

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND THE ENGINEERING  
INDUSTRIES COUNCIL ON MONDAY, 12 DECEMBER, 1983 AT VICKERS HOUSE

The Prime Minister attended a meeting of the Engineering Industries Council, a gathering composed largely of Chairmen of large and medium-sized engineering firms and the representatives of the relevant trade associations. Initially the intention was that members of the Council would raise specific questions to which the Prime Minister would respond, but under the non-existent chairmanship of Sir Peter Matthews, the meeting soon became a general debate. It took some time to warm up, but largely in response to the Prime Minister's efforts, it had become quite lively by the end.

Very little new emerged. The industrialists confirmed the picture of more strength in consumer industries than investment industries; better prospects in information technology and electronics than in heavy engineering. The difficulties were particularly severe for smaller firms. They all expected to continue shedding labour for some time to come though those with interests in electronics referred to skill shortages.

The Prime Minister took the opportunity to drive home the message about wages. She took them to task for allowing wages in the hard pressed manufacturing sector to rise faster (9¼ per cent) than in the economy as a whole (7¾ per cent). She drew some unfavourable comparisons with industry abroad. She was particularly critical of the motor industry though Mr. Toy of Ford attempted a justification of their recent settlement. She pointed out that by allowing wages to rise faster they were cancelling out the benefit of lower NIS.

Though the strength of the exchange rate was raised, this point was not put with great feeling, possibly because the strength against the European currencies found an off-set in the improved competitive positions against the dollar.

A disagreement emerged when Sir Kenneth Corfield suggested that the United Kingdom should move strongly into the information technology industries and should be prepared to become a net importer of lower technology products. The motor industry  
/representatives

representatives disagreed.

Mr. Campbell of the Machine Tool Trades Association pointed to the low level of usage of computer controlled lathes, machine centres and robots in the United Kingdom, compared with Japan.

When the discussion turned to rates, the Prime Minister set out the Government's programme and indicated that this would be a long, hard battle. She called for vocal support from industrialists. On trade union law she said it was up to employers to make use of the provisions of the law.

The Prime Minister praised the efforts of the Manpower Services Commission but was critical of the role played by the employers representative on the Commission.

The discussion then turned to ECGD. In general the industrialists felt they got good service from it though they noted that aid was being used by other countries to provide very competitive financing packages. They regretted the shift in the United Kingdom from bilateral to multilateral aid. The Prime Minister agreed, though she pointed out that we received more in orders from World Bank lending than our contribution. Sir Kenneth Corfield suggested a facility to allow high technology companies to insure themselves against unsuccessful development of a new product. The Prime Minister was very sceptical.

Mr. G. Turnbull defended the pricing practices of the United Kingdom motor industry. He claimed that the adverse comparisons were achieved when drawn from Denmark and Belgium which were unrepresentative and which had enforced price controls for many years. The United Kingdom was much closer to parity with other markets such as Germany. He concluded with a plea for an expanded road building programme which enabled the Prime Minister to say that this could only be done if current expenditure, e.g. subsidies to British Rail were cut back.

The meeting ended after 1 hour and 15 minutes.