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RECORD OF A MEETING HELD AT 10 DOWNING STREET ON MONDAY, 21 JANUARY 1980 AT 10.30 AM TO DISCUSS THE STEEL DISPUTE.

PRESENT:

Prime Minister	Mr. W. Sirs (ISTC)
Secretary of State for Industry	Mr. H. Smith (NUB)
Secretary of State for Employment	Mr. A. Feather (ISTC)
Mr. C.A. Whitmore	
Mr. B. Ingham	

The Prime Minister thanked Mr. Sirs and Mr. Smith for coming to see her. She knew that they thought that she had not heard the full facts of their case. How people felt about a problem was itself an important aspect of the problem and much influenced its eventual solution. She was therefore anxious to hear their views at first hand. She did not know enough about the steel industry to become involved in any negotiations. Though she had been given a great deal of information about the steel dispute, she was well aware of the complexity of the problem, not least at the local level, and it was well that politicians should not get entangled in such matters. She had had a report of last Saturday's meeting from Sir Keith Joseph and Mr. Prior, and she understood that the unions had been pleased with that occasion. She very much regretted that the dispute had come to a strike. She had been anxious that both sides should go on talking for as long as possible, but now that there was a strike, she was concerned, as she had already said, to hear from them how they saw the dispute.

Mr. Sirs said that he had been bound to complain publicly that it seemed to him that the Prime Minister and Sir Keith Joseph were repeating BSC's view of the dispute, so much so that it had seemed to him that there might have been a meeting between Ministers and the Corporation. Ministers had got their facts wrong, as Saturday's meeting with the Secretaries of State had shown. BSC's original offer to the unions had been new money of 1.8% and 10% in respect of local added value productivity deals. He had had to make it plain that these local deals were pie in the sky. The Corporation had been trying for years to introduce the multi-union bargaining which would be necessary for local productivity deals but they had got nowhere. There were no procedures for handling this kind of deal, and there was no possibility of negotiating them anything like as quickly as BSC had proposed. In his view it would take six months before there was any progress towards setting up the necessary machinery. He believed that the Corporation had made this kind of offer because they had decided before the negotiations to go a certain way. The industry had had for decades procedures which had worked very well, and there had never been any difficulty in negotiating nationally. But this year BSC had told the unions that they did not want a national negotiation, apart from offering the 1.8% consolidation payment. The settlement was to be negotiated locally. In the unions' view BSC had taken this attitude in the light of the Government's approach to the industry which he summed

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up as no interference, no cash and no loss. BSC were being inflexible because they thought they had got the Government's backing. For example, when he had asked them to reconsider their impossible original offer, they had come back to him very quickly and had said that there could be no change. At this point he realised that the negotiations could not go on.

When the unions had reached this point last year, they went to the Government and eventually reached a settlement after long hours of argument with the then Secretary of State for Industry. But, in view of the present Government's policy, they knew that there was no point in going to the Government this time. Nor did they believe that arbitration was the right course: they had been ready to go to arbitration last year but the Government and the Corporation had not been prepared to accept any decision from arbitration, and the unions did not want to repeat this experience again. If the unions had been able to see Ministers earlier, their arguments would have been more clearly understood by everyone. The Government, for example, had asked why the unions did not accept the need for increased productivity. His answer was that they always had. The Corporation's proposals for increasing productivity could have been brought forward at any time, though he accepted that the ISTC and the NUB had not been able, for various reasons, to agree to multi-union bargaining at the local level in the past. It was not true that production in the UK was lower than that in Germany and France. In on-going plants production was as good as anywhere else. It had only been on Saturday that unions had begun to be able to get over facts like these to the Government.

Sir Keith Joseph said that Mr. Sirs had told him and Mr. Prior that his production workers were as efficient as any in the world. But the fact was, as the Iron and Steel Sector Working Party Report showed, productivity in the British Steel Industry as a whole was much lower than in most other countries.

Mr. Sirs said that measurements such as tonnes per man year (TPMY) could be misleading. BSC had published in 1978 a figure of 100 TPMY for the Corporation. They were now saying the figure was 140 or even, possibly, 154. But the unions thought that the figure should be 192 TPMY. This compared well with a German figure of 200, and was better than the comparable figure for France. One of the problems was that like was not always compared with like. But he accepted that BSC could improve their productivity. The production work force was producing all it was asked to, but the industry suffered from over-manning in the maintenance and service areas. Moreover, it was unfair to talk about a subsidy from the taxpayer of £1800 per steel worker. This money did not go into wage packets. It was for the continuing investment programme. Some of recent investment had been successful and some had not, but he agreed that the industry was now largely equipped with modern plant. The unions wanted an industry that could compete internationally, and he thought that the point when it would was close. But

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greater efficiency was still needed. This was the job of management. The Government had now added a spur with the decision to reduce capacity to 15 million tonnes a year. But in his view this figure was too low and was biting into the core of the industry.

Mr. Sirs continued that it was now necessary to motivate the labour force. But BSC's last pay offer was not calculated to achieve this. A lot of figures were being quoted. For example, it was said that average earnings were at present £110 a week. But if overtime and bonus and premium payments were excluded, average pay was £66.80 for 40 hours. This was on average £3.80 a week less than the average for all other industries, and was not a high figure for a dirty and dangerous industry. His members had expected the Corporation to offer them something to maintain their standard of living, but all they had received was the offer of 1.8%. This implied a 15% reduction in their standard of living. In negotiations the unions had offered the multi-union bargaining which BSC had been seeking for so long, and this should have been worth a percentage payment. Yet, the Corporation had rejected it and the Government should ask why.

In reply to a question from Sir Keith Joseph about the difference between the 1976 Agreement and what the unions were offering now, Mr. Sirs said that the unions agreed in 1976 to give the Corporation certain things such as loading the more efficient plants and reductions in overtime, and they had delivered what they had undertaken. There was, however, no agreement on multi-union bargaining in 1976. But the unions were now prepared to accept multi-union bargaining in return for an agreement on 8% plus 5% as a lead-in payment to local productivity deals. BSC, however, had rejected this offer. Indeed, each successive draft agreement put forward by the Corporation had been worse than the previous one. Now there was no new money on offer, and everything had to be paid for. He had been reluctant to embark upon strike action, and had tried to prevent it. But BSC's position in the negotiations had been an impossible one. There were now 7 days in which to make progress. He was not asking the Government for more money today. He was sure that BSC could find what was needed. Rather, the Government should put pressure on the Corporation and motivate them to find the necessary money. If, on the other hand, the strike had to continue, he would prosecute it to the best of his ability.

The Prime Minister said that she did not accept what Mr. Sirs had said. Her ambition for the steel industry was that it should be able to hold up its head throughout the world and be competitive on price, delivery and quality. This objective would be the right motivation. Luxembourg had reduced its steel work force from 24,000 to 16,000 and they were hoping to break even last year. When she was there in the autumn, she had been told that they were exporting railway lines to the UK and this had cut her to the quick. As regards the present pay dispute, she wished to make it clear that there was no such thing as new money. Money for the steel industry could come only from other industries which were making a profit.

/The Government

The Government were already giving the steel industry £450m next year, and they were similarly finding large sums for the coal industry, British Rail, Rolls Royce, British Leyland and other public sector industries. Yet, with all its investment in modern machinery, the steel industry ought to be making a profit. Instead there was over manning in such areas as maintenance and services, and the industry also had the problem of having so many unions. However good production alone might be, management and unions had to get the whole operation right. Each and every person in the steel industry had to regard himself as being as responsible as the next man for doing as efficient a job as possible. Imports of steel into the United Kingdom had risen from 3% to 20% of demand over the last 10 years, and BSC ought to be able to win back some of the lost ground. When Mr. Sirs interjected that the SWP report made clear that productivity increases for 1977/78 and 1978/79 had been 7% and 8% respectively, the Prime Minister pointed out that the comparable figure for Luxembourg last year was 20%. She added that she understood that the unions preferred to negotiate nationally on productivity, yet the increases in productivity had to be delivered locally. She was puzzled how this could be achieved by a national agreement which contained no local incentives.

The Prime Minister continued that she thought that the unions' approach to redundancies was right. The industry had to use new technology if it was not to fall behind. When people had to transfer to other work they lost the capital which was their skill, and it was important that union leaders like Mr. Sirs and Mr. Smith could demonstrate that they were securing for their members good redundancy payments as substitute capital. At the same time those who remained in the industry should be better paid as a result of using the new technology,

Mr. Hector Smith said that the steel unions' strike record was second to none in the UK, and for a strike to take place something must have gone badly wrong. Members of the NUB had an extremely tough job but their manning levels were very good. His production workers had always achieved what the Corporation asked of them, and BSC should be challenged now to say precisely what more they wanted of the production workers.

Mr. Sirs said that it was very difficult to draw fair comparisons between one country and another. For example, the Luxembourg Government subsidised steel workers who were laid off: if that were done here, it would change BSC's financial position. Similarly, the Corporation had had to find £42m last year to attract new industry to areas where they had closed plants, and the comparable figure for next year would be £20m. But he wished to re-emphasise the importance of motivating the work force. When he had negotiated the loss of 534 jobs at Port Talbot, 80% of the resultant savings had gone into incentive payments for the work force. This had led to increased production, in return for which BSC got the international manning standards they wanted. This showed what could be done to motivate the work force, but the same operation could not be repeated twice. Under the Corporation's present offer steel

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workers were being asked to produce more with fewer men for no more money, while other workers in the public sector were getting more pay for no extra work. Some of them were in loss-making industries. The steel workers wanted no more than their public sector colleagues and they could not understand why they were being singled out for different treatment.

The Secretary of State for Employment said that it was not true to say that the steel workers would get no more money. There were opportunities for them to earn considerably more by increasing efficiency. The Prime Minister said that if more money was not earned in this way, it could only come, as she had already explained, from profit-making industries. BSC had got new machinery and with a smaller workforce - and she recognised the trauma of closures - it had a chance to make a profit. In 1978 it took 10.9 man hours to produce a tonne of crude steel in the UK, whereas the comparable figures were 4.8 for Luxembourg, 5.2 for Italy, 5.9 for Germany and 6.4 for France. There was a great gap here. The question was how could the UK catch up. There must be blockages somewhere in the industry which had to be removed. Performance varied very much from plant to plant, and this was not something which she or her Ministerial colleagues could sort out.

Mr. Sirs said that the Sector Working Party Report showed that Scunthorpe was more efficient than Ijmuiden in Holland and indeed Scunthorpe could get up to Japanese levels of efficiency if the balance of the plant was right. Similarly, manning levels at Rotherham were below those in Japan. The assessment of BSC's efficiency was distorted by the appearance of interest and depreciation in its accounts. Similarly, the £135 million subsidy on British coking coal changed the picture adversely. If these factors could be removed, the British steel industry would be shown to be world-beaters. The production workers could not work any harder but, as he had already conceded, there was over-manning in other areas. Even so, BSC was getting close to being as competitive as any foreign company. But all this could be wrecked if a settlement of the pay dispute was not reached quickly. The Corporation were already cutting capacity by more than was sensible and a prolonged strike could make their position even worse. The Corporation was in future likely to supply only three-fifths of UK demand for steel, whereas it should meet all the country's needs. His members wanted a settlement. He was here today to try to secure justice for them.

The Secretary of State for Industry said that interest and depreciation could not simply be ignored in arriving at BSC's true financial position. But in any case BSC's interest and depreciation were lower than anywhere else in the world.

The Secretary of State for Employment said that there were few people who would win pay increases in the present round large enough to cover the increase in the cost of living. It should be borne in mind too that the cost of living was expected to fall in 1980.

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As regards the Corporation's offer, he would like to know whether the unions thought that the figure of 12,500 redundancies which was part of the offer of 8 per cent was realistic.

Mr. Sirs said that this figure had not been included by BSC in the first draft of the pay agreement and he had told them that if it was included, they would not get a settlement. He was ready to lose members on the maintenance and service side of the industry. Middle management was also badly over-manned, much more so than in the private sector of the industry: for example, Scunthorpe's ratio of middle managers to other workers was 1:9½ and this was scandalous. There seemed to be much more money going to those leaving the industry than to those who were staying in it. The latter were in a state of despondency and they needed to be paid incentives. There was a very real human problem here. It was, moreover, a great pity that a plant like Consett should be closed when it was making a profit, the quality of its steel was very good and it delivered on time. He was not, however, trying to draw closures into the present talks. He wanted to keep pay and closures separate, though there were those who wanted to bring the two issues together and make the strike a political one. We needed a strong national industry in the shape of BSC if we were to compete with the big combines in Europe and Japan and fight off our foreign competitors in key areas. We needed a minimum degree of strength and Consett was a good example of the strength we required. Nor should we lose sight of putting redundant plant into mothballs against the possibility of a requirement for increased capacity, as the Germans did. More immediately, he wanted the Government to take off any constraints on BSC and to tell them to get on and find a solution to the pay dispute.

The Prime Minister said that she had heard what Mr. Sirs had said to Sir Keith Joseph and Mr. Prior on Saturday about the possible disposal of Consett and she welcomed that. If she was asked publicly, for example at her Question Time in the House of Commons, she proposed to say that the Government had no objection to the sale of Consett to the private sector, even though she knew that the Corporation would not be happy with such an outcome. More generally, she was grateful to Mr. Sirs and Mr. Smith for setting our their views so fully. She would be meeting Sir Charles Villiers and Mr. Scholey that afternoon to hear from them how they saw the dispute. In conclusion, she wanted to emphasise again that there was no such thing as new money. More money could be found only by taking it away from others or by higher productivity. She believed that with the investment which the industry had undertaken and the closures and redundancies programme, it would be possible to increase productivity. She would now reflect on what Mr. Sirs and Mr. Smith had said.