E(80) 28th Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
MONDAY 28 JULY 1980 at 3.00 pm

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

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

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

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon Peter Walker MP
Minister of Agriculture, Fisheries and Food

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon John Biffen MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales
(Items 2 and 3)

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr D J L Moore

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1. POST OFFICE PAY, FINANCING AND PRICES

The Committee considered a memorandum by the Secretary of State for Industry (E(80) 79) on measures to enable the Post Office to keep within their External Financing Limit (EFL) in 1980-81.

THE SECRETARY OF STATE FOR INDUSTRY said that the Post Office faced an excess of about £470 million over the provision for Telecommunications within its EFL. This resulted in part from the recent pay increase of over 20 per cent for Post Office engineers. A tariff increase of about 20 per cent from 1 November would yield about £160 million in 1980-81, and the Corporation had proposed further economies of £100 million. This left a gap of around £200 million. The Post Office had proposed dealing with this by schemes to obtain credit for supplies, or by factoring debts, but such financing schemes would increase the money supply no less than increasing the EFL, and he had rejected them. An alternative was to impose a surcharge on telephone bills of the order of something between £5 and £8 on each subscriber, and to make clear publicly that this was made necessary by the size of the pay increases.

In discussion the following points were made -

a. A surcharge on telephone bills was unacceptable. The Post Office should be required to find further savings primarily from their investment programme of about £1¼ billion in 1980-81. It was unlikely that the whole of this programme was committed and therefore vulnerable to compensation payments to contractors if deferred.

b. The Post Office had argued that further cuts in investment could lead to increases in their waiting lists which were already too long. This suggested that they had more scope for raising income through increased connection and other charges. Although some of their currently proposed increases in charges were high in percentage terms, this was because they had been undercharging for many years. They should look for increases in the tariffs for services, such as telex, where there would be no effect on the Retail Price Index (RPI).

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c. In future the nationalised industries should give details in advance and publicly of the price increases which were likely to result from pay settlements under negotiation. This was a point which would be discussed further with the Nationalised Industries' Chairmen's Group.

THE PRIME MINISTER, summing up the discussion, said that the Committee rejected the proposal for a surcharge on telephone users. The Secretary of State for Industry should press the Post Office to find the savings necessary for them to keep within their EFL from their investment programme and, possibly, by further increases in tariffs which did not affect the RPI.

The Committee -

Invited the Secretary of State for Industry -

i. To arrange for further discussions between officials of his Department, the Treasury, the Central Policy Review Staff and the Post Office to identify savings sufficient to enable the Post Office to keep within their External Financing Limit for 1980-81, and to report.

ii. Subject to any further proposals emerging from these discussions, to authorise the Post Office to consult the Post Office Users National Council on their proposals for increases in Telecommunications tariffs of around 20 per cent from 1 November 1980.

2. INMOS
Previous Reference: E(80) 14th Meeting, Item 1

The Committee considered a memorandum by the Secretary of State for Industry (E(80) 78) on INMOS.

THE SECRETARY OF STATE FOR INDUSTRY said that, following a further major review, the National Enterprise Board (NEB) had confirmed their support of INMOS and asked for authority to subscribe a further £25 million equity to the company. They had concluded that the earliest practicable date for the disposal of their shares on reasonable commercial terms was likely to be 1983-84 and he considered that, if the project were to go ahead, it should be on condition that the disposal was completed in that year. The NEB and INMOS had also decided that the company's first factory in the United Kingdom should be in South Wales, where it would be eligible for regional grants, rather than in Bristol which they had previously preferred.

THE PRIME MINISTER, summing up a short discussion, said that the Committee accepted the NEB's proposals for INMOS. They noted that under existing arrangements the NEB, and therefore the Government, in effect stood behind, and were generally regarded as standing behind, the liabilities of the NEB's subsidiaries. It was important that the Government's financial support of INMOS should be confined if possible to the £50 million equity and any regional grants for which the company might be eligible, and that the Government should not be thought to be automatically committed by the increase in the NEB's equity holding in INMOS to standing behind any liabilities which INMOS might incur to banks and other creditors on the strength of the increase in its equity.

The Committee -

1. Agreed that the National Enterprise Board should advance a further £25 million to INMOS, and took note that the company's first factory in the United Kingdom would be in South Wales where it would be eligible for regional grants.

2. Invited the Secretary of State for Industry to come back to the Committee if there were any question of committing the Government or the National Enterprise Board to any further support for INMOS beyond the equity investment now committed and appropriate regional grants.

3. BRITISH STEEL CORPORATION: SUPPLY OF COKING COAL

The Committee had before them a letter of 25 July from the Private Secretary to the Secretary of State for Industry to the Private Secretary to the Prime Minister about the purchase of coking coal by the British Steel Corporation (BSC).

THE SECRETARY OF STATE FOR INDUSTRY said that the National Coal Board (NCB) had offered BSC a contract for the supply of 5 million tonnes of coking coal in 1981 which would cost BSC between £25 million and £40 million more than if they imported and paid world market prices. The Chairman of BSC had indicated that he would shortly be informing the NCB that the BSC would be obliged by financial considerations to obtain all its coking coal in 1981 from overseas suppliers and that he would have to announce this decision publicly.

THE PRIME MINISTER, summing up a short discussion, said that the Committee accepted that it was reasonable that BSC should indicate to the NCB that it would be obliged to import their coking coal if the NCB could not offer them competitive prices. The Committee would however wish to consider the implications of this in more detail at their next meeting. In the meantime BSC should not make any announcement of plans to import more coking coal.

The Committee -

1. Agreed to resume discussion of the purchase of coking coal by the British Steel Corporation at their next meeting on 4 August.

2. Invited the Secretary of State for Industry to arrange for the British Steel Corporation not to reveal publicly in the meantime the possibility of their increasing their imports of coking coal.

3. Invited the Secretary of State for Energy to circulate in time for discussion on 4 August an assessment of the implications for the National Coal Board of either losing their contract to sell coking coal to the British Steel Corporation or selling it to them at internationally competitive prices.

Cabinet Office
30 July 1980