



10 DOWNING STREET

From the Private Secretary

25 July, 1980

h.e. pd

As you know, Sir Ray Pennock called on the Prime Minister yesterday afternoon. The following are the main points which came up in discussion.

Sir Ray said that the next three months were critical for industry. What happened to pay at the beginning of the pay round would have a major effect on the outcome for the whole round. For this reason, he had been vigorously advocating the need for single figure settlements - and to get settlements down as low as possible within single figures he had been arguing that the country needed "a range of single figure settlements, and I don't mean 9%". Unfortunately, the oil companies and the banks settled early in the pay round, and because of their high profits they were all too likely to settle well above single figures. The same went for Ford, and for different reasons, the mine workers. He was planning to hold a meeting the following week with the chairmen of the major oil companies, the chairmen of Ford and Vauxhall and of the National Coal Board, and also Sir Jeremy Morse in order to persuade them to hold out for moderate settlements. He was not all that confident that he would be able to succeed because, for example, Shell's profits, even on a current cost accounting basis, were very high. But it was worth trying. He would argue that with the economic situation as it was, most companies would only be able to settle within single figures, and that it was unreasonable that profitable companies should use their profits to pay much higher pay increases rather than to lower their prices. It would help if the Prime Minister and other Ministers could support the CBI in arguing for markedly lower settlements at the beginning of the new pay round. This should, however, be done without giving any impression of connivance with the CBI. Furthermore, in so far as the more profitable companies would still almost certainly settle at relatively high levels, it was crucially important to try to distance less profitable companies from them in their own negotiations. There was some evidence that this was happening already; but the point needed to be emphasised a great deal more.

/Sir Ray

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Sir Ray went on to say that, while stressing the seriousness of the current situation, he hoped that Ministers could hold out a ray of hope for the medium-term. The message needed to be that provided we got the inflation rate down, then with the help of North Sea Oil revenues we would have the prospect by the mid-1980's of a prosperous decade; if we did not get inflation down, industry will become increasingly uncompetitive, and more and more imports will be sucked in, and the economy will continue to stagnate.

Sir Ray made the following further points:-

(i) He hoped the Government would do everything possible to play down the forthcoming settlement for the Police, which he understood would follow the Edmund-Davies formula. Ministers should stress the exceptional circumstances, including supply and demand considerations.

(ii) In response to a question from the Prime Minister about large companies delaying their payments to small businesses, Sir Ray said that he had recently written to his members to try to get them to pay more promptly.

(iii) Sir Ray said that he hoped that the Green Paper on Trade Union Immunities would include tough proposals so as to redress still further the balance of power between employers and employees. The history of the last twenty years was one of companies being faced with pay demands which they could not afford, and yet settling because the cost to them of strike action was even greater. As a consequence, profits had been continuously eroded and investment had consequently suffered; only if the balance of power in industry changed would British industry really recover. The Prime Minister commented that the CBI had been distinctly lukewarm about more radical changes in trade union immunities when the Employment Bill was being prepared; she was glad to hear that the CBI were now taking a more robust line. Sir Ray denied that the CBI had ever been lukewarm on this matter.

J. P. LANKESTER