



From the
Minister of State

Norman Tebbit MP

Rt Hon Leon Brittan Esq QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
Whitehall
SW1P 3AG

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
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TELEPHONE DIRECT LINE 01-212 7691
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cc Vereska

30 March 1981

D Leon.

You will have seen from Press Reports that British Shipbuilders (BS) negotiations on pay and restructuring are reaching a crisis point. The Chairman of BS discussed this with me this morning and the position is that the unions are looking for an increase in basic rate of at least 8.5% which could be expected to increase earnings by 9.4% and are also refusing to accept compulsory redundancies. BS have a need at present to declare about 600 compulsory redundancies.

So far BS have offered 6.8% in basic rates which with other changes in Minimum Earnings Levels and overtime rates would be likely to bring the increases in manual earnings to 7.7%. The offer is conditional on agreement at National Level on guidelines on measures such as overtime limitation and working practices agreement to reduce costs and to increase productivity.

The consequences of a failure to such agreement would be unlikely to take the form of a strike. More likely would be an overtime ban, non co-operation, and a sharp fall in productivity. This would damage BS's commercial standing (which under Mr Atkinson's chairmanship has been improving) and, since it would cause delivery delays bringing penalty clause payments, it would be particularly expensive.

In the Chairman's view, provided the Unions accept compulsory redundancies (which would be an important precedent for the future and would save £4m-£5m) he would be willing to increase the offer in basic rates to a maximum of 7.5%, but the other allowances would be scaled down so that the increase in earnings did not exceed 8.2%. This change in relationship between the basic rate and earnings would be arranged to improve the look of the package to save the negotiators' face. Staff salaries would go up by the basic rate so that the total increase in earnings would be within the 8% increase assumed

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in the EFL. I have made clear to Mr Atkinson that he can expect no new money. He will endeavour to stretch the period of the pay offer to say 15 months but is not sanguine of success in this. BS would present the deal as 7.5% on basic rate.

The Chairman has also assured me that there is no question of the Corporation offering any form of job security. As reported in the Press some of his staff expressed willingness to discuss the idea with the Unions, but he overruled them.

Given this commercial judgement by the Chairman where to make a stand, the small additional flexibility which he sought tied to acceptance of compulsory redundancies appears reasonable. If however he fails to reach agreement on this basis, he will need our full support since any later backing down would damage his credibility. No major long term damage would be done to the economy by a long strike but obviously it would mean a substantial breach of the BS EFL.

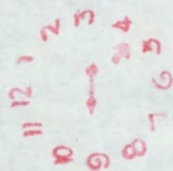
Copies of this letter go to the Prime Minister, Jim Prior, John Nott, John Biffen and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Norman', with a stylized flourish above it.

NORMAN TEBBIT

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30 MAR 1981



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MR VEREKER

cc:- Mr Duguid

The Prime Minister read your note of 19 March about British Shipbuilders' pay, and agreed that we should not intervene in the correspondence.

23 March, 1981



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10 DOWNING STREET

PRIME MINISTER

The Treasury also agree that we should not intervene to stop British shipbuilders trying to settle at 7%.

P. LANKESTER

20 March, 1981

A handwritten signature in dark ink, appearing to be 'MB' or similar, written in a cursive style.

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MR. LANKESTER

c.c. Mr. Duguid

British Shipbuilders' Pay

attached

You asked for my comments on the letter of 18 March from Norman Tebbit to the Chief Secretary which suggests that the Government decide not to intervene in the proposal by British Shipbuilders to increase their pay offer from 5.25% to around 7%.

I am sure this advice is right. The monitoring group looked at this briefly recently, and saw no reason to intervene; although the financial situation of British Shipbuilders had led us to hope that a very low settlement might be possible, 7% would still be well below the average for the public trading sector, and indeed 2 points below the pay assumption in the EFL which was about 9%.

I doubt if the Prime Minister need intervene in this correspondence.

J.

19 March, 1981.

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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Sir Keith Joseph MP
Secretary of State
Department of Industry
123 Victoria Street
London SW1

19 March 1981

R. K. J.

BS PAY

Thank you for your letter of 18 March in which you seek my comments on a proposal by BS to increase their pay offer by 1.25 per cent to 7 per cent.

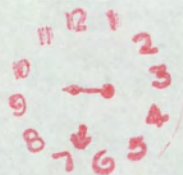
I agree with your judgement that the small increase proposed does not warrant Government intervention. You should, however, make it clear to BS that the settlement should not exceed 7 per cent, and that no more money above that which has already been committed will be forthcoming.

I am sending a copy of this letter to the Prime Minister and the Secretary of State for Employment.

Leon
Brittan

LEON BRITTAN

19 MAR 1981



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Mr. Vereker

Any comments by tomorrow.
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From the
Minister of State

Norman Tebbit MP

The Rt Hon Leon Brittan QC MP
Chief Secretary
H M Treasury
Parliament Street
London SW1

18 March 1981

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Dear Chief Secretary,

BS PAY

British Shipbuilders' initial offer of an increase of 5.25% in average earnings has been rejected by the Unions; the two sides are to meet again on 23 March. BS have recently advised my Department that they hope to be able to settle at not more than 7% increase in average earnings and to recoup much of this by way of increases in productivity. They do not consider that an all out strike is likely if they fail to settle; they think it more probable that the Unions will pursue disruptive tactics (such as a ban on overtime) which could be costly, and cease to co-operate in the rundown in manpower which has so far proceeded largely on a voluntary basis.

Past attempts by BS to recoup wage increases by higher productivity have only been partially successful. On this occasion, however, BS propose that higher wages would be paid from 1 April 1981 only at those yards which enter into working practices agreements by 1 May 1981; at those yards which fail to meet this deadline higher wages would be paid only from the date of the agreement. The agreements would provide for flexible manning throughout the industry (at present it applies only at Govan and Falmouth) as well as reductions in overtime and other matters.

While, therefore, I am disappointed that BS cannot achieve a really low settlement, I do not think that the proposed increase of 1.75% over BS's original offer warrant the risks of intervention in which BS would hold us responsible for the consequences of industrial action. I would, however, propose to impress upon Mr Atkinson the importance of not exceeding 7% and to underline that more money will not be available.

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Since the meeting between the two sides is scheduled for 23 March may I please have any comments by close of play on 20 March?

I am copying this letter to the Prime Minister and the Secretary of State for Employment.

Yours sincerely,

Heather Archer

PP NORMAN TEBBIT
(Approved by the Minister and
signed in his absence)

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18 MAR 1981