



CONFIDENTIAL

cc J-V.  
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*What is clearly saying is that the level of the EFL is too high. Therefore there is no incentive what to reduce it. I think that the £123m EFL should be reduced by how much it is not clear. Shall I reply on these lines?*

PRIME MINISTER

BRITISH SHIPBUILDERS' PAY SETTLEMENT

You have expressed concern about the level of British Shipbuilders' pay settlement, the lateness of consultation, and the possible impact on BS's Corporate Plan. I fully share your concern and we have made our views known to Mr Atkinson.

HLS 8/4

2 Perhaps I should set out the background to the settlement. Before negotiations started, Mr Atkinson was seen on a number of occasions by Norman Lamont who impressed on him the importance of a low settlement. Immediately before the settlement Mr Atkinson told him that he was going to go for 3.9%.

3 In arriving at the present settlement of 6.5% the crucial element was Mr Atkinson's view that a quick settlement would be cheaper than if negotiations had been protracted. In the event of protracted negotiations the CSEU would have come under pressure from militants in individual shipyards. If a short-lived overtime ban had been imposed during negotiations, as it was last year during negotiations over the closure of Robb Caledon, this would have cost at least £10m.

3 The level of settlement is 5.5% on earnings. This together with an improvement in minimum earnings levels which is necessary



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to minimise claims under the fair wages resolution (to which we are for the moment bound by international convention) amounts to an increase in wage costs of 6.5%. Presentation by the unions of a 7.5% increase is misleading since only a very few benefiting from the increase in minimum earnings levels will achieve such an increase. As for the reduction in the working week BS had little option except to follow the engineering settlement last year but in return for this concession they have eliminated all tea breaks on Friday afternoon and they have also entered into agreements with the trade unions on the better use of the working day and a further reduction in overtime. BS therefore do not think that the reduction will affect unit cost.

*But a lower pay settlement  
would have allowed unit cost  
reductions.*

4 In looking at the level of the settlement it should also be borne in mind that BS have achieved a series of below average settlements. In 1979/80 for example the average level of settlements in the public trading sector was 17.9% on average earnings in contrast to the 10.5% for BS. In 1980/81 the figures were 9.3% for the public trading sector compared to a staged increase for BS resulting in 8.6% on average earnings in the first year (10.9% in the full year). From 1976 to April 1981 platers/shipwrights have dropped from 4th to 16th in the pay league. Given the history of low settlements I very much doubt whether a lower settlement would have been achievable.

*MUS*



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will  
no settlement has  
effect on BS  
The Middles. How  
come?

why  
not

5 All this said, we are still faced with an unsatisfactorily high settlement for a loss-making industry. But there is no realistic possibility now of unpicking the deal Mr Atkinson has struck; and there are no implications for the EFL of £123m we have set for 1982/3 (which BS assure us they can remain within). Nor is there any advantage in reviewing again at this point BS's Corporate Plan Strategy, since colleagues agreed (E(NI)82 First Meeting) not to endorse BS's plans for merchant shipbuilding beyond 1982/3, and we shall be receiving another Corporate Plan from BS towards the end of the summer. We shall then be in a better position to see whether BS are going to be able to build on the improvement in performance which they have now begun to make.

6 I would therefore propose that a Parliamentary Statement on future Government support for shipbuilding should be made shortly after the Easter recess. We shall be circulating a revised draft Statement in the next few days.

7 Copies of this minute go to the recipients of the Chancellor's minute of 26 March.

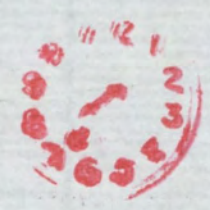
PJ

P J

4 April 1982



STONEMILLING





10 DOWNING STREET

cc HMT D/N CDL  
DOE D/M CWO  
SO FCO CO  
DOT NIO  
D/Trans MOD B. Ingham  
CSO, HMT LPO

*From the Private Secretary*

26 April 1982

bc: Mr. Vereker

British Shipbuilders Pay Settlement

The Prime Minister was grateful for your Secretary of State's minute of 19 April.

The Prime Minister is now content, subject to the views of colleagues, for Industry Ministers to make a statement on the lines of that attached to John Alty's letter to Nick Huxtable of 23 April. As to the timing of the statement, I would be grateful if you would consult us here (and Nick Huxtable) later this week, when we are clearer about the timing of statements on the Falkland Islands which may prove necessary.

I am sending a copy of this letter to the Private Secretaries to the other Members of E(NI), Bernard Ingham, John Holmes (Foreign and Commonwealth Office), Stephen Boys Smith (Northern Ireland Office), David Omand (Ministry of Defence), Nick Huxtable (Lord President's Office), Keith Long (Office of the Chancellor of the Duchy of Lancaster & Paymaster General), Murdo Maclean (Chief Whip's Office) and David Wright (Cabinet Office).

M. C. SCHOLAR

Jonathan Spencer, Esq.,  
Department of Industry.

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CF JV  
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Prime Minister

PRIME MINISTER

BRITISH SHIPBUILDERS PAY SETTLEMENT

You have asked for further explanation of the 1982/83 British Shipbuilders external financing limit in relation to BS's pay settlement.

I understand that the difference between 4.8% and 6 1/2% is £3-4 m on the EFL. One option would be positively to reduce the EFL by a further £3-4 m - which would mean that BS would probably postpone some capital expenditure on this scale - a second time,

2 In the Investment and Financial Review of March 1981, BS's bid for 1982/83 was £147m. The Chairman was told in August that we wanted if possible to see a reduction of around £25m. BS responded with a revised bid of £130m. This revised bid assumed a pay settlement of 7%. BS were informed that this was too high and the bid was cut to a level consistent with a 4.8% settlement. This produced a saving of £5m in 1982/83 and corresponding amounts in future years.

presumably. (since they have already had to find room for 6 1/2% within £125m).

3 Every pressure has therefore been put on BS through the EFL to strike a low settlement and we have made known our concern to Mr Atkinson at the level of the present settlement. BS assure us that savings will be found to keep within the EFL, and the wage agreement is conditional upon the agreement and implementation of measures for further improvements in productivity and the use of new technology. BS are also currently urgently examining remedial measures in their Ship-repair Division. While BS too would have liked to see a lower settlement, they took the view that the cost of a protracted struggle for a lower settlement would have been higher than the cost of the present settlement.

Do you wish this to happen? Or have they already been sufficiently pressed, so that the statement

Yes/No { (Stage A) should now go ahead?

MCS 20/4



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4 Copies of this minute go to the recipients of the Chancellor's minute of 26 March, to the Lord Chancellor, Secretaries of State for Education & Science, Defence, Scotland and Social Services, the Lord President, the Chancellor of the Duchy of Lancaster and to the Chief Whip.

PJ

P J

19 April 1982

Department of Industry  
Ashdown House  
123 Victoria Street



19 APR 1982



COAST GUARD





*Handwritten initials*

*DSG*

10 DOWNING STREET

From the Private Secretary

13 April 1982

*Dear Jonathan*

BRITISH SHIPBUILDERS PAY SETTLEMENT

The Prime Minister has seen your Secretary of State's minute of 7 April, in which he sets out further background on British Shipbuilders pay negotiations.

The Prime Minister remains unconvinced by the arguments set out in that minute. She has noted your Secretary of State's view that the higher wage settlement has no effect on British Shipbuilders EFL. This suggests that the EFL was set too high, and at a level which offered no incentive whatsoever to BS to reduce unit costs.

Against this background, the Prime Minister remains dissatisfied with the position, which she believes will not readily be defensible in a Parliamentary Statement. She will wish to see a further explanation of the 1982/83 British Shipbuilders EFL before she is ready to clear the draft of a Parliamentary Statement.

I am sending copies of this letter to the Private Secretaries to the Lord Chancellor, the Home Secretary, the Secretaries of State for Defence, Education and Science, Employment, Scotland, Health and Social Security, the Chancellor of the Duchy of Lancaster, the Lord President, the Chief Whip and Sir Robert Armstrong.

*Yours ever*

*Mike Pattison*

Jonathan Spencer, Esq.,  
Department of Industry.

*Handwritten mark*

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MR. SCHOLAR

cc: Mr. Hoskyns

BRITISH SHIPBUILDERS

I doubt if the Department of Industry will readily succumb to the line in your letter of 5 April, and you may need to draw upon these details of British Shipbuilders' record on pay.

In the last pay round, B.S. made an opening offer of 5.25% on basic rates, increased it to 6% plus improvements in holidays and overtime rates, amounting to about 7.3% on earnings overall; and eventually settled for a package worth roughly 7.5% on earnings.

This pay round has been remarkably similar. The CSEU have provisionally accepted a package consisting of 5½% on basic earnings; an additional 1% from consolidation of bonuses and an increase in minimum earnings; and a one hour reduction in the working week (agreed last year). The unions are consulting their members, and are believed to be describing the offer as worth 7% on earnings - it certainly looks to be at least that.

B.S.'s record on pay is not, therefore, by any means the worst among the nationalised industries. But it has been clear for some time that an industry which has far more in common with the private sector manufacturing industry than with the public sector monopolies ought not to be making pay offers which are at least as much as the going rate in the pay round. It is certainly possible to argue that a 7% increase for B.S. employees this year is not consistent with the current level of Government support for B.S.



7 April 1982

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