CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on TUESDAY 20 MARCH 1973 at 10.30 am

PRESENT

The Rt Hon Edward Heath MP
Prime Minister

The Rt Hon Sir Alec Douglas-Home MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Anthony Barber MP
Chancellor of the Exchequer

The Rt Hon Lord Carrington
Secretary of State for Defence

The Rt Hon James Prior MP
Lord President of the Council

The Rt Hon Geoffrey Rippon QC MP
Secretary of State for the Environment

The Rt Hon Gordon Campbell MP
Secretary of State for Scotland

The Rt Hon The Earl Jellicoe
Lord Privy Seal

The Rt Hon Maurice Macmillan MP
Secretary of State for Employment

The Rt Hon Lord Hailsham of St Marylebone
Lord Chancellor

The Rt Hon William Whitelaw MP
Secretary of State for Northern Ireland

The Rt Hon Robert Carr MP
Secretary of State for the Home Department

The Rt Hon Sir Keith Joseph MP
Secretary of State for Social Services

The Rt Hon Margaret Thatcher MP
Secretary of State for Education and Science

The Rt Hon Peter Walker MP
Secretary of State for Trade and Industry

The Rt Hon Peter Thomas QC MP
Secretary of State for Wales

The Rt Hon Sir Geoffrey Howe QC MP
Minister for Trade and Consumer Affairs
THE FOLLOWING WERE ALSO PRESENT

Mr Tom Boardman MP
Minister for Industry

Mr Patrick Jenkin MP
Chief Secretary, Treasury (Item 2)

The Rt Hon Francis Pym MP
Parliamentary Secretary, Treasury

SECRETARIAT
The Rt Hon Sir Burke Trend
Mr J J B Hunt
Mr I T Lawman
Mr J F Ellis-Rees
Mr L J Harris

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1. THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the meeting on the previous day of the working party of the British Railways Board (BRB) which was reviewing the drivers' pay structure had been conducted in a more favourable atmosphere than might have been expected; and the Associated Society of Locomotive Engineers and Firemen (ASLEF) had accepted that progress had been made. It would now be necessary to await the outcome of the negotiations on the annual pay claim, which were due to be resumed on the following day, in order to attempt to assess whether the conflict between ASLEF and the other two rail unions about the distribution of the amount of money which the BRB would be entitled to devote to pay increases under the Pay Code could be amicably resolved, or whether ASLEF were likely to resume industrial action.

THE MINISTER FOR INDUSTRY said that, despite continued militancy in some areas, there had now been a gradual return to work by gas manual workers, pending the outcome of the ballot, which was expected by the following weekend. It had unfortunately proved necessary for the British Gas Corporation (BGC) to cut off supplies to 45,000 domestic consumers in the West Midlands because of continued militancy in that region; but they had succeeded in doing so without having to ask the Government to invoke Emergency Powers.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that at his meeting with the unions representing the National Health Service (NHS) ancillary workers on the previous day the unions had adopted a moderate attitude. They had agreed to consider further the possibility of making an approach to the Pay Board for consideration as a special case during Stage 3 of the pay policy; and they had seemed attracted by the suggestion that more use might be made of the existing agreement which enabled productivity bonus schemes to be implemented. They had made it clear, however, that they would prefer that any approach to the Pay Board should initially be made by the management, and that they would wish to discuss with the Trades Union Congress (TUC) the implications for the TUC's pay policy of any action which they took in this context. Meanwhile, 90 per cent of the normal hospital services were still being provided as a result of the exceptional efforts of the hospital administrators and the nursing staff. In cases where the local hospital Management Committees considered that essential services could not be maintained and approaches to the unions did not succeed in inducing a more co-operative attitude by the strikers, the Health Departments
were authorising the use of volunteers. On balance, however, it remained true that to use volunteers on a wider basis than was absolutely necessary in order to maintain essential services would be liable to have adverse repercussions on the attitude of the NHS ancillary workers generally.

The Coal Industry

THE MINISTER FOR INDUSTRY said that the Executive Committee of the National Union of Mineworkers (NUM) had decided to conduct a ballot of their members on the desirability of taking industrial action in support of their pay claim. The terms of questions asked in the ballot, which were not unduly provocative, reflected the fact that there had been no great enthusiasm on the part of the Executive Committee for strike action. The result of the ballot should be known by the end of March.

Civil Service Unions

THE LORD PRIVY SEAL reported on industrial action in the Civil Service. His report and the Cabinet’s discussion are recorded separately.

National Union of Teachers

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that teachers in London belonging to the National Union of Teachers (NUT) were due to strike again on the following day in support of their claim for an increased London allowance.

TUC one-day stoppage

THE SECRETARY OF STATE FOR EMPLOYMENT said that the Finance and General Purposes Committee of the TUC intended to consider on the following day their recommendation to the General Council of the TUC about the form and timing of the proposed one-day national protest and stoppage. The attitude of the General Council at their meeting on 23 March would perhaps depend to a significant degree on the progress made in resolving the dispute with the NHS ancillary workers. The outcome of the NUM ballot would also be influenced by developments on these issues.
In discussion the following main points were made -

a. Continuing efforts should be made to secure the maximum possible publicity for the Government's pay policy and to ensure that the facts of the various disputes were as widely known and understood as possible. In particular, it would be desirable to continue to seek to counter exaggerated reports about the adverse effects of the industrial action by the NHS ancillary workers. Particular efforts should also be made to explain the facts at issue in the miners' pay negotiations while the ballot was taking place. The facts about the miners' leave entitlement and their claim for an extra week's leave should be emphasised, preferably by the National Coal Board, who should also consider the desirability of sending a letter to all mineworkers setting out the facts about the dispute.

b. It would also have been desirable to issue an immediate reply to the claim reported in the Press on the previous day that a study made at the London School of Economics had shown that, taking account of the likely increase in the cost of living, few workers with large families would be in an improved financial position as a result of pay increases in accordance with the pay limit. There should be an immediate examination of the results of the study, which did not take account of the possibility that the lowest paid workers might receive more than £1 plus 4 per cent or of the recent decision to exempt all foodstuffs from Value Added Tax or of the fact that an increased amount of overtime was being worked. On the other hand, the fact that earnings appeared to have remained static in recent months suggested that careful consideration should be given to the factual basis of any reply to the conclusions reached in the report.

THE PRIME MINISTER, summing up the discussion, said that the Secretary of State for Social Services should consider urgently the best means of enabling public opinion to see the NHS dispute in a more correct perspective. In paying tribute to the outstanding work of the administrative and nursing staff in hospitals, he might take the opportunity to set out the facts on the pay dispute and on the effects of industrial action. Similarly, the Minister for Industry should seek an opportunity to inform the public of the facts about the dispute in the coal industry, emphasising particularly that the miners were now able to take three consecutive weeks' leave. The Chancellor of the Exchequer should arrange for urgent consideration to be given to the report about the likely financial situation of workers with large
families under the Stage 2 policy and to the possibility of countering the unfortunate impression which this report had created.

The Cabinet -

Took note, with approval, of the summing up of their discussion by the Prime Minister and invited the Ministers concerned to proceed accordingly.
STEEL PRICES

2. The Cabinet considered a Note by the Secretary of State for Trade and Industry (CP(73) 33), to which was annexed a Note by the Minister for Industry about proposals by the British Steel Corporation (BSC) to increase steel prices. They also had before them copies of a minute from the Home Secretary to the Prime Minister, dated 14 March, reporting the discussion of the same subject by the Ministerial Committee on Counter-Inflationary Measures on 13 March, together with copies of a minute from the Chancellor of the Duchy of Lancaster to the Prime Minister maintaining that deferment of an increase in prices was not practicable but that some abatement of it on Counter-inflationary grounds was desirable, provided that the BSC would put this forward on their own account and would not claim that it was a consequence of Government pressure.

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that, under the Treaty of Paris, we were obliged not to hold the price of steel products below economic levels. The BSC's steel prices were already 15 per cent below European levels; the Commission of the European Communities had recently reminded us of our Treaty obligations; and we had promised that, when the pay and prices standstill ended, the Corporation's pricing policy would be free from control by the Government. Specific provision had been made for this situation in the Government's Consultative Document on the Price and Pay Code (Cmd 5247). The Corporation now estimated that, in order to obtain a realistic return of 5 or 6 per cent on capital, they would need to raise delivered prices by an average of 13.5 per cent from 1 May, thus achieving an increase of 11.6 per cent in realised prices. If they were not permitted to do so, there was a danger that one of their European competitors would bring a case against them in the European Court, with a good chance of success. Domestically, their present artificially low prices were creating serious financial difficulties for the private sector steel companies, whose prices had necessarily to be subject to the same constraints; and the possibility that one of the private companies in this country might ask the European Court to compel them to adopt higher prices could not be ruled out. The disparity between BSC's steel prices and those of European companies resulted in a considerable proportion of BSC's production being exported, while the realisation by British steel users that an increase in prices could not be long delayed was leading to an undesirable degree of stockpiling. Both these factors were aggravating the existing shortage of steel for domestic users. The BSC's proposals had been discussed with the Steel Consumers' Council, who had indicated that they would prefer an immediate increase of 8 per cent in realised prices, followed by a second increase of 5 per cent after 3 months. But, although this might go some way
towards holding the position as far as our assurance to the
European Communities was concerned, it would have little
impact on the present stockpiling problem. For these reasons
the Corporation should be allowed to implement their proposed
increases in full from 1 May. Some members of the Ministerial
Committee on Counter-Inflationary Measures, however, had
felt that immediate increases of the order proposed would have a
serious effect on the Stage 2 pay and prices policy and should
therefore be postponed for some months.

In discussion it was suggested that there was no reason why BSC
prices should be raised to match those prevailing in Europe if
the British industry was more competitive. Although we
should clearly be open to criticism if the Corporation were to
sell steel within the Community at a loss, it was difficult to see
how prices which yielded a positive return on capital, even if the
return was below the 5 to 6 per cent level thought appropriate by
the BSC, could be represented as involving a subsidy in breach of
our Treaty obligations. To allow BSC to raise prices beyond
the absolute minimum necessary to meet the assurances given
to the Community would be damaging to our Counter-inflationary
policy and would be widely interpreted as a direct consequence
of our membership of the Community. Our main objective at
this stage should be to convince the European Commission and
the BSC's competitors that some genuine movement towards
higher prices was being made; but this should be effected on the
basis of the minimum increases which were needed in order to
provide the Corporation with a current trading surplus. They
had indicated that increases of about 5 per cent in realised prices
would be required to enable them to break even, without making
a contribution to their public dividend capital. But, although
they were anxious not to prejudice the Stage 2 policy, they were
also concerned about the prospect that their pricing policy might
be exposed to attack in the European Court. It was unlikely,
therefore, that they would be prepared to defend any level of
increase which involved this risk as one which they had freely
adopted on commercial grounds while the Government had
themselves expressly said that they would not intervene.

THE PRIME MINISTER, summing up the discussion, said that
the Cabinet agreed that increases of the order proposed by the
BSC could severely damage the Government's pay and prices
policy. They therefore considered that only the minimum
increase in prices which could be regarded as consistent with
our assurances to the European Communities should be made
from 1 May, leaving open the possibility of a further increase at
a later date, preferably when Stage 2 of the pay and prices
policy had ended. The Chancellor of the Exchequer should
consider further, in consultation with the Secretary of State for Foreign and Commonwealth Affairs, the Secretary of State for Trade and Industry, the Chancellor of the Duchy of Lancaster and the United Kingdom Ambassador to the European Communities, the level of the initial increase which would be appropriate in the light of the Cabinet's discussion. The Secretary of State for Trade and Industry should then seek the agreement of the Chairman of the ESC to the suggestion that the increase thus agreed should be announced by the Corporation as their own commercial decision. The outcome should be reported to the Cabinet.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.

2. Invited the Chancellor of the Exchequer, in consultation with the Secretary of State for Foreign and Commonwealth Affairs, the Secretary of State for Trade and Industry, the Chancellor of the Duchy of Lancaster and the United Kingdom Ambassador to the European Communities, to consider further the level of increase which should be made in the prices charged by the British Steel Corporation from 1 May, as indicated in the Prime Minister's summing up.

3. Invited the Secretary of State for Trade and Industry to discuss with the Chairman of the British Steel Corporation the public presentation of the level of increase decided as a result of the further consideration by Ministers, as indicated in the Prime Minister's summing up.
3. The Cabinet considered a Note by the Secretary of State for Trade and Industry (CP(73) 34) about the reorganisation of the nuclear design and construction industry.

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that he had now discussed with the General Electric Company (GEC), the Electricity Council, the Central Electricity Generating Board (CEGB), the United Kingdom Atomic Energy Authority (AEA), the two existing nuclear design and construction consortia, Sir Arnold Hall (Hawker Siddeley) and Lord McFadzean (British Insulated Callendar Cables) the proposal to establish a single nuclear design and construction company in the private sector, led by GEC. He had outlined to them the alternatives of a majority shareholding by GEC and a minority shareholding coupled with an agreement which would give GEC full managerial authority. He had also explained to them that under either alternative the company would be required to operate within the context of the Government's nuclear strategy, as recommended by the Nuclear Power Advisory Board; that the Government would reserve certain rights to themselves, in order to safeguard, in particular, open purchasing and international links; and that they would wish to secure the participation of other companies. The Electricity Council, the CEGB and the AEA had confirmed their view that GEC were the only company at present capable of leading the new organisation. The Electricity authorities favoured the maximum commitment of GEC's resources; but the AEA believed that a minority shareholding by GEC would be more acceptable to the rest of the industry. Most of the other industrial interests accepted, with some misgiving, the need for a single powerful company to replace the existing consortia; and, if management control was to be vested in GEC, they preferred that this should be effected by a majority shareholding. The main concern of other firms related to the purchasing arrangements which were envisaged. But, although they doubted the efficacy of an open purchasing policy, they recognised that it was an inescapable consequence of a strong, unified organisation. He himself believed that the risks could be mitigated, since in addition to the Government's reserved rights, there would be opportunity for other firms to be directly involved in the new company and the CEGB would retain freedom to place direct orders for parts of the system with outside contractors.
GEC themselves were reluctant to share their interest in the new company with other firms; but they were fully aware of the objections, on both political and industrial grounds, which would be raised if they were to assume full control. The negotiations had accordingly developed on the basis that GEC would take a 50 per cent holding; the Government would probably take 15 per cent (through the AEA); and the balance of 35 per cent would be offered to other firms, subject to certain conditions, including a provision that their shares should be held in a group. The new company's capital would probably amount to £10 million issued and fully paid. GEC would nominate the chairman of the main Board; and the deputy chairman might appropriately represent the joint interests of the other private firms. For purposes of day to day management the new company would operate through a wholly owned subsidiary, whose chairman would be the chairman of the main Board. GEC would supervise the subsidiary's operations and would be paid for services provided. All shareholders would initially be asked to participate in joint and several guarantees although some of them, having regard to their limited participation, might be unwilling to accept the substantial risks involved and it might in the event prove necessary for the Government to underwrite guarantees beyond the size of their own shareholding.

In discussion there was general concurrence on the structure proposed for the new company, provided that the cost of the Government's shareholding and of GEC's management services was met from within existing public expenditure provisions. It would also be desirable to ensure that the interests of component manufacturers who were not members of the existing consortia and were outside the new company would not be overlooked, since several thousand jobs might be at stake. The possibility that guarantees beyond the size of their shareholding might have to be underwritten by the Government rather than by GEC, who could expect the major part of the company's profits, gave some cause for concern. On the other hand some of the minority shareholders might not unreasonably prove to be unwilling to accept the contingent liability for guarantees which might amount to 40 times their stake in a company over whose operations they would have relatively little control; and it was equally unreasonable to expect GEC to accept a corresponding liability beyond the extent of their own shareholding, to which they had been confined by the Government's stipulation that minority interests should participate in the new company.
In further discussion it was suggested that, although there might be both practical and presentational advantages in arranging for the Government to be represented on the proposed Nuclear Power Advisory Board by a single spokesman, it might be no less important to ensure that the Board's composition adequately reflected the interests of the various Departments concerned in its operation, particularly as regards scientific and regional policies and the control of public expenditure. It was also for consideration whether a Ministerial chairman might be preferable to an independent chairman drawn from industry.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet approved in principle the proposed structure for the new nuclear design and construction company. In the light of the views which had been expressed the Secretary of State for Trade and Industry should now complete his discussions with GEC and the other interests involved; and he should also discuss further with the Ministers concerned both the terms of an early statement to Parliament and the composition of the Nuclear Power Advisory Board.

The Cabinet -

1. Approved in principle the proposals set out in CP(73) 34 for the establishment of a nuclear design and construction company in the private sector, led by the General Electric Company.

2. Invited the Secretary of State for Trade and Industry -

   i. in consultation with the Secretary of State for Defence, the Home Secretary, the Lord President and the Chief Secretary, Treasury, to agree the terms of an early statement to Parliament outlining the basis on which the company was to be established;

   ii. in consultation with the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Defence and the Lord Privy Seal, to consider further the composition of the proposed Nuclear Power Advisory Board.

Cabinet Office
20 March 1973
THE LORD PRIVY SEAL said that industrial action by the Civil and Public Services Association (CPSA) was continuing on a selective basis in various Departments; but it was now on a declining scale. The reports of the impact of industrial action by CPSA members employed by the Civil Aviation Authority appeared to be exaggerated; only limited inconvenience should be caused to airline passengers. The pressure for further industrial action seemed to be decreasing; and it was probably unlikely that there would be more than isolated instances after the Counter-Inflation Bill had received the Royal Assent. The National Staff Side had hitherto refused to discuss the pay increases which fell due to be paid to the non-industrial Civil Service under the pay policy with effect from 1 April. The evidence so far provided by pay research indicated that, on the basis of comparability, the percentage increases which would in normal circumstances have been due to the lowest paid members of the non-industrial Civil Service would be smaller than those which would have been due to the higher and better paid grades.

In discussion it was noted that younger Civil Servants were finding it increasingly necessary to supplement their existing salaries by taking additional work outside their normal official hours. In so far as some of them might be employed on sensitive work, the potential security risk involved should be kept in mind.

The Cabinet -
Invited the Secretary of State for Foreign and Commonwealth Affairs and the Lord Privy Seal to consider whether there was any risk that security might be endangered by the tendency of the lowest paid members of the public service to seek supplementary employment elsewhere.