



Secretary of State for Trade and Industry

CC:BG.

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The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
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Dear Nigel

NBRN.

1986-87 PAY

Thank you for your letter of 18 December, about the handling of the new pay round. *will request if required*

As you know, I fully share your view on the need for moderate pay settlements. Rising manufacturing output this year should provide a good opportunity to improve our performance on unit labour costs relative to that of our competitors - there are signs that this is happening already. But we must do all we can to ensure that productivity gains are seen as dedicated to that rather than to providing headroom for higher settlements.

As you know, British Shipbuilders have agreed a two year deal covering this pay round as well as the last. But we will remind the Post Office and BSC Chairmen as necessary of the need for pay moderation and timely notification of proposed offers, particularly in view of BSC's - unusual - oversight on the latter point last year.

On geographical pay variation, I agree with the points which you and Nicholas Ridley have been making. Greater flexibility in the public sector will foster more realistic local labour market conditions to the benefit of industry. But I see the scope for introducing it to those parts of the public sector for which I am responsible as limited in the immediate future. Both BSC and British Shipbuilders have their main operations in areas with similar unemployment problems, and the restructuring package of BS which was approved by E(A) incorporated a move to uniform rate of pay for the first time.

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So far as the Post Office are concerned, their priority is to achieve separate pay negotiations for the individual businesses, and relations with the unions are finely balanced following moves to improve efficiency by management action. So, while there is a case for greater geographical variation in pay, notably to relieve recruitment difficulties in parts of the South East, I doubt if it would be realistic to press the Post Office to move in this direction at this stage.

My colleagues and I will of course continue to stress the general need for pay moderation as opportunities arise.

I am copying this letter to the Prime Minister, Cabinet colleagues and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Paul Channon', written in a cursive style.

PAUL CHANNON

A handwritten signature in dark ink, appearing to read 'Paul', written in a cursive style.