

cc Mr. Douglas
Mr. Hughes

Prime Minister

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Prime Minister

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I mentioned to you the other week that this year's rail pay negotiations were likely to be difficult and could lead to a second round of fare increases. The settlement date is 21 April.

The rail unions are trying to get at least 20% without strings. They argue that they have lost ground as a result of last year's settlement which was considerably below the pay awards to their traditional counterparts. The Board think that they will need to pay something approaching this if they are to be able to continue to recruit and retain staff in some areas. But they want real changes to productivity in return. Sir Peter Parker therefore aims to make payment of an important part of any wage settlement totally dependent on the signature by the unions of an agreement setting out both specific changes to be made in various parts of the business over a three year period and - equally important - a clear timetable by which the necessary consultations are to be completed case by case. The importance of this is that the unions have so far been able to use the consultative machinery to obstruct almost any change independently. If successful this means a reduction of 11,000 jobs over the next three years.

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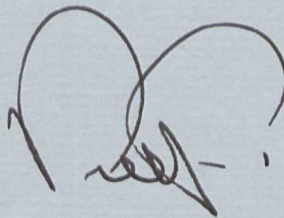

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The negotiations are likely to be tough and ASLEF particularly will strongly oppose the Board's plan to link productivity changes with pay. There may therefore be some disruption of rail services but I do not think this point will be reached before the third week in April.

I have told Peter Parker that the precise level of settlement is a matter for him, provided of course that he stays within his tight external finance limit for 1980/1 and he has reaffirmed his commitment to that.

But I also made it clear that, given the unhappy history of past attempts to get real productivity changes on the railway, I would not be happy with a high settlement that once more failed to achieve real change. I would in any case be reluctant to see the cost of a high settlement simply passed on to the railway passenger. I have therefore told him that I would accept, if necessary, further increases this year in the charges for the commercial businesses - freight and inter city. But I would think it very difficult for them to justify further increases for commuters before the end of the year. The Board are now looking at a number of options in this light and I shall talk to Peter Parker again before any decisions are taken.

I am sending copies of this to Geoffrey Howe and Jim Prior.



~~NORMAN FOWLER~~

2 April 1980

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