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cc DTI

PRIME MINISTER AT 24/9 24 September 1984

COSTS OF THE MINERS' STRIKE

Some big bills will be coming in from the nationalised industries affected by the miners' strike.

Last week I saw Bob Haslam, the Chairman of British Steel. He is very critical of the DTI's delay in responding to his corporate plan. The plan, you may remember, suggests the closure of one or possibly two of the major works in order to get near to the break-even target. The losses are building up both because of the additional costs of bringing in fuel and raw materials and more importantly because the steel corporation is still producing too much from too many plants in relation to market demand. The damage is already estimated at around £5 million a week which over a full year would almost double BSC's EFL of £275 million this year. It is very difficult to believe extra transport costs and some changes in raw material contracts can amount to anything like this. We suspect other unit cost targets are not being hit.

Today, I had a working lunch with the Policy Team that advises Bob Reid at the Railways. They estimate that the

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current losses on the freight business attributable to the coal strike are running at some £5 million per week. They have pencilled in a figure of additional losses of £170 million in the current year on the freight business alone on the assumption that the miners' strike ends in November.

At the same time they reported that the Intercity business had lost an additional £16 million during the summer as the expected pick-up in tourist travel had not materialised.

Why is the rail business losing so much on freight as a result of the strike? At first sight you might think that if you reduced a loss-making activity you would reduce the losses rather than increase them. However, British Rail claim:

1. That the coal part of the freight business was the one profitable part of it.

2. They have not been sending all of the men home and thereby cutting off their pay - some of the people have part jobs on other parts of the railway network.

3. They claim that the associated overheads like maintenance and signalling do not reduce proportionately the reduction in traffic.

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Nonetheless, it is worrying that the losses are so big and the business demonstrates so little flexibility in running down its costs when its revenue falls off a cliff. Total freight revenue in 1983 was £520 million, and operating profit £8 million. How can you lose £170 million just from the coal business from 8 months of strike affected movements? The non coal business on this basis must be heavily loss making and the coal contract substantially overpriced.

CONCLUSIONS

A central part of the containment of public expenditure is and will remain progressive squeezing of the external financing limits of the nationalised industries. E(A) has recently voted another more severe set for next year, and rightly so. However, these are not going to be credible if we allow extra claims to build up ostensibly because of a strike without forcing the businesses concerned to take some offsetting action of their own. No good private business allows even bad luck as an excuse for a major shortfall on targets. If we just leave things until the strike is over we will, towards the close of this year be handed a very big bill which the Government will reluctantly then decide to pay.

Would it not be wise instead at MISC 101 or some other forum to raise the question of the ancillary costs of the strike?

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Both British Steel and British Rail should be told that the losses from the strike will not be met pound for pound from Government sources, but they will have to squeeze their cash outflow, or improve their cash inflow in other sectors of the business.

We should also be sceptical about all of the losses being attributed to the miners' strike. Of course the support of BR is important and nothing should be done to jeopardise the movement of trains. But the losses are not just strike losses.There should be a more accelerated pattern of asset disposals of both subsidiaries and properties and more vigorous cost reduction and marketing of products outside the immediate influence of the coal strike by both BR and BSC. Alternatively they could cut their extensive capital programmes.

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