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PRIME MINISTER

The Railways

INTRODUCTION

The papers for your meeting on Monday at 11.00 am are as follows:

flag 1 i. the Secretary of State for Transport's minute to you of 17 June;

flag 2 ii. the Chancellor of the Exchequer's minute to you of 18 June;

these deal with a variety of questions of policy and tactics relating to the handling of a rail strike;

flag 3 iii. the Chancellor of the Exchequer's minute to you of 10 June;

flag 4 iv. the Secretary of State for Energy's letter of 17 June to the Chancellor of the Exchequer;

flag 5 v. my minute of 11 June to Mr Scholar; and

flag 6 vi. the letter of 18 June from the office of the Secretary of State for Industry;

these four papers deal with the industrial costs of a rail dispute, particularly the costs of oilburn and the impact on the finances of the British Steel Corporation (BSC).

MAIN ISSUES

2. The main issues for discussion seem to be as follows:

i. the handling of a strike and, in particular, whether further work should be commissioned from the British Railways Board (BRB) on this or on their objectives;

ii. the likely impact of a lengthy strike on the finances of the BRB and what the Government should do about this;

iii. whether maximum power station oilburn etc should begin immediately a rail strike starts, and who should pay for the costs of maximum oilburn; and

iv. the implications for the finances of BSC.

(i) Objectives, tactics and handling

3. The BRB's statement of objectives, which is Annex A to the Secretary of State for Transport's minute, is, as he says, woolly. As the Chancellor points out in his minute of 18 June, there is, as yet, no evidence of a clearly developed tactical plan for how the BRB intend to handle the strike; the request resulting from your last meeting on this subject (on 26 May) that the Board should quickly develop its thinking on tactics and on the minimum acceptable terms for a settlement, has produced little result. The Secretary of State for Transport is however probably right to suggest that it will not be possible to get more clarity from the BRB until the strike has started when the attitudes of the unions and the relative importance of the various issues will be easier to judge. At that point it will be desirable to press the Board further on their tactics, principally to ensure that they themselves have done the necessary thinking and secondly to try and secure early warning of important developments. In doing so it will be important to make clear that the Board, not the Government, is in the front line and to avoid any inclination on the part of the BRB to sidestep their responsibilities.

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(ii) The impact on the BRB's finances

4. As explained in Annex B to the Secretary of State for Transport's minute, the BRB appear to be obliged to pay the wages of staff laid off by a strike by railway workers, although the legal position needs to be clarified further. If this is the case the BRB could run out of funds in 3-6 weeks, unless all the unions were to strike, which now seems very unlikely. It is for the BRB to decide whether to lay men off without pay and face legal action; there is no need for the Government to express a view on this. The question for the Government is: whether, and if so, how, to keep the BRB in funds?

5. The Secretary of State for Transport concludes:

a. that the Public Service Obligation (PSO) grant of £15.5 million per week should be withdrawn as soon as a strike begins;

b. that the Government could not permit the BRB to be in a position where it could not meet its liabilities to creditors;

c. that asset sales, however vigorously pursued, could not in practice make good the BRB's cash flow deficiency within the necessary timescale.

It is unlikely that these conclusions will be contested by other Ministers.

6. The Secretary of State therefore recommends that the BRB's temporary borrowing limit should be increased by the minimum necessary to allow them to meet inescapable financial commitments. We understand that the Chancellor agrees that this is the best course. It would be clear to the unions that the cost of the strike was being met by the railway, not the Government; and no increase in BRB's EFL would be required.

(iii) Power station oilburn

7. The gross cost of maximum power station oilburn is about £30 million per week. The Chancellor of the Exchequer, in his minute of 10 June, suggests that the implications of a lower level of oilburn, or of delaying the start of maximum oilburn, should be examined. The Secretary of State for Energy in his letter of 17 June argues that maximum oilburn from the start of a rail strike is necessary if maximum power station coal stocks are to be achieved by November.

8. There seem to be three issues for Ministers, viz:

i. is maximum oilburn essential from the start of a rail strike?

ii. if not, what delay (or lower level of oilburn) would be tolerable?

iii. whatever the level of oilburn, who should pay for it?

9. An assessment of the need for maximum oilburn and its timing depends on the following four factors:

a. the likely length of the rail strike;
(The BRB's estimate is 2-3 months.)

b. the likely degree of cooperation from the miners;
(Given that their own pay negotiations will start in the autumn, it would be prudent to assume only limited cooperation, ie normal rates of coal deliveries by road etc but no increase.)

c. the extent to which the CEGB might, notwithstanding (b) above, clandestinely increase coal deliveries by road etc above normal levels;

d. every week's delay in starting maximum oilburn during a rail strike reduces endurance of a miners' strike by about a half week (out of total planned endurance of a miners' strike of 20 weeks or more).

10. In the light of these considerations it seems clear that any significant reduction of oilburn could undermine the strategy of maximum coal stocks. There is the option of delaying the start of oilburn for up to 2 weeks after the beginning of a strike. This would give a saving of up to £60 million in the event that an early settlement was reached to the strike but this seems an unlikely contingency. There might also be presentational considerations in relation to the NUM's attitude to coal deliveries which the Secretary of State for Energy is exploring further. Subject to this latter point, the most prudent course, despite the cost, would probably be to decide on maximum oilburn from the beginning of the strike.

11. Maximum oilburn from the beginning of the strike on 28 June until 1 November (the assumed critical date for a miners' strike) would cost £540 million gross (18 weeks at £30 million) and around £360 million net (allowing for normal summer oilburn). To this would need to be added the cost of oilburn during a miners' strike, should this materialise. Ministers need to consider whether this should be met from public expenditure, as the Secretary of State for Energy recommends, or by the consumer.

12. The net costs of oilburn are very roughly equivalent to an average increase in tariffs of 5 per cent applied over a full year. But in practice the operation of the tariff system means that prices to industrial consumers would rise almost immediately; whereas the tariff for domestic consumers would not increase for some time. A decision to pass the full costs on to the consumer might also raise difficult presentational problems; the full costs would immediately become known, and the trades unions would no doubt contrast them with the costs of a settlement of their pay claim. Moreover, since coal stocks are at record levels it would be difficult to argue (in contrast with a miners' strike) that maximum oilburn was essential for the maintenance of power supplies and that the consumer could reasonably be expected to pay for it.

13. Thus, on balance, the Secretary of State for Energy is probably correct to argue that the costs should be met by the Exchequer. We think it is unlikely that the Chancellor of the Exchequer will oppose him.

(iii) BSC finances

14. As set out in the letter of 18 June from the Secretary of State for Industry's Office, the impact of a lengthy rail strike on BSC's finances is now expected to be much less than described in the Chancellor of the Exchequer's minute of 10 June. Following further contingency planning, now on the assumption of a lengthy rail strike, the BSC has concluded that it my be possible to transfer a fair proportion of its traffic to road, and where this is not the case, steps are already being taken to build up stocks in advance of a strike. BSC therefore now think that they will lose very little business during the first month of a rail strike beginning at the end of June; and that they will be able in August and September to sustain about 50 per cent of their normal operations. Thus the costs to BSC of a three month rail strike are now expected to be in the region of £100 - £150 million. But if a rail strike were to last longer than about 3 months, the impact on BSC's continuing level of operations, and therefore on their markets and their financial position, would quickly become much more serious.

HANDLING

15. You will want to invite the Secretary of State for Transport to speak to his minute of 17 June and to report the latest situation both on British Railways and

on London Transport. I suggest that you might then focus the discussion under the following headings:

i. the need for the BRB to develop quickly a thorough tactical plan for a lengthy strike;
(The Chancellor of the Exchequer's minute to you of 18 June raises a number of questions about handling. Some of these, eg the possibility of sacking ASLEF members, might usefully be examined quickly by officials.)

ii. should the Government withhold the PSO grant and support the BRB financially by the minimum necessary increases in its temporary borrowing limit?

iii. the timing of power station oilburn, and the question of how the costs of oilburn are to be met; and

iv. the latest assessment of the impact on BSC's finances.

CONCLUSIONS

16. You will want to reach conclusions on points i. to iv. above.

RG

P L GREGSON

18 June 1982