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PS/ Secretary of State for Industry

DEPARTMENT OF INDUSTRY
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18 June 1982

Michael Scholar Esq
 Private Secretary to the
 Prime Minister
 10 Downing Street
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Dear Michael

THE RAILWAYS

In your letter of 14 June, my Secretary of State was asked if he would enquire about the extent to which the industries for which he is responsible would be able to use their ingenuity in the event of a rail strike.

2 The main area of concern was the BSC. Officials now advise that the picture is rather less gloomy than we had earlier been led to expect. BSC have been doing a great deal of replanning, and in particular have concentrated on substituting road transport for rail wherever possible, and building up stocks of raw materials where there is no practicable alternative to rail transport. This process is still going on but the current assessment is set out in Annex I.

3 Very broadly, the current outlook is that BSC would lose relatively little production in the first month of a rail shutdown, partly because of planned closures over the period from mid-July to mid-August. Production might be cut back to 50 per cent of Plan levels during August, and maintained at about 50 percent during September.

4 We have not discussed the costs of a 3 month strike with BSC, but on the basis outlined above the costs might be £100 million to £150 million, and only if the strike lasted longer than 3 months would really serious disruption to BSC's business begin to occur.



SECRET AND PERSONAL

5 Annex II sets out the latest position in the other concerns for which this Department is responsible. You will see that this reveals a less gloomy picture than that contained in the Chancellor of the Exchequer's minute to the Prime Minister of 10 June, which was based on information readily available in the Department at the time.

6 I should add that this letter has not yet been seen by my Secretary of State, but it forms the basis on which he is being briefed for the Prime Minister's meeting on 21 June.

7 I am sending copies of this letter to the Private Secretaries to the Home Secretary, the Chancellor of the Exchequer, the Secretaries of State for Energy, Scotland, Transport and Trade, Sir Robert Armstrong and John Sparrow (CPRS).

Yours sincerely,

Jonathan Spencer

JONATHAN SPENCER
Private Secretary



SECRET

ANNEX I

BSC Major Works: Effect of Rail Shutdown from 2nd June

Redcar, Teeside

Expect to be able to continue production for 8 to 10 weeks, given present stock levels.

Sheffield & Rotherham

Currently operating at about 75 per cent of Plan production, due to shortage of orders. Expect to be able to maintain production at this level indefinitely, provided new arrangements to get oil supplies in by road are not disrupted.

Port Talbot

Raw material stocks good. Expect to operate at normal production for 2 weeks then cut back to about 50 per cent of full production which could be sustained for a considerable period.

Llanwern

As for Port Talbot but raw material stocks lower and 50 per cent production could probably not be maintained beyond end-August.

Scunthorpe

As for Llanwern.

Corby Tube Works

To get steel by road from Teeside. No problem expected for 8-10 weeks.

Tinplate Works

Full production for 2 weeks, then reduce to about 50 per cent production using hot rolled coil from Port Talbot and Llanwern.

Ravenscraig

Full production until 11 July, then close for 3 weeks holiday shutdown. Stock levels may then be too low to justify re-opening until strike is over.

MM Division
16 June 1982

SECRET

SECRET AND PERSONAL

ANNEX II

BL Enquiry of BL now reveals that, following the disruption to rail traffic earlier this year, they have set up detailed contingency arrangements to deal with a complete and prolonged rail strike. These contingency arrangements cover all current rail use, including steel supplies and delivery of finished cars to Europe. BL therefore estimate that a rail strike of one to three months would have minimal or no effect on them, unless sympathetic action were taken (eg unions refusing to allow road traffic to be loaded). It has not been possible to estimate the cost of the alternative arrangements.

POST OFFICE The Post Office has already made extensive contingency plans for keeping the mails moving. However, the extent to which it could contain costs and continue to provide an alternative service will depend on the degree to which the Post Office unions cooperate in using alternative means of transport for the 70% of mail normally carried by rail.

With union cooperation (which cannot be guaranteed, but was forthcoming in the ASLEF dispute and which the Chairman is optimistic about securing this time round) the Post Office could probably contain the effects of a one month stoppage by using alternative means of transport though there would be some deterioration in quality of service for first class mail. Over a three month period the cost of providing an alternative mode of transport might be some £20m even allowing for possible compensation from British Rail under the terms of the mail contract; and service quality could deteriorate more seriously for first class mail.

Were the Post Office not able to send mail currently sent by rail by other means, the total cost of the strike could be much higher, perhaps as much as £100m over a three month period. However, this would depend on the extent to which the Post Office could cut its wages costs by sending home those who declined to cooperate in finding alternative means of transporting mail.

It is difficult to see how the above costs could be alleviated to any substantial degree, since in the case of union cooperation they would arise from the use of alternative means of transport, and in the case of non-cooperation revenue would drop considerably as a result of no service for the 70% normally transported by rail.

BRITISH SHIPBUILDERS On the very worst assumption, that alternative steel supplies are not obtained and BS activity ceased, the costs could be about £50m per month (the phrase in the Chancellor's minute of 10 June "would not be less than" is too firm and pessimistic).

It is also worth noting that BS calculated the cash effect of the three month Steel Strike in 1980 to be £21m. A direct comparison between 1980 and 1982 cannot be drawn because the BS's 1980 considerable underutilisation of capacity has now been corrected and a disruption to supplies might now have a more pronounced effect.

As for action to alleviate the consequences, this is being considered by BS but it is not yet clear to what extent they will be able to mitigate the worst effect of a prolonged strike.

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