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c. Mr. Mount  
Mr. Ingham  
Mr. Walters

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Transport

PRIME MINISTER

INDUSTRIAL ACTION ON THE RAILWAYS

The BR Board have been luckier than they deserve: the unions have played into their hands by forcing the pace, and there will now probably be the kind of strike which both we and the Board can best sustain - soon, with the railways completely closed, and at least two of the three main unions not being paid. But it is still a dangerous situation. We have no recent experience of the effects of an extended closure of the railways. And no strike has a predictable outcome. So we must not let the unions (or the Board) turn it into a dispute with the Government: Mr. Howell is absolutely right to conclude that we must leave the Board to handle it.

This means that there are only a limited number of decisions for Ministers. There is no point in trying to settle negotiating limits, or the shape of a settlement package: experience of the ASLEF dispute earlier this year, and of discussions with the Board leading up to their conditional 5% offer, shows clearly that the Board will pursue its own tactics and objectives anyway. Ministers need at this stage to decide only:

- i. whether they are still prepared to contemplate a long closure (because if they are not this is the last chance to say so);
- ii. when to start maximum oil burn in order to preserve coal stocks;
- iii. whether and if so how they will keep BR solvent during the strike; and
- iv. what public stance they will adopt in the run up to and during the strike.

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1. Are we still prepared to contemplate a long closure?

There are three arguments against, which your colleagues may raise:

- i. That the likely cost to other public sector industries, summarised in the Chancellor's note of 10 June, is too high. The two dominant elements are extra oil burn, and foregone steel production. The extra oil burn could possibly be reduced (see below), but anyway we should fight one battle at a time, and not give up this one for fear of the miners. BSC ought to be able to find a cheaper way of coping with a long strike: Mr. Jenkin will no doubt report on that.
- ii. That the unions will gang up in a confrontation against the Government. It is true that there are some signs (e.g. the miners supporting NHS workers) of the unions getting their act together. But the triple alliance shows no sign of life, and the holiday season is an unlikely time for other union members to come out in substantial support of the railway workers. Running away from union threats now is likely to encourage confrontation later in the year.
- iii. That we can't see how it will end. True: but the paper at Annex A to Mr. Howell's note (based on a draft by officials, not by the Board, after our meeting with Sir Peter Parker and his colleagues) is a start. The ingredients for a settlement - 5% plus productivity payments in return for agreement on the productivity issues - are there.

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So these arguments are not convincing. And the case for sustaining the strike is simple. Without it, BR will have to continue to award higher annual pay increases while getting back no offsetting efficiency and productivity savings. The PSO grant and the EFL will continue to increase inexorably, and the service will continue to decline. A strike which is settled on the basis of delivery of more efficient working practices could be a turning point for BR, leading towards lower losses and a better service. (Ferdie Mount wholeheartedly agrees with this assessment.)

2. Do we start maximum oil burn immediately?

Yes, ideally, to maintain our insurance policy against the miners. But it is expensive, and one possibility would be to delay oil burn for two weeks so as to see how much coal was getting through by road, and how long the strike looked set to last. Some of the cost can be passed on to the consumer, ultimately.

3. Financial

There is little choice. Previous Ministerial commitments prevent us from allowing BR to go bankrupt. Forced asset sales could not realise much in time. After a few weeks BR will need cash (the table at the foot of page 1 of Annex B summarises the situation). It is clearly preferable to allow them further short term (1 year) borrowing, rather than to pay the PSO grant when the railways are closed. Loans do at least have to be repaid, and the Board, the unions and the public will all know it.

I would expect the unions - with covert encouragement from the Board - to try to extract a Government commitment to new investment (notably for East Coast electrification) as part of the settlement price. We should keep an open mind on this: if the other ingredients were fully satisfactory, Alan Walters would not rule it out - it could show quite a good return.

I doubt  
it.  
MCS

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4. The Government's Public Stance

You established the right starting point in the House yesterday: the Government will not intervene to stop the strike. As we get into it, we can help bring about a satisfactory settlement - which will depend on the public putting up with extended inconvenience - by developing this a little. But we must not be led into overt support for the Board's tactics. It would, for instance, be quite appropriate for Ministers to remind the public of the enormous and increasing cost of running the railways, of the hopelessness of achieving a better service without major improvements in efficiency, and in general terms of the inability of any employer to offer pay rise after pay rise with nothing in return. It would be quite wrong to endorse the 5% offer or the list of productivity objectives, given the Board's constantly shifting position.

J.

18 June 1982

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