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cc MR. HOSKYNS
MR. DUGUID

MR. LANKESTER

Original returned to Mr Walters.

ELECTRIFICATION OF RAILWAYS

1. The results of the study depend on optimistic assumptions which have been discredited by our experience. One is that the Inter City freight and parcels will, by increased efficiency, so improve quality of service that they can beat road competition, substantially expand, and raise fares in real terms by 1% a year.

2. Nevertheless, in spite of the optimistic assumptions the rate of return is only 11%, and on some permutations falls to 7%. This latter value is below the cut-off rate for most investment agencies and virtually all firms in the private sector.

3. The report considers various electrifications vs the base option - the latter is the existing rail network. To electrify or not - that is the question addressed in the Report. The report does not consider a "thin-out and run-down the network" option - but this is a very live one. Indeed many would argue that the "thin-out-run-down" option is the only one worth considering.

4. Experience with large electrification schemes has not been uniformly happy. The midland electrification of the 1950s was many years behind schedule and much over budget.

5. Arguments about support for the supplying industries are largely spurious. By the time that the programme is on stream it is unlikely that there will be substantial excess capacity in these industries. Furthermore, export sales, which will be mainly to the "third world" countries are likely to be constrained by (i) the very low growth rate anticipated for Africa in the next decade (see World Development Report); (ii) the increasing capacity, indeed over capacity, in many third world countries; and (iii) the reduction in IFI support for such investments (because of their poor record in the past decade or so).

AAW

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