010

ok Press

CONFIDENTIAL

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Prime Minister
Content?
MT 19/6

Mike Pattison Esq
Private Secretary to
the Prime Minister
10 Downing Street
LONDON
SW1

19 June 1981

Spoke to Transport on the lines below
TL 22/6

Dear Mike

RAILWAY ELECTRIFICATION

My Secretary of State was asked to agree with the Prime Minister and the Chancellor of the Exchequer the terms of the announcement which he is to make on Monday of the Government's decision about railway electrification. Attached for the Prime Minister's consideration is a draft which my Secretary of State is ready to use and which incorporates the suggestions by the Chancellor of the Exchequer.

In two places, sidelined, the thoughts suggested by the Chancellor for inclusion are expressed not in the precise words which he proposed but in the exact terms of the minutes recording the Prime Minister's summing up of the discussion in 'E' Committee.

I am sending copies of this letter and its enclosure to John Wiggins, David Heyhoe, Murdo Maclean and David Wright.

Yours sincerely

C R EDWARDS
Private Secretary

The first sentence of para 6 reads strangely after the last sentence of para 5. Have added an 'only' which makes the point clearer. Is the Chancellor content? MT

CONFIDENTIAL

DRAFT ORAL STATEMENT TO BE MADE ON MONDAY 22 JUNE 1981

1. The Government has completed its examination of the report on main line electrification. For this, we have reviewed the prospects for the freight and inter-city businesses of the railway which would benefit from electrification, in order to judge the strength of their case for further major investment. I had earlier met rail management and unions in the Rail Council, to hear their arguments for further investment in the railway and particularly in electrification, and to discuss the pressing need for increases in efficiency and productivity in railway operations, and I am seeing them again later today.

2. This examination has had to take place at a time when the current financial position of the British Railways Board gives serious cause for concern. The trading position of the Board has worsened during the year, and immediate substantial economy measures are now required, demanding full co-operation of the industry. The Government for its part will as hitherto support the efforts of the Board to meet the difficulties it has to face. But the industry's management and unions must play a full and responsible part in bringing about the necessary improvements. We will not be willing to underwrite failure.

3. As much freight as can economically do so should go by rail. The future of the rail freight business depends crucially on reduction in its costs. If the efforts of the Board to eliminate uneconomic capacity, and to secure new agreements on working practices, do not bear early fruit, and costs are in consequence not substantially reduced, then the rail freight business will

continue to shrink. Only if costs are reduced quickly enough and on a sufficient scale will there be enough freight traffic on the railway to contribute significantly to the case for electrification. These are matters entirely in the hands of the industry, but the Government is bound to take account of progress on them in its further decisions on future investment.

4. Subsidy should go only to socially necessary services such as rural / and commuter services. The Inter-City rail business, which would largely benefit from electrification, should be fully commercial. That distinction is the basis of Government policy. So far, in spite of large investment, the inter-city business has not made progress towards earning an adequate return on the assets employed. Immediate steps must therefore be taken to match the capacity offered closer to the worthwhile demand. Given the necessary measures, services comprising the majority of inter-city business should be able to support new investment and win traffic on a commercial basis. I am accordingly asking the Railways Board to bring forward plans for an inter-city business that will achieve a fully commercial performance by 1985 and to start on the necessary changes immediately.

5. Given the necessary will in all parts of the industry these measures can succeed. Indeed, there is no alternative. They must succeed in order to guarantee a healthy future for the large commercial railway businesses, to the benefit of their customers and of those who work in them, and to justify a selective programme of main-line electrification. The Government is not prepared to give a blanket commitment to the electrification of an extensive netowrk.

6. I am therefore inviting British Rail to prepare and submit a ten-year programme of schemes for electrification only of those potentially profitable main-line routes where it is clear that the benefits could justify the investment. These should be presented together with the new commercial plans for the businesses that are now required. The approval of each successive electrification project

will be conditional on the profitability of the investment in question and on the achievement of necessary improvements in efficiency and productivity.

Transport 2

PRIME MINISTER

cc Mr Gow

I attach a copy of Mr. Fowler's statement on electrification.

He had quite a lively reception. Albert Booth wanted to know why the three year joint study between Department of Transport and BR had been ignored. British Rail could not usefully undertake further work without Government decisions on the series of issues identified in that report. The Minister's decision gave BR no credit for its significant reductions in labour force in recent years, and its improved productivity. The Government was offering nothing for rural and commuter services. British Rail was being offered a few lines of excellence at the price of collapse elsewhere. The announcement was a blow to BR, a blow to the supply industries and a blow to the regions which would have benefited from the work. Mr. Fowler said in reply that Mr. Booth would probably have reached the same decisions if he had been Secretary of State. He was simply asking British Rail to meet the target set in its own corporate review.

Robert Adley, the first Government backbencher to speak, was disappointed, in view of the massive BR staff reduction, and BR's achievement in gathering a higher proportion of its costs from fares than any other European network. For the Liberals, Stephen Ross also found the statement desperately disappointing. From the Government's side, Peter Emery and Roger Moate then came to Mr. Fowler's rescue, followed by a number of backbenchers who recognised that BR's finances were in bad shape as a result of recent trends, and that BR was still grossly overmanned. Jock Bruce-Gardyne congratulated Mr. Fowler on insisting on evidence of productivity before investing. He quoted what he claimed to be BR figures showing that an average freight crew covered 11 miles per day. Mr. Fowler preferred his figure of some freight drivers doing 30 miles a day.

Opposition backbenchers were heavily critical. Peter Snape declared that "at least Beeching was honest about his intentions". Harry Cowans wished to remind Mr. Fowler that "investment begets productivity, not the other way round". Alex Lyon, Leslie Spriggs, and Les Huckfield found the statement totally negative. But the

/Opposition

Opposition seemed to lose their way, with Mr. English claiming that profitable inter-city services like that to Nottingham were subsidising commuter services in the wealthier South East, and Alan McKay seeing electrification as potentially the biggest single factor in pulling the economy round.

Mr. Fowler made frequent reference to his conviction that Sir Peter Parker would welcome these proposals. Sir Peter, sitting conspicuously in the public gallery, gave nothing away.

MAP

22 June 1981

BRITISH RAIL (ELECTRIFICATION)

The Government has completed its examination of the report on main line electrification. For this, we have reviewed the prospects for the freight and inter-city businesses of the railway which could benefit from electrification, in order to judge the strength of their case for further major investment. I had earlier met rail management and unions in the Rail Council, to hear their arguments for further investment in the railway and particularly in electrification, and to discuss the pressing need for increases in efficiency and productivity in railway operations, and I am seeing them again later today.

This examination has had to take place at a time when the current financial position of the British Railways Board gives serious cause for concern. The trading position of the Board has worsened during the year, and immediate substantial economy measures are now required. The Government for its part will continue to support the efforts of the Board to meet the difficulties it has to face. But the Government will expect the industry's management and unions to play a full part in bringing about the necessary improvements.

As far as the businesses are concerned, our aim is that as much freight as can economically do so should go by rail. But the future of the rail freight business depends crucially on reduction in its costs. If the efforts of the Board to eliminate uneconomic capacity, and to secure new agreements on working practices, do not produce their results quickly, and costs are in consequence not substantially reduced, then the rail freight business will continue to shrink. Only if these cost reductions are achieved will there be enough freight traffic on the railway to contribute significantly to the case for electrification. These are matters entirely in the hands of the industry, but the Government is bound to take account of progress on them in its further decisions on future investment.

The Government's policy is that subsidy should go only to socially necessary passenger services such as rural and commuter services. The inter-city rail business, which could benefit from electrification, should be fully commercial. So far, in spite of large investment, the inter-city business has not made progress towards earning an adequate return on the assets employed. Immediate steps must therefore be taken to match the capacity offered closer to profitable demand. Given the necessary measures, services comprising the majority of inter-city business should be able to support new investment and win traffic on a commercial basis. I am accordingly asking the Railways Board to bring forward plans for an inter-city business that will achieve a fully commercial performance by 1985, and to start on the necessary changes immediately.

Given the necessary will in all parts of the industry these measures can succeed. There is no alternative if there is to be a healthy future for the large commercial railway businesses, which will benefit their customers and those who work in them, and justify a selective programme of main-line electrification. The Government is not prepared to give an unconditional commitment to the electrification of an extensive network and progress on electrification will depend on the achievement of the changes necessary to secure manpower reductions and improvements in productivity.

I am therefore inviting British Rail to prepare and submit a ten-year programme of schemes for electrification only of those potentially profitable main-line routes where it is clear that the benefits could justify the investment. These should be presented together with the new commercial plans that are now required for the businesses. The approval of each successive electrification project will be conditional on the profitability of the investment in question and on the achievement of necessary improvements in productivity.