


CONFIDENTIAL

Prime Minister

REVIEW OF BRITISH RAIL FINANCES

I have seen Clive Whitmore's letter of 29 January to Anthony Mayer. I have held up replying while the ASLEF strikes were in progress.

The damage caused by them makes it even more urgent that we should have a thorough review of British Rail Finances. The level of losses on the railway now means that we shall have to consider very fundamental questions about the future. The immediate battle is not yet over, and it is very important that Sir Peter Parker should now win; the process of winning may make BR's financial position worse. But we need not wait for that outcome before starting the review on its way. The sooner we get going, the better.

You asked whether it would not be preferable to appoint someone with transport experience, possibly from overseas, to take on the review.

The questions the review must help us to deal with are about what sort of a railway do we want, and does that require changes in policy; what it would cost, and in particular how do we stop the present trend in losses; and can it in managerial terms be done. It is because of the importance of the last question that I believe we need a very hard business appreciation by someone who has demonstrated his ability at the top of a large enterprise. He may certainly need to bring in specialist advice on transport economics where we have some good candidates, or engineering, or management accounting. But none of these on its own could give us the advice we need on the business result that could be achieved amid all the problems of production, marketing, cost control, and industrial relations, and how we can better shape our policies towards that.

Prime Minister

~~SC~~ SV

I imagine ^{AD} ~~you~~ ^{Mr Howell} will wish to

discuss with Mr Howell you

- at your meeting tomorrow.

you (Mr Walters also suggested

some names - see note attached).

MCS 1/3
- on Pt 2



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This view also prompts me to rule out a foreign rail operator to actually run the review. We would certainly aim to call on overseas advice. American experience would be particularly useful in the light of their recent attempts to turn round the fortunes of "Amtrack" and "Conrail". I am less excited about calling on French, German or Japanese experience. In all three cases their rail systems run at far greater losses than our own. And on the continent of Europe only Sweden has a rail system which gets a higher proportion of its revenues from the fare box.

The sort of man I am after inevitably has a large number of outside commitments. If you agree, I would propose to sound out two other names in addition to Sir Gordon Hobday. These are first, Sir Maurice Hodgson, who will retire from the chair of ICI in the Spring. The second name is the Hon John D Eccles, who I know well from my dealings with him at the Davey Corporation and Head Wrightson. He also has the advantage of being a considerably younger man.

I would be grateful to know if you agree that I could seek a Chairman of the Review among the names I have mentioned. I will discuss with the Chancellor some revised terms of reference to bring out more clearly the issues we must now face in the light of the ASLEF dispute as I have described them above.

I am sending copies of this to the Chancellor of the Exchequer and the Secretary of State for Industry, and also Secretary of State for Trade in view of John Eccles' membership of the Monopolies and Mergers Commission. I am also sending a copy to Sir Robert Armstrong.

DA

DAVID HOWELL
/ March 1982



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