



LIAISON COMMITTEE

Meeting to be held on Wednesday 9 February 1983 at 11.00 am
in No 10 Downing Street.

AGENDA

1. Presentation of Trade Policy

FLAG A Paper by the Secretary of State for Trade, circulated herewith.
The Secretary of State will be present.

2. Presentation of the Nuclear Power Programme

FLAG B Paper by the Parliamentary Under Secretary of State for Energy
(Mr Moore) circulated herewith. Mr Moore will be present.

3. Diary of Events

FLAG C Note by Chief Press Secretary, to be circulated.

4. Any other Business

Distribution:

Private Secretary, No 10 (3 copies)
Parliamentary Private Secretary, No 10
Secretary of State for Scotland
Secretary of State for Employment
Chairman of the Party
Chief Secretary, Treasury
Minister of State, Treasury (Mr Wakeham)
Chief Press Secretary, No 10
Marketing Director, Conservative Central Office
Director of Press and Publicity, Conservative Central Office
Director, Conservative Research Department

Secretary of State for Trade
Parliamentary Under Secretary of State for Energy (Mr Moore)

Andrew

What subjects have we
now covered in paper? and

What subjects should the PM

Commissioner at the end of this meeting?

Robin / 1 and 2 are v.
good. 3 is
dull. 4 is too
difficult!

→ Andrew
What about:

- ① training & employment Robin
- ② agriculture
- ③ administration of government AW
- ④ transport ??

So far we have done:

economic policy
industrial policy
law & order
housing
education

Social Services (in print
soon)

nuclear weapons etc

no very obvious candidates for next
one - but? Trade Union Legislation
or regional policy e.g. Wales/SW Ireland?

Handbook is
organization of documents
advisories
technical support
is not a
part of

part of the
part of the
part of the

~~Andrew Ward~~

~~Robin Butler~~

~~Andrew Ward~~

~~Robin Butler~~

We have already commissioned papers on:-

Economic policy

Industrial policy

Law and order

Housing

Education

Social services

Nuclear defence

Trade

Nuclear power

Next candidates ?

Trade union legislation

Regional policy

→ Training and employment

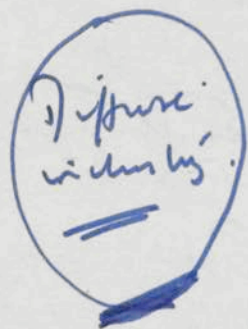
→ Agriculture and fishery.



Nuclear cheaper than
fossil fuel.

Fuel cost changes.

Time of construction
—



Bill. Nuc. Forum.

Nuc. Power Inf Group.

2.40.

8-9-10 hours per
month.

I have a Select Committee
at 10-30.

Please forgive me.

Kerr

Growing - especially under stress

Now - dress up other things
down.

Design - quality -

Earl
17/12



10 DOWNING STREET

From the Private Secretary

Cardiff 17/12.
Confirmed
Agreed with Mr. Ward
who will be in touch with
you about dates in the
New Year.

M. Bytler

Winton PERB
22 December 17/12

Can you please
confirm that none
of the invitees
are expecting to
come?

Ed.

17/12.

~~RB~~

Econ Bl



LIAISON COMMITTEE

The meeting arranged for Wednesday, 15th
December 1982 has been cancelled.

Distribution

Private Secretary, 10 Downing Street
Parliamentary Private Secretary, No 10
Secretary of State for Scotland
Secretary of State for Employment
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Chief Secretary, Treasury
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Marketing Director, Conservative Central Office
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Central Office
Chief Press Secretary, 10 Downing Street
Director, Conservative Research Department

PRIVATE & CONFIDENTIAL

1) FERB



ECON POL,

2) CF.

LIAISON COMMITTEE

The Prime Minister has agreed that Mr David Boddy, Director of Press and Publicity at Conservative Central Office, should become a member of the Committee.

A handwritten signature in dark ink, appearing to be "AW" with a horizontal line underneath.

ANDREW WARD

Distribution: All members

1 December 1982

Presentation of Trade Policy

1. Introduction

Britain depends upon the open trading system. She is more heavily dependent on overseas trade than most other major industrialised nations. Some six million jobs depend on our exports of goods and services.

The open trading system, at a time of virtual stagnation in world trade, is under increasing pressure. This reflects:

- (a) rising unemployment in all OECD countries;
- (b) the rapid emergence of the newly industrialising countries, providing high quality goods at low prices;
- (c) the possible departure of the Labour Party from the post-war consensus on the need to maintain a liberal trading regime;
- (d) the apparently unmanageable pace of change now required of certain British industries;
- (e) the increasing number of countries threatening to resort to protectionist measures;
- (f) the political and financial problems of trade with the Eastern bloc.

Our trade policy is likely to be judged by:

- (a) its impact on output and employment;
- (b) the extent to which it is seen to be either ideological or naive, or pragmatic;
- (c) the degree to which the demands of certain industries are seen to be desirable or sensible;

- (d) the extent to which the EEC is seen to be helpful or not;
- (e) the manner in which it affects consumers and other industries as users of imported goods or as victims of retaliation;
- (f) the vigour and effectiveness of Government action against other countries' unfair trading practices and in pursuing Britain's interests through international channels;
- (g) its relationship to the Government's general economic and industrial policies.

This paper has three sections. The first examines current public perceptions, in so far as they are known; the second outlines the Government's trading policy and how it might be presented; the third offers comments on some current fallacies and misunderstandings about our trading policy.

2. Public Perceptions

The relative complexity of the arguments in favour of open trade and the Common Market puts the open trader at some disadvantage in political debate. With concrete industrial examples to allude to, the protectionist can always appeal to patriotism, pragmatism, practicalities and even compassion. These sentiments can, of course, also be invoked by the open trader, but he will not always be able to match the simple appeal of the protectionist promise to "save jobs".

Though poll data on trade is not extensive, some results

indicate that the protectionist has a ready market for his views:

- (a) Foreign imports are seen as one of the main causes of Britain's economic difficulties; few consider increased imports a result of our own economic failures; nearly one in two people favour import controls;¹
- (b) The Common Market is generally judged to have been economically harmful; there is little appreciation of the increased export and employment opportunities it has offered;²
- (c) Awareness of the importance of European markets is very limited; there is little realisation of how many jobs would be put at risk by withdrawal;³
- (d) The Common Market is held to be responsible for increased prices generally and increased food prices in particular; there is a concomitant belief that food would be cheaper outside the Community;⁴
- (e) The Common Market is held to have denied us trade with the Commonwealth and the rest of the world;⁵
- (f) Foreign governments are widely believed to be more adept at protecting their own industries.

1. Gallup poll, Daily Telegraph, 21st July 1980.
2. MORI polls, various 1977-82; Survey Research Associates, March 1979.
3. ORAC, July 1980 and March 1982; ORC February 1979.
4. MORI polls, various, 1977-82; ORC February 1979; ORAC March 1982.
5. ORAC, February 1979 and March 1982.

3. Presentation

- (a) Open and fair trade is more important to the United Kingdom than most other major industrialised countries;
- (b) Open and fair trade has clear, practical benefits for the United Kingdom;
- (c) As our largest export market the European Community is vital to British jobs and investment;
- (d) Competitiveness is the most important element in the United Kingdom's overall trading success;
- (e) The vigorous promotion of exports and inward investment by the Government has increased employment in the United Kingdom;
- (f) The Government is willing to protect certain vulnerable industries from sudden surges of imports, in order to allow some traditional industries time to adapt and restructure;
- (g) The Government rejects the widespread use of import controls as ultimately counter-productive;
- (h) Government and EEC action against unfair trading practices abroad, such as those in France, has been very effective;
- (i) British exports of services are at record levels, and our national trading surplus is second only to that of the U.S.A.

3.1. General Trade Philosophy

First, an open trading system is clearly in Britain's interest. Britain's exports are equivalent to about 30 per cent of GDP, which is a higher proportion than virtually any other major industrialised country. Our interest clearly lies in dismantling barriers

rather than encouraging them by erecting our own. That is why the Government is pressing, through international channels, for the liberalisation of trade in services too.

Second, the Government does not blindly pursue a liberal trading policy for all industries in all circumstances. It is pragmatic and sensible - and permissible under Article XIX or the GATT - to protect industries that face serious damage from a surge of low-cost imports. It can give an industry time to re-equip and adapt to new market conditions.

Third, trade must be fair as well as free. That is why the Government has pressed and is pressing - in the GATT and through the European Community - for the opening up of certain markets abroad, notably Japan.

3.2 The Benefits of Open Trade

The broad economic case against protection is:

- (a) Open trade allows countries to specialise in those activities at which they are most productive;
- (b) This leads to higher output, lower prices and a higher standard of living;
- (c) Increased competition from imports stimulates efficiency, productivity and innovation in British industries;
- (d) By providing secure export markets open trade encourages companies to invest in new plant and products;
- (e) Free access to the European market encourages foreign companies to invest in Britain;

- (f) British manufacturers gain from free access to competitive, well-designed industrial components and supplies.

The city states of Hong Kong and Singapore, as open trading economies, clearly demonstrate these benefits.

3.3 The Disadvantages of Protection

Import controls

- (a) allow management to abandon the struggle to contain labour costs, improve their products and invest in new technology, so allowing industries to become mediocre and uncompetitive, leading to higher prices;
- (b) tend to protect jobs only temporarily; protection in the coal industry has not shielded it from world recession;
- (c) deny consumers a wider choice of imported and domestic goods;
- (d) can provoke retaliation, so only protecting jobs in some domestic industries at the expense of other export industries;
- (e) can temporarily aid one industry but penalise another; for example, other industries can be denied access to the technology they need to remain competitive;
- (f) depress import demand and so drive up the exchange rate at the expense of export industries.

Governments reacted to the depression of the 1930s with tariffs and quotas. World trade plummeted. By contrast, the dismantling of those barriers to open trade after the war, under

the GATT system, meant that by 1980 exports of manufactures⁶ by the main industrial countries had grown tenfold since 1950.

4. Departures from the Open Trading System

The most effective solution for industries threatened by low-cost imports is to improve their competitiveness or change their product.

Some protection has nevertheless to be provided for industries threatened by sharp surges of imports. Various forms of protection, consistent with our obligations under the GATT and the Treaty of Rome, operate in the clothing and textiles, consumer electronics, footwear, steel and motor car industries.

Some of these are voluntary restraint agreements (VRAs).

These are preferable to import controls, since they are more flexible and less likely to provoke retaliation, or demands for compensation.

Anti-dumping procedures, which are appropriate in certain circumstances, are pursued with the utmost vigour. These are consistent with the policy of free but fair trade.

Protected British industries are listed below.

4.1 Textiles and Clothing

Production and employment in the textile industry have been seriously damaged by low-cost imports. In 1980 imports of

6. In volume terms.

textiles and clothing totalled £1,545 million, £1,258 million more than in 1970. 150,000 jobs were shed in 1980-81, and a further 17,000 in the first half of 1982, though not all these job losses are attributable to low-cost imports. Despite this, textiles and clothing are still a major employer, accounting for about a tenth of manufacturing employment. The industry is also still a major exporter - in 1980 the UK exported textiles to the value of £1,363 million, £945 million more than in 1970. Given its importance and vulnerability the Government has granted the industry a good deal of protection. Low-cost imports now account for only 12 per cent of the UK market and over nine-tenths of these are subject to actual or potential restraint under the Multi-Fibre Arrangement and related agreements. All are being renewed for the 1983-86 period, giving the industry more protection than any other in the UK.

4.2 Footwear

About half of all low-cost footwear imports are covered by measures of restraint, initiated by the Government or secured by the British Manufacturers' Federation (BFMF) with Government support.

4.3 Motor Cars

Regular discussions take place between the Society of Motor Manufacturers and Traders (SMMT) and the Japanese Automobile Manufacturers' Association (JAMA). The Japanese have voluntarily restrained their share of the UK car market

to between 10 and 11 per cent in 1980 and 1981. It is expected to stay at that level in 1982.

4.4 Consumer Electronics

The Radio Industries Council (RIC) regularly meets its counterparts from Japan and a number of other Far Eastern industrialising countries, to discuss the UK market in consumer electronics. Various inter-industry arrangements covering imports from Singapore, South Korea, Thailand and Taiwan operate.

4.5 Steel

Since 1977 employment in the British Steel Corporation (BSC) has fallen from 208,000 to 90,000. Since 1979 BSC's manned capacity has fallen from 21 million tonnes to 14.4 million tonnes. Private sector installed capacity has fallen from 5 million tonnes to 4.4 million tonnes in the same period.

The social cost is high. Therefore the Government has secured, through anti-dumping action in the EEC, voluntary restraint arrangements (VRAs) on steel imports with 14 non-EEC countries. These cover about 70 per cent of UK steel imports from non-EEC countries. The VRA countries have agreed to certain restraints on volume and price in return for exemption from anti-dumping action. Where VRAs do not operate the provisions of the basic import price scheme apply.

Import penetration of the UK steel market is the lowest of all the EEC steel producers.

4.6 State Aids to Exports

Another departure from the open trading system is the increasing willingness of Governments to subsidise exports, especially of capital goods. This normally takes the form of "soft" finance for major projects in third countries. The devices used are various - aid programmes, mixed credits, government guarantees - but all distort the world market for major project business.

The Government have and will continue to argue against and resist such practices by supporting efforts within international organisations, such as the OECD, to monitor and discourage them. The Government is prepared, however, to use instruments such as the Aid and Trade Provision and ECGD's rapid matching facility to assist British companies to meet the competition on equal terms.

5. Trade Barriers Abroad

Open trade is good for all countries and the GATT system has stood up well to current pressures. In fact the present world tariff structure is largely the result of successive rounds of multilateral trade negotiations aimed at reducing tariffs. The last was the Tokyo Round concluded in 1979, as a result of which tariffs are being reduced on a reciprocal basis between 1980 and 1988.

However, the GATT system has been placed under considerable strain during the current recession. Protectionist pressure has surfaced in all countries.

In its own interest, the United Kingdom is a relatively open market. Over four fifths (83 per cent) of visible imports in 1980 were admitted duty free; agricultural levies and various import restraints covered only 7 per cent of total imports or 11 per cent if only non-EEC imports are considered.

Some other markets are just as open. Among the Newly Industrialised Countries (NICs) Hong Kong and Singapore have completely open markets. NICs as a whole took 12 per cent of UK exports in 1980; the USA took 12.3 per cent of our exports in 1981; and the EEC countries now take over 40 per cent of our exports. This trade is extremely valuable to Britain. In 1980 the UK had a current account surplus of £2.9 billion; in 1981 it reached a record £6 billion and in 1982 it was probably £4 billion. The forecast for 1983 is for a £1 billion surplus. This is a substantial improvement on the £0.9 billion deficit of 1979. In 1981 the UK had a £4.9 billion surplus in manufactured goods with oil-exporting countries and a £2.3 billion surplus with other developing countries. However, in some markets British exporters are facing problems of access and high tariffs. These are listed below.

5.1 Japan

Japanese exports to Britain have doubled, in real terms, in the last four years. This has led to a serious and growing

imbalance of trade - £1.13 billion in 1980: £1.58 billion in 1981 and £1.97 billion in 1982. This year the Japanese will probably sell us £2½ billion worth of goods; we will sell only £660 million to them.

Japan has scarcely opened up her market at all. In 1980, for example, British industry sold £1,896 million worth of aerospace products worldwide, but only £30 million worth to Japan. £132 million worth of vehicle components were sold to the USA and £218 million worth to Germany, but only £6 million worth to Japan.

Pressure via the EEC and the USA has resulted in two recent packages which have begun the process of opening up of the Japanese market, but more fundamental changes are required.

5.2 Spain

Trading relations with Spain are governed by the Spain/EEC Agreement, signed in 1970, before Britain joined the Community. Spain has consistently failed to observe it properly, notably by maintaining a discriminatory fiscal system and by administering quotas in an opaque way.

Spain's high tariff barriers against Community exports are legal under the Agreement but now unwarranted. Spanish industrial development since then - especially in areas like steel, ships and textiles, where Community countries have cut

capacity - has made the Agreement increasingly one-sided. The British tariff on cars from Spain, for example, is 4.2 per cent; the Spanish tariff on cars from Britain is 36.7 per cent.

The problem will disappear in the longer term since Spain wishes to join the Community. Meanwhile Britain has asked the European Commission to report urgently on interim remedial action to bring about a fairer balance of trading opportunity.

5.3 France

Britain has made clear to France that she is not prepared to see her export trade damaged by some of the methods chosen by the French to "recapture the home market".

These methods were prompted by the prospect that Socialist economic policy would result in a FFr 100 billion trade deficit in 1982. They include excessive customs formalities for videos and discriminatory loans by nationalised banks.

These measures have been unanimously condemned by France's Community partners, and the European Commission is actively pursuing possible breaches of Community law.

5.4 The USA

When President Reagan announced the embargo on the export of technology for the Siberian gas pipeline, the Government took immediate action to protect British companies. Subsequent

diplomatic moves, in conjunction with our EEC partners, secured the removal of the embargo.

More recently, the US steel industry's initiation of countervailing and anti-dumping complaints against European steel imports used US trade law procedures to protect a recession-hit industry from imports. US official procedures for dealing with these cases, and the interpretation placed upon the concepts of subsidy and injury by the US authorities, caused very serious concern in Europe. Indeed, they were arguably inconsistent with US international obligations.

Though the British Government played a full role in the negotiations which led to the subsequent steel agreement, without the added influence of the EEC it would have been far less acceptable.

The Agreement established restrictions on access to the US market for a range of carbon steel products. A ceiling of 5.9 per cent market share in steel pipes and tubes for the US was also agreed. There remain outstanding countervailing and safeguard actions involving UK and other EEC exports to the USA of special steels.

5.5 Australia

Australia protects her industry with very high tariffs and quotas. The UK case against them is more difficult, because they are compatible with the GATT; we have a healthy trade surplus

with Australia; and Australian objections to the protectionist Common Agricultural Policy are arguably very understandable.

5.6 Competition for Overseas Projects

One of the Government's declared objectives is to help UK exporters secure a greater share of major overseas project business. Several steps have been taken to support UK companies and contractors. These include the creation of the Projects and Export Policy Division at the Department of Trade, which co-ordinates the assistance given to consultants and contractors pursuing large overseas projects. This has enabled increasing and more effective use to be made of financial support mechanisms such as the Overseas Projects Fund, the Aid and Trade Provision and ECGD facilities.

With this Government help British industry has achieved some notable successes over the past two years. Contracts won include a £550 million power station in Hong Kong by GEC; a £330 million Mexican steel mill by Davy-Loewy; a £250 million power station in India by NEI; a £200 million hydro-electric scheme in Indonesia by Balfour Beatty; a £250 million university in Oman by Cementation; a £195 million metro project in South Korea; a £170m trans-pacific cable project by STC and a £100 million order in Zimbabwe for boilers by Babcock Power. In addition, contracts worth some £200 million of project business have been secured under a Memorandum of Understanding with Brazil signed by the Government in October 1981. Contracts worth a further £200 million are under negotiation.

Altogether successes reported on projects in excess of £50 million have, since the first quarter of 1981, been worth almost £3 billion, of which more than £2 billion is UK content.

6. Misunderstandings and Fallacies

6.1 Import Controls Would Save Jobs

Only in the very short term. They would do nothing to eradicate the root cause of Britain's unemployment: a lack of competitiveness caused by low productivity and relatively high wage and price inflation. They would prop up declining industries at the expense of growth industries; reduce the incentives for management and labour to contain their costs; and raise prices and lower consumption. In the longer term, that would destroy jobs, not protect them. We cannot raise quality and keep tight control over costs by opting out of the world market.

6.2 Temporary Import Controls Can Mitigate the Unpleasant Side-Effects of Industrial Change

This is true in certain instances (e.g. textiles) but it is implausible to argue that hospitalisation behind import controls can always give an industry time to recuperate. Only competition stimulates the innovation, efficiency and productivity needed to survive. And temporary controls have a habit of becoming permanent.

6.3 Import Controls Will Help the Balance of Payments

This assertion rests upon the fallacious assumption that a

country's standard of living is enhanced by an increase in exports and diminished by an increase in imports. In fact the purpose of exporting is to gain the foreign exchange to import what cannot be produced at home but is necessary to improve the standard of living. A country which exported its entire national production but imported nothing, for example, would be literally destitute. It is therefore natural that the UK will have trade deficits with some countries and trade surpluses with others. In general, the UK has deficits on trade in manufactured goods with developed countries and surpluses with developing countries.

6.4 Britain is Naive to Stick to GATT/EEC Trading Rules When Others Do Not

Free trade is good for all countries and the UK market is relatively open. However, the Government is pressing - in GATT and via EEC - for liberalisation of those markets where British exporters are at a disadvantage. Within the EEC remedies are available for breaches of the competition rules. These breaches frequently take the form of unnotified state aids. Such aids can be difficult to pinpoint. But the Commission has successfully prevented other Member States adopting a considerable number of state aids, once they have been notified, as being incompatible with the Treaty of Rome. Such aids have included, for example, differential relief for Italian employers' contributions to sickness insurance schemes, subsidy for soft drinks manufacture in Belgium, and for petrochemicals in the Netherlands.

6.5 The Government Gives Less Help to British Exporters than Our Competitors Give to Theirs

This is not true. Quite apart from the extensive facilities provided by the Export Credits Guarantee Department and spin-off benefits to exporters from the Government's overseas aid programme, the Government spends about £80 million a year to assist UK exporters - that is £1 for every £1,000 of exports of goods and services. This is spent on the official export service provided by the Department of Trade, together with the Commercial departments in UK Embassies and High Commissions and Consulates overseas, which are administered by the British Overseas Trade Board. They include a wide range of market advice and specific services designed to help exporters however big or small.

6.6 Membership of the EEC has had an Adverse Effect on the Economy and Employment

Withdrawal, not membership, puts jobs at risk. The Community market now takes 43 per cent of British exports. Withdrawal would put 2½ million jobs at risk, and deny us many more as investment from America, Japan and other non-EEC countries went elsewhere in the Community. Tariff-free access to the Community market of 270 million people is a powerful attraction to foreign investors. Britain now accounts for about half of the Japanese investment in the Community, and over a third of all US investment in the Community is in Britain. We would not have these jobs at all if we had been outside the Community.

The EEC also offers valuable negotiating strength - as it has demonstrated over the Multi-Fibre Arrangement, footwear restraint, steel cutbacks and exports to Japan.

6.7 Withdrawal from the EEC Would Allow Britain to Revert to her Commonwealth and Other Traditional Markets

Wrong. With British entry into the EEC Commonwealth countries have diversified their trade and now account for less than 15 per cent of Britain's trade. Our current competitive position makes further inroads in North America unlikely; Latin America operates tough import controls; and the Eastern bloc absorbs only 3 per cent of British exports. The EEC accounts for over two fifths of Britain's trade; the Community would not negotiate a favourable trading arrangement if Britain withdrew.

6.8 Food is Cheaper Outside the EEC

Of the 283 per cent rise in food prices since accession, only 8-10 per cent is attributable to CAP. Our old suppliers of foodstuffs - such as Australia and New Zealand - have found other markets. Moreover, the world market in food is very small. In fact so little food is traded on the open market it is hard to judge what constitutes a competitive price. This is because the bulk of world trade in food takes places on fixed contracts. Britain, for example, has a contract with the African and Caribbean producers (ACP countries) of sugar to buy a certain amount of sugar at a fixed price. Similar contracts exist for other foodstuffs. Thus if Britain

withdrew from the EEC and sought to buy on the world market, for example, all the butter she needed beyond her domestic production, she would take half the world market's supplies. That would have a catastrophic effect on the price of butter.

6.9 The Decline of Manufacturing Means the Loss of Export Markets

Historically, Britain has been a net importer of food and raw materials and a net exporter of manufactured goods. Manufacturing is still very important: it provides 6 million jobs and a quarter of total output is exported. However, it is merely nostalgic to imagine that Britain should continue to manufacture and market particular products just because she always has. Vigorous efforts are made instead to promote new products and services to replace the old. Our trade in services, for example, has grown dramatically. In the last decade all the main service sectors, except shipping, grew in real terms. Civil aviation (£2.4 billion in 1981) more than doubled; travel (£3 billion) rose by half; miscellaneous services (£5.2 billion) rose by two fifths. UK earnings from financial and consultancy services are greater than any other country in the world. Exports of services in 1981 totalled £17 billion - an increase of a fifth (in volume terms) on 1971. Between 1980 and 1981 Britain's invisible export earnings increased from £24 billion to over £26 billion.

6.10 Eastern Europe Floods the British Market with Shoddy Goods

Much of the trade with the Eastern bloc is in raw materials.

Many of their goods are uncompetitive in quality and so do not sell well, e.g. they have only 2 per cent of the British car market. Restraints on textile, footwear, pottery and steel imports operate; anti-dumping action has been taken in many cases.

6.11 Trade with the Eastern Bloc Shores up Communism

The USSR buys over £400 million a year of British goods and Eastern Europe a similar amount - which is about 2 per cent of British exports. Britain supplies about 1½ per cent of Soviet imports. This is an important market for some British businesses. The COCOM system is used to frustrate the Soviets acquiring strategically important technology. Credit and loans to the Eastern bloc are carefully vetted.

GOVERNMENT'S NUCLEAR POWER PROGRAMME

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Public perceptions For many years, there was no great public concern about the safety aspect of nuclear power. For example, the accident at the Windscale plutonium plant in 1967, which was extensively reported on television and in the media, did not cause undue public alarm. More recently, however, there has been an increase in public awareness and, to an extent, in public concern.

The Electricity Council monitors the trend in public opinion on nuclear power, using NOP Random Surveys. Since October 1979, these have shown a falling number of people agreeing that nuclear power has a very good safety record, and a growing minority disagreeing. The November 1982 figures were 46% agreeing and 25% disagreeing.

Opinion has changed more markedly over the period on the question of need. The proportion agreeing that nuclear power is needed to "keep our factories, houses and transport running" has fallen from 65% in October 1979 to 45% in November 1982. The proportions feeling that nuclear power is not needed has increased from 17% to 30% over this period. Since May 1981, there has been a higher proportion against than for building more nuclear power stations. In November 1982, the result was 35% in favour of building more; 40% against.

← The people working in the industry have a strong understanding that nuclear power is safe. Those living close to existing nuclear stations, and to Sellafield (formerly known as Windscale) and the prototype fast reactor at Dounreay, tend to be supporters. Other people tend to be against the idea of a nuclear station being built close to their homes. This feeling would very probably be extended to any other industrial development.

The environmentalist groups consistently stress the allegedly adverse impact of nuclear power on the environment, and in particular claim that the technology is unsafe. The present NUM President is strongly opposed to nuclear power, because it is seen as unwelcome competition. The unions

representing workers in the electricity supply industry are staunch advocates of nuclear power, and the TUC made it clear in its August 1981 Review of Energy Policy that it too favours the development of nuclear power.

The important points to stress are:

- New nuclear power stations coming on stream in the next decade will replace older and less efficient plant. Like any other industry, the supply industry needs to replace obsolescent plant by the most modern technology. This will mean electricity prices lower than they otherwise would be, which is important, not least, to large industrial electricity consumers.
- At present, over 80% of electricity is produced by coal. There are obvious advantages in reducing this over-dependence upon one source of fuel. Competition between fuels will exert general downward pressure on costs.
- The 1970s and early 1980s have been characterised by great uncertainty in energy markets. The future seems equally uncertain.

All our options for substantial economic energy supplies must be kept open and developed.

- The production of electricity in nuclear power stations has less adverse impact on the environment than electricity production from fossil fuels.
- People working in the industry, at all levels, are satisfied that nuclear power is safe. The safety record, particularly in the UK, is excellent.

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- The CEGB's production of electricity from nuclear power stations has as little to do with nuclear weapons as its production of electricity from conventional plant has to do with conventional weapons.

Nuclear Power and Jobs. Nuclear power offers a safe, clean, cheap and secure source of electricity. In France, 40 per cent of electricity is produced in nuclear power plant, and this will reach 60-65 per cent by 1990. French industry has, as a consequence, access to some of the cheapest electricity in the world.

Most major electricity utilities worldwide have decided that this is the technology which is most cost-effective for their future generation needs. Some 281 nuclear reactors are in operation and a further 227 reactors are under construction worldwide. It is very important that we in Britain do not fall behind.

Diversification of the fuel used in electricity generation in Britain has immediate and obvious benefits. British manufacturing industry is all too easily damaged by high costs in the mining industry. An increased use of nuclear power in Britain means more competition between fuels and more secure and less expensive electricity for industry - and that means more jobs.

The UK Record. Lord Rutherford, working in Cambridge in 1919, was the first person in history to split the atom. This work opened up for the first time the possibility that the energy stored in the atomic nucleus could be used as a source of power. It was fitting therefore that, in 1956, Britain's Calder Hall reactor should be the first in the world to generate electricity from nuclear fuel, and feed it into a national grid. The Magnox reactors, developed from the Calder Hall design, provided and still provide a reliable source of base load electricity. Their safety record has been excellent, over twenty years of commercial operation.

The Magnox reactors burn natural uranium. The next generation Advanced Gas Cooled Reactors (AGR) developed in Britain use uranium enriched in the isotope Ur 235. Together with our Dutch and German partners in URENCO, we have achieved a significant technological lead in enrichment technology. URENCO has developed the world's first commercial gas centrifuge plant for uranium enrichment.

Spent fuel from commercial reactors can be reprocessed to recover unburnt uranium 235 and the by-product plutonium. These are very valuable materials which will, at some time in the future, fuel the new generation of fast reactors (see p3). Britain has long experience in reprocessing technology, and British Nuclear Fuels Ltd, at Sellafield, is a world leader in both reprocessing and fuel fabrication. About 60 per cent of the spent fuel reprocessed in the Western world has been reprocessed here in Britain.

The Government's Policy

Britain's nuclear power programme has received bipartisan support in Parliament, ever since 1946 when Mr Attlee took the initial decision to develop civil nuclear power. In 1976 Mr Benn, then Energy Secretary commissioned a thorough review of thermal reactor systems by the National Nuclear Corporation. On the basis of that review, in January 1978, he announced his decision to authorise the electricity supply industries to order two new Advanced Gas Cooled Reactors.

At the same time, he announced that, having regard to the importance of nuclear power, the UK should not be dependent upon an exclusive commitment to any one reactor system. He said: "We must develop the option of adopting the PWR (pressurised water reactor) system in the early 1980s". (Hansard, 25 January 1978, col 1392).

Conservatives supported this statement at the time, and have accepted it as a basis for policy in Government. Work has continued on the adaptation of an American PWR design to meet British needs and safety requirements. A public inquiry into the CEBG's application to build a PWR at Sizewell in Suffolk is under way, and the main public hearings, which will be held close to the proposed site, opened on 11 January 1983. Although Sizewell B is proposed to be the first UK power station based on the PWR, our nuclear powered submarines, with over twenty years of totally safe operation, are powered by this type of reactor. Thus, PWR technology is not new to Britain.

The Sizewell inquiry will look into all aspects of the CEBG's proposed new power station. As well as the normal planning considerations the safety and the economics of the proposed development will be considered in depth.

For the future, the Government has re-affirmed its commitment to the development of the fast reactor. It seems likely that reactors of this type will be needed in the early part of the next century. This type of reactor will be able to burn depleted uranium and plutonium recovered from spent fuel from the present commercial reactors, and can create out of it energy equivalent to our present economically recoverable coal reserves. This is of major significance for our future energy supplies.

Britain is among the world leaders in fast reactor technology, and a substantial development programme is concentrated at Dounreay in the North of Scotland.

Safety The nuclear power industry is, by comparison with other energy industries and with most of the chemical and petrochemical industries, safe for both its workers and the public. Successive Governments have ensured that safety considerations have been paramount.

The most serious accident which has occurred in an nuclear plant in Britain was in 1957. This occurred not in a civil plant, but in a reactor at Windscale used to produce plutonium for defence purposes. Within 38 hours, the reactor was cold and under control, but a good deal of radioactive iodine was released. The then Government was concerned that the radioactive iodine would be deposited on the grass, that cows would eat the grass and that in this way radioactivity would get into milk produced in the area. In fact, the levels of activity monitored in the milk did not result in any significant hazard to public health, but instructions were nevertheless issued to all farmers in the area that they were to milk their cows as usual, pour the milk down the drain and send in a bill for the income which they had lost in consequence. This instruction was apparently obeyed meticulously, although according to the bills submitted by the farmers, all the cows doubled their milk production during those two crucial weeks. No ill effects of the incident have subsequently been discovered.

The accident did however have one great benefit, in that it stimulated an exhaustive review of the safety arrangements in the UK. The Nuclear Installations Inspectorate (NII) was established as an independent licencing body, and the principle was firmly established that the operator of any nuclear installation in the UK has the absolute responsibility to ensure its safety. This system has served the country very well indeed. Britain's safety record at nuclear installations is second to none. It is noteworthy that the changes proposed by the Kemeney Commission, which was set up in the US after the accident at Three Mile Island, would make the US regulatory sytem much more like the system we have had in Britain for the last twenty two years.

The questions on safety have to be addressed at various levels:

- How likely is a major accident? - It is unlikely in the extreme. 281 nuclear reactors operate in 24 countries; the technology has been in use for almost twenty years; yet a major accident resulting in any significant hazard to public health has never happened. Nuclear power plants are designed with safety in depth, and are very closely regulated indeed. The accident at Three Mile Island, which was a serious financial disaster, did not pose a significant threat to the people living in the vicinity.

- What if a major accident happened? - First, a reactor core cannot explode like an atomic bomb. However, the worst possible accident that can be imagined at a nuclear plant would be very serious. The same is true of very many other large installations. The point is that the worst possible accidents are precisely the ones which the designers and regulators are so careful to avoid. Throughout history, the great disasters have been natural - plague, floods, earthquake. Apart from wars, hydro dam failures are the only man-made disasters which have caused well over a thousand deaths in a single incident.

- What about the less spectacular risk of radiation escaping from nuclear power plants during normal operation? This is easily measurable and demonstrably insignificant. The environment in which we live is permeated by radiation; a small amount is added by burning nuclear fuel. Neither is significant. The risk of contracting cancer is much greater, however, for people living in areas where oil and coal are burnt, because of the non-radioactive carcinogens produced. The risk is much greater still for people who smoke cigarettes. It has been estimated that the present level of radiation from the nuclear programme is as dangerous to the individual as the smoking of two cigarettes in his or her lifetime.

The Department of the Environment and the Ministry of Agriculture, Fisheries and Food both monitor the effects of pollutants, including those from the nuclear power programme, in the environment. Both are independent of the sponsoring Department of the nuclear industry.

Waste Management. 96 per cent of spent fuel from nuclear reactors is unburnt uranium or plutonium, which is reusable. The remaining waste, although highly radioactive, is produced in very small quantities. One of the virtues of nuclear fuel is that a small volume produces a large amount of energy. Coal and oil, on the other hand, have to be burned in large quantities, and produce large amounts of extremely unpleasant solid and gaseous waste.

The safe storage of highly active waste from nuclear fuel is essential. At present, it is stored at Sellafield, in solution form, in high integrity stainless steel tanks. A process for turning this waste into glass has been developed on an industrial scale by BNFL's partners in France, and work of this kind will soon start at Sellafield. The waste will then be glassified within stainless steel containers, and stored at Sellafield until much of its activity has decayed. (This will take about 50 years). ~~The well-protected capsules will then be disposed of, probably underground in stable geological strata.~~

Nuclear Energy and Nuclear Weapons

The civil nuclear power industry worldwide has always been alert to the possibility that plutonium extracted from spent fuel or highly enriched uranium could be used by countries to develop atomic weapons. There are, of course, much easier and cheaper ways in which a country intent upon making nuclear weapons could proceed. Nevertheless, a comprehensive system of international agreements and inspections minimises the risk that the legitimate rights of countries to civil nuclear power do not lead to their developing nuclear weapons.

The prime instrument of control is the Non-Proliferation Treaty. States party to the NPT have undertaken not to provide nuclear materials or equipment to a non-nuclear weapons state unless they are covered by safeguards monitored by the International Atomic Energy Agency. Most other countries not party to the NPT have all their nuclear facilities under IAEA safeguards. There are only four non-nuclear weapons states which are not party to the NPT, where certain nuclear facilities are not under IAEA safeguards. These are India, Pakistan, Israel and South Africa. The safeguards system is designed to verify member states compliance with their stated commitments and to account for all the nuclear materials handled by their civil nuclear programmes so that misuse would be detected at an early stage.

Secondly, the principal exporters of nuclear materials and technology, including the UK, belong to the Nuclear Suppliers Group, and observe agreed guidelines for the transfer of sensitive nuclear items and technology. These are specifically designed to reduce the risk of misuse.

As a country which already has nuclear weapons, we need not submit to IAEA safeguards, but have chosen to do so. The Government has recently reaffirmed that no plutonium recovered from our civil nuclear programme has ever been used for military purposes and that there are no plans to do so in the future.

Common misconceptions

Progress on renewable sources of energy is hampered by concentration on nuclear power

No significant contribution can be expected from the renewable sources of energy at least before the year 2000. Nonetheless, the Government is active in its promotion of R&D in this area.

Conservation could eliminate the need for more nuclear power

The ordering and building of nuclear power stations is grinding to a halt worldwide. In the US, some are closing down.

Conservation is very important, particularly in reducing the energy used in space heating. However, electricity is relatively little used in this application. In any case, measures such as loft insulation have relatively little impact on the peak demand for electricity, and this is the factor which determines the amount of generating capacity needed. Thus more home insulation, while very sensible in cutting heating bills, does not mean we need to generate substantially less electricity.

The building of power plants has been affected by the worldwide recession. However, the situation has been exaggerated by opponents of nuclear power.

In Germany, a 5 year moratorium on nuclear build has recently been lifted. 9 plants are now under construction and 8 are under approval. Nearly all of them are PWRs.

In Switzerland a 5th nuclear plant (BWR) is planned, and this will

mean that 35% of their electricity will be generated in nuclear plant by 1990.

France is pressing ahead with an extensive programme. 27 PWR's are presently under construction.

Recession and higher interest rates combined with delays in the licensing process have led, in the US, to cancellations of generating plants under construction. However, some 20 stations presently under construction are expected to come onstream by the end of 1984 and a further 40 are in an advanced stage of construction. Coal-fired capacity has not been hit so hard as nuclear due to lower initial capital costs, simpler licencing and the availability of cheap opencast coal close to potential power station sites.

The Three Mile Island accident demonstrates that the PWR is intrinsically unsafe.

Not a single injury resulted from this accident. The Presidential Inquiry into the accident by the Kemeny Commission concluded that the small release of radiation had negligible impact on the health of individuals.

Meltdown (as portrayed in the fanciful film, 'The China Syndrome') did not occur. Even if it had, the Commission concluded that there was a high probability that the resulting radiation would have been contained by the reactor building.

The PWR is not inherently unsafe; it is the most common nuclear generating technology in use in the world today. The Commission's main conclusion about the accident at Three Mile Island was that faults in the system of licensing and regulating US nuclear plant were largely responsible for the seriousness of the accident. The changes suggested would bring the US system into line with that in the UK.

The NII will be determined to ensure that the events which occurred at Three Mile Island could not be reproduced in a British PWR. The Electrical Power Engineers Association, which represents the engineers, managers and scientific staff who plan and run the electricity supply industry, has concluded that the PWR "cannot be opposed on the grounds of its safety

The disposal of nuclear waste poses a threat to future generations

The transport of nuclear waste is a hazard to the public

implications for the staff who will be involved in its commissioning and operating" (Guardian, 5 January 1982).

Nuclear waste will be glassified inside high-integrity capsules, and stored in safety for about 50 years, until its activity is substantially reduced.

These capsules will then be disposed of, in stable geological formations underground or possibly under the ocean. The chances of their reaching the surface and being assimilated by humans will be effectively zero.

Nuclear fuel is transported in steel flasks up to 12 inches thick. Arrangements for moving spent fuel in the UK are in accordance with internationally agreed safety standards.

Transportation flasks are subjected to simulated accidents to test resistance to fire and impact. They have been proved safe.

More fuel has been moved by the two UK Generating Boards than by all the rest of the world's commercial

Terrorists could steal plutonium from the civil nuclear fuel cycle to release in a public place or to use for weapons production

organisations put together. Just over 12½ thousand tonnes of irradiated fuel have been moved from CEGB power stations to Sellafield since 1962 without incident.

Plutonium is a very dangerous material if inhaled as fine dust. The most stringent security measures are enforced to ensure that plutonium is not stolen, even in minute quantities. If terrorists wish to poison large numbers of people, there are many easier ways of doing so with less danger to themselves.

It seems highly unlikely that terrorists could make weapons from plutonium from civil nuclear power stations. It is more likely that they could buy such weapons from irresponsible governments. A moratorium on nuclear power generation would not in any way change the nature of the terrorist threat.

B

LIAISON COMMITTEE PAPER ON TRANSPORT

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THE GOVERNMENT'S TRANSPORT POLICY

A. Factors affecting public perception

1. A Changing Market

Transport is a highly charged political issue. It is a subject upon which everybody has an opinion, because mechanised transport is an essential part of everyone's lives and accounts for a significant proportion of the average family budget (some 15 per cent in 1981, or £18.70 per week). People's perceptions are strongly coloured by the standard of service they get for that money and the price of that service.

Overall, individuals have benefited greatly from the increased opportunities for travel which have been made possible by the development of a variety of different forms of transport. Passenger mileage on all forms of transport in Britain has increased by more than 150 per cent since 1950. However, this welcome development has not taken place without corresponding problems. The greatest expansion in travel has of course been in travel by private car. Car passenger mileage has increased by over 650 per cent since 1950. However, bus passenger mileage has fallen by more than 50 per cent, travel by bicycle by 75 per cent and travel by rail by 9 per cent over the same period.

The decline in the market for traditional modes of transport had led to shrinking services, in many cases declining standards, under-investment and rises in the price of public transport beyond general increases in the cost of living. (The average stage carriage fare rose by 900 per cent between 1960 and 1981, while the retail price index rose by just over 500 per cent). Of course, this has affected people's perceptions of transport, especially those who do not have access to a car, as well as the many who rely on public transport for transport to and from work. As public

transport is as often as not publicly owned, or at least publicly regulated, some of the blame for this decline inevitably attaches itself to Government. The benefits of increased mobility brought about by car ownership are less obviously attributable to Government policy, except in so far as the Government is responsible for strategic road building.

2. Environmental Problems

Apart from the problems of declining public transport the increase in travel by road has had a dramatic and unpleasant impact on the environment. Because the rise in car ownership has been so rapid, most people have noticed increased traffic bringing with it noise, air pollution, congestion and problems of safety and law enforcement. The growth in the numbers of heavy lorries has been a matter of particular concern. Their size and noise makes them particularly frightening and disagreeable vehicles for anyone, especially those living next to roads used regularly by heavy lorries.

3. International Comparisons

In the last two decades or so, as other European countries have overtaken Britain in economic performance, so, it is perceived, their transport systems have improved as a result of massive investment programmes and as a result of high fares subsidies.

There can be few who have travelled on the Paris Metro, for example or in the new French Train Grand Vitesse (TGV), or have observed the scale and pace of motorway building in France and Italy who do not compare these with their equivalents in Britain and find that British transport compares unfavourably.

The British tourist travelling abroad experiences all the benefits of cheap, clean and efficient transport without having to

pay the cost of subsidy. This has led to a widespread feeling that more resources should be diverted to transport in Britain and this is now enshrined in Opposition Party policies which promise more investment, particularly in the railways, and higher subsidies for buses. These policies have widespread appeal, and the clamour for a switch of resources to transport, particularly towards investment in public transport is not confined to supporters of Labour and the Alliance.

4. Public Perceptions - The Polls

Two recent opinion polls provide evidence of public opinion on public transport. These are:

- a) A survey commissioned by the National Consumer Council and conducted by RSL, published in March 1982, but based on a survey conducted in 198 (before the GLC's 'Fares Fair' Scheme).
- b) A survey conducted by ORC into attitudes to Nationalised Industries, which monitored changes in attitude between July 1980 and June 1982.

The main findings of the surveys were:

i) Level of Dissatisfaction with Public Transport:

The RSL poll found that of all issues (including housing, shipping, financial and employment services, health, education, welfare, transport and communications) transport emerged as one of the most frequent sources of concern. However, despite general dissatisfaction, the survey found that very few people actually complained formally about public transport services. A much lower proportion (4 per cent) of people wanted to complain formally about transport than about their neighbourhood and local services.

In general people thought that complaining would not help and many did not know who to complain to.

ii) Transport Fares:

The RSL poll found that more people complain about fares than about any other aspect of public transport. 51 per cent of bus users, 50 per cent of train users and 45 per cent of underground users, but only 12 per cent of coach users consider that fare levels are unreasonably high. Bus and train fares came fourth in the list of charges considered unreasonable after postal services (including telephone), electricity and central heating oil.

The ORC survey suggested that between 1980 (the time of the RSL survey) and 1982, dissatisfaction with fare levels had risen. The number of people believing that rail fares had risen faster than RPI increased from 39 per cent to 45 per cent over the sample period. National Bus Company fares were believed to have risen faster than RPI by 35 per cent of respondents in 1982. The number of people believing British Airways' fares had risen by more than RPI rose from 9 per cent to 12 per cent.

iii) Bus Services: Infrequency

The RSL found that 27 per cent of bus users complained that services were not frequent enough for them, and many said that they could not make journeys because of poor or totally non-existent bus services. More people in England than in other parts of the UK

complained about infrequency.

iv) Trains: Standards:

Of the 18 per cent of the RSL sample who used trains, 32 per cent of users complained of dirty trains and poor standards of comfort and 17 per cent complained of overcrowding. Nearly half the train users classified as 'Professional and Managerial' complained about standards, comfort and cleanliness. 16 per cent of underground users complained about overcrowding on underground trains.

v) Air Travel:

The RSL found that 17 per cent of air travellers reported problems with delayed or cancelled services in the previous year and although delays were generally accepted as unavoidable, people were less ready to forgive poor communications and being forced to wait in inadequate surroundings.

vi) Denationalisation and Competition:

The ORC survey found a significant increase occurred between 1980 and 1982 in the number of people who felt that more denationalisation and competition would improve public transport, although the percentages are still not high. Over the period, the number of people thinking that particular industries should be partly denationalised rose from 11 per cent to 27 per cent in the case of BR, and from 12 per cent to 25 per cent for British Airways and was 30 per cent in 1982 for the National Bus Company.

A similar trend was evident in attitudes to competition with the percentage of people believing that there should be more competition rising from 11 per cent to 30 per cent in the case of BR; from 13 per cent to 33 per cent in the case of British Airways and was 43 per cent in 1982 in the case of the National Bus Company - the highest for any industry.

vii) Government Subsidy and Financial Performance:

The ORC found that few people agreed that the taxpayer should give a lot more money to ailing Nationalised Industries. However, the numbers of people believing that BR should be given more money by the taxpayer rose from 17 per cent to 27 per cent, while over half by 1982 (57 per cent) believed that British Rail made losses more often than it made a profit. Only 11 per cent believed in 1982 that the National Bus Company should be given more money by the taxpayer and only 4 to 5 per cent in the case of British Airways.

viii) Wages, Service and Industrial Relations:

Not surprisingly in the case of BR a high level of dissatisfaction was expressed with the attitude of the Rail unions. The percentage believing that the unions should co-operate more fully with management rose from 24 per cent to 59 per cent over the period and 39 per cent believed that BR should be stronger in resisting wage claims.

Equivalent figures for the NBC and British Airways are lower although the number believing that British Airways unions should co-operate more readily with management jumped from 5 per cent to 33 per cent. On the positive side, the RSL survey found that public transport staff emerged relatively unscathed. Very few people complained about the attitude of staff at a local level.

ix) Government Intervention:

The number of people feeling that Nationalised Industries should be given freedom to manage their own businesses rose in the case of BR from 12 per cent to 33 per cent. The relevant figure for the National Bus Company was 33 per cent in 1982.

x) Confidence in Management:

Confidence in management of Nationalised Industries has risen in general since the mid 1970s, but there is less confidence in the management of British Rail than in any other Nationalised Industry. People having quite a lot or a great deal of confidence in BR management rose from 21 per cent in 1976 to 31 per cent in 1982, but people having not much or no confidence stood at 66 per cent in 1982, a percentage which has been rising since 1979 when it stood at 51 per cent. There was a high level of confidence in the National Bus Company (58 per cent in 1982, 30 per cent in 1979) and in British Airways (57 per cent in 1982 -

53 per cent in 1979) managements. Dissatisfaction is quite evenly spread across ages and social class without much variation between supporters of different political parties.

5. Perception of Conservative Government Policy

The ORC poll would suggest that there is a lot of public sympathy with the Government's approach to Nationalised Industries and that the Government's arguments on privatisation and competition are getting through. However, dissatisfaction with the performance of Nationalised Industries has risen, and inevitably some blame attaches itself in people's minds to the Government. Specific areas where public perception of Conservative policy may be significantly different from perception of other parties' policies are:

- Policy Towards Nationalised Industries: some of the perceptions redound to our advantage, some do not.

- i) The polls show a striking realisation that competition is good for the National Bus Company. The Transport Act 1980 deregulation provisions have therefore been something of a success in public perception. The awareness of the need for more privatisation and more competition in general has grown significantly.
- ii) The rising dissatisfaction with ER is not likely to have been helped by the impression left by the Serpell Report. Since Beeching the Conservative Party has been seen as anti-railways and Serpell's network options have been interpreted to mean that Conservative policy is to cut the rail network further. Although people are dissatisfied with BR,

they are not anti-railway.

- Heavy Lorries: Whatever the environmental merits of the heavy lorry package, a large number of people see the Conservative Party as being in favour of the heavy lorry as a result of the Government's determination to allow them to run heavier. The Labour Party is now committed to some form of route licensing.
- Transport Fares: During the 'Fares Fair' experiment, the Conservative Party appeared to many to be the Party of high fares, while the Labour Party posed as the champion of the traveller, offering low fares. Since most people express dissatisfaction with the level of fares, this impression cannot have done the Party's image much good, although the damage is to some extent offset by the unpopularity of high rates.

B. The Government's Policy

The fundamental principle behind the Government's transport policy is that the users' interests are paramount in the provision of transport. Transport exists for and would not exist without the transport customer. With this in mind the Government has aimed to:

- 1) Liberalise where possible the market in transport services to make them more efficient and responsive to changing customer needs, and to keep fares down.
- 2) To create the most encouraging possible conditions for new services, innovation and new private enterprise in transport both for the public generally and for the elderly and disabled.
- 3) To contain the enormous growth of current operating

subsidies and direct support as far as possible to new investment and new facilities.

- 4) To privatise publicly owned transport undertakings where possible.
- 5) To maintain and as far as possible increase investment in the road network, with particular emphasis given to strategic trunk roads, bypasses and road maintenance.
- 6) To help the environment by improving the impact of modern transport, particularly by dealing with the problem of heavy lorries.
- 7) To encourage the transport supply industries to become more competitive and to increase exports.
- 8) To work towards better standards of safety in transport.

C. The Government's Record

1. Deregulation and Efficiency

The Government's policy is based on the belief that competition tends to shift the emphasis of policy from the convenience of the operator to the needs of the consumer who can choose the best, cheapest and most efficient service from a number of competing services. This puts pressure on the providers of the service to cut costs and improve performance. If a market is hampered by regulation designed to maintain local or total monopolies, the operator has more scope to relax control on costs and forget the interests of his 'captive' customer.

- The Transport Act 1980 provided for total deregulation of intercity coach services. As a result of the legislation, about 100 new express services have begun and fares have fallen dramatically.
- The Civil Aviation Act 1980 provided for a measure of deregulation in the Civil Aviation Industry by requiring

the Civil Aviation Authority to ensure that British airlines compete as effectively as possible with other airlines in providing air transport services on international routes and to secure the most effective use of airports within the UK. The Government has relinquished the power to give policy guidance to the CAA which is now responsible for air transport licensing policy as well as administration. It has allowed British Midland to fly from London to Glasgow and Edinburgh in competition with British Airways and British Caledonian, and is trying to secure agreement on greater deregulation on international routes. The scope for further deregulation of inland air services is being explored.

- The increase in the maximum permitted weight of heavy lorries from 32.5 to 38 tonnes can be seen as a measure of deregulation, with the difference that the lorry package did not affect competition in the market which was already highly competitive. However, it does give the market more scope for efficiency and reduced costs. The lorry package is estimated to be worth about £150 million a year for industry.

2. New Services

Governments of both political parties have had to recognise the fact that it is unrealistic to expect to prop up our public transport system on the scale of the past. Decline in public transport services is the inevitable consequence of social change and the rise of car ownership. The decline in public transport has been a particular problem in rural areas. The 'Beeching' rail cuts and the withdrawal of rural bus services have left many areas

without conventional transport services. However, the Government recognises that for many people in rural areas, some form of public transport is essential. This particularly applies to the elderly and disabled, young people who do not have cars and women whose husbands take the car to work. The Government is trying to help these people by encouraging alternative low cost forms of transport and voluntary schemes.

- The Transport Act 1980 enabled local authorities to make use of local authority school buses for conventional transport when they are not being used to take children to school, and abolished restrictions on car sharing schemes.
- The Government, working with the NCVO and other organisations, has given help and advice to people and local authorities working to set up voluntary and other low cost schemes. The number of these schemes is growing eg. post buses and school buses are being used to provide conventional transport; voluntary minibus schemes are being set up; car sharing schemes are being encouraged; and hire cars are being used in some areas to take multiple fares.
- The Transport Act 1980 provided for the setting up of 'Trial Areas' within which all licensing restrictions on stage carriage services cease altogether. Schemes set up on this basis in Norfolk and Devon do not seem to have had much effect, however, a Trial Area in Hereford and Worcester is working well with the council effecting cost savings by putting local services out to tender on a regular basis.
- The Transport Act 1980 shifted the burden of proof in

stage carriage licence applications from the applicant for the licence to the objector. (However, there is little evidence that this provision has encouraged many new local stage carriage services).

3. Privatisation

The Government believes that privatisation - the transfer of Stated owned enterprises to the private sector - brings many benefits. It removes companies from artificial guarantees and disciplines imposed by the State and transfers them to the more effective disciplines of the market place; managers are no longer hamstrung by Treasury control; employees can identify more closely with their companies and take a stake in them. Consumers benefit from the effect which more private sector competition has on prices, and individuals are able to buy shares. The Department of Transport has perhaps one of the most successful records in this area.

- The National Freight Corporation was sold in February 1982 to its managers and workforce. It is now a highly successful company making profits well in excess of expectations despite a recession in the haulage industry.
- 27 British Rail Hotels, over £100 million on non-operational property and BR's Hovercraft business have been sold to the private sector.
- Over half the shares in Associated British Ports (formerly the British Transport Docks Board) which owns 19 of Britain's most profitable ports, have been sold.
- The work of the Roads Construction Units which do the design work on motorways and trunk roads, has been transferred mainly to the private sector. Road schemes involved are worth about £2000 million.

- Long leases have been sold on all but two of the Motorway Service Areas.

Legislation is on the Statute book to enable the:

- Introduction of private capital into the National Bus Company's express, holiday and property businesses.
- Transfer of the work of the Heavy Goods Vehicle Testing Stations to the private sector.
- Sale of other parts of BR - eg Sealink and more property sales.
- The sale of British Airways.
- The scope for the introduction of private capital into the operations of the British Airports Authority, and for the privatisation of some British Airports particularly Scottish airports, is being explored.

4. Curbing Wasteful Public Spending on Unrealistically High Fares Subsidies

The Government believes, as did its predecessor, that the payments of excessive levels of subsidy to public transport operators is not justifiable either in economic or in social terms. High subsidies do not in practice attract many people back on to public transport and they tend to favour the better off at the expense of the poor who tend not to travel as much. High subsidies disguise from people the true cost of the service they are buying and enable transport operators to relax efforts to promote efficiency. The Government believes that highly subsidised fares are not 'cheap' because the cost of the service has to be paid by somebody. If subsidies are financed through the rates, this has an obvious and damaging impact on the finances of ratepayers, particularly business ratepayers. If high subsidies are financed by the Exchequer, either public spending has to rise or resources are preempted which could be more cost-effectively employed elsewhere.

The Government is not against subsidy, because some essential services would not be viable without it, but it believes that a reasonable balance should be maintained between the interests of the traveller, the ratepayer and taxpayer and the transport operator and that indiscriminate subsidies should not be paid regardless of need.

When some Labour Metropolitan Councils elected in 1981 adopted low fare/high subsidy policies, the Courts decided in the case of the GLC and West Midlands that the supplementary rates levied to pay for the fares reduction were unreasonable and the GLC was in breach of its fiduciary duty to its ratepayers.

In order to clarify the legal basis of subsidy and to provide for stability, the Transport Act 1983 provides for an area of subsidy to be defined after full consultation in each Metropolitan area, spending within which the Metropolitan Authority or the GLC is protected from legal challenge, but spending above which it risks legal challenge. The legislation, by forcing local authorities to justify proposed levels of subsidy and by providing for annual three year rolling plans, will discourage reckless spending and sudden shifts in policy by local councils.

5. The Railways

The Government has constantly urged the necessity of improved performance and efficiency on British Rail. The market for rail travel has declined in recent years under the pressure of strong competition from road transport but also as a result of inefficiency, poor cost control and poor standards in the railways. In order to compete effectively, to reduce the mounting burden of the railways on the taxpayer and liberate more funds for investment, British Rail must tighten up on costs, reform antiquated working practices and become more efficient. Unfortunately progress has been disappointingly slow. However, the Government has:

- backed up the BR Board in its efforts to get the unions to agree to changes in working practices, manning reductions and increased efficiency;
- been extremely generous to BR in helping it to overcome its financial difficulties during the recession and to help it make cost reductions. Record levels of financial support have been given to the railways. Grants alone from all public sources amounted to £926 million in 1982, and the grant per passenger mile has risen significantly in real terms since 1979;
- given approval in principle to a programme of mainline electrification subject to a satisfactory economic case being made for each project;
- maintained the investment ceiling at the same level in real terms as it was under Labour. Although BR have not been able to spend up to their investment ceiling within their external finance limits in the last 3 years, more money has been spent on investment in cash terms on the railways than under the last Government. More grants for rail freight facilities have been given in the four years under this Government than in the four years 1975-9 under Labour;
- after requests by British Rail, the Government appointed the most far-reaching review of the railways undertaken since the war. The Serpell Report identifies scope for cost savings worth £220 million annually by 1986 within the existing rail network;
- for the future, the Government has made it clear that following suggestions made to the Serpell Enquiry, it is considering the scope for a reorganisation of the management structure of BR along regional lines. British Rail are following up suggestions for efficiency savings

made in the Serpell Report. While the Government does not want to see a major programme of route closures, nevertheless the railways are going to have to adopt far more competitive methods to compete with coaches and cars, and there will be some bus substitution. The Government and BR are reviewing the scope for further privatisation or private participation in investment schemes (eg. Sealink, Victoria-Gatwick line, Travellers Fare etc).

6. Investment in Transport Infrastructure

While trying to minimise wasteful expenditure on current subsidies, the Government has acted to ensure that expenditure on transport investment is maintained in order to help promote economic recovery, to maintain our existing investment and to alleviate the effects of increased traffic on the environment.

- Nearly 300 miles of new motorway and trunk road have been opened since May 1979 including bypasses for 43 communities. Top priority has been given to the M25 outer orbital road which will be completed in 1986. The level of spending inherited from Labour has been maintained and increased in the last two financial years. Output is up well above the levels inherited from Labour.
- The forward programme budgets for bypasses for 220 communities, and 70 local authority bypass starts have been approved for 1982-3 and 1983-4. Expenditure on motorway and trunk road maintenance has increased dramatically from levels inherited from Labour.
- Although railway investment has increased in cash terms since 1979, it has been less in real terms than under Labour. This is not because of Government constraints on BR's investment ceiling but because resources which should have gone into

investment have been diverted to pay for losses from strike action and inefficiency.

- Local transport projects going ahead include the Piccadilly Line extension to Heathrow's Terminal 4 and a light railway to London's docklands.
- The Government announced its Airports Policy in 1979 and removed uncertainty about the siting of a third London Airport which had been unsettled for 20 years. Investment projects are going ahead with new terminals at Heathrow and Gatwick, development of regional and local authority airports and a public enquiry is underway into the British Airports Authority's proposals to develop a third London Airport at Stansted. The Government is considering the scope for the introduction of private capital into the British Airports Authority's operations.

7. Road Safety and Law Enforcement

Increased road traffic has brought with it problems of safety and law enforcement. The Government believes that as much as possible should be done to minimise the appalling toll of deaths and injuries caused by road accidents, while recognising that there has to be a balance between the interests of safety and freedom for the motorist. The Government has:

- Tightened up on drink-driving laws with new evidential breath testing at police stations.
- Encouraged motorcycle training and safety by providing for a new two-part test, by limiting the size of vehicle a learner rider can use before taking a test, and by limiting the duration of a provisional licence.
- After a free vote in Parliament, it was decided that seat belts should be compulsory for front seat passengers. Evidence is coming in of a dramatic decrease in the number

of serious and fatal injuries as a result.

- Introduced a new penalty points system for road traffic offences to replace the totting up system which had been considered unfair.
- Extended the fixed penalty fine system to relieve the burden of minor traffic offences from the Courts.

8. Environmental Protection

By 1979 the environmental problems created by increased road traffic had made the need for action urgent. The Government therefore:

- Appointed an Enquiry in 1979 to examine the problems for people and the environment caused by the growth of heavy lorry traffic. The Government's lorry package brought forward in 1982 contained measures to place limits on the size of heavy lorries and to make them cleaner, quieter, safer and more efficient, to provide help for those particularly badly affected by lorry traffic and to encourage local lorry control schemes.
- The two Roads White Papers gave greater priority to bypasses.
- The Government has already put into action its plan to reduce the lead content of petrol by two thirds by 1986, and has now announced its intention that lead should be removed from petrol altogether by 1990 and is seeking agreement with the EEC to this policy.
- New stringent noise controls have been announced for jet aircraft and steps have been taken to minimise the nuisance of aircraft noise round Gatwick and Heathrow. The number of people affected by aircraft noise at Heathrow for instance will be reduced from 2 million to less than 300,000 by 1990. The Civil Aviation Act 1980 gave the CAA a statutory duty to take environmental factors into account when considering whether to grant air transport licences.

D. Common Misconceptions

The Government is hostile to public transport.

The Government is not hostile to public transport but it believes that if public money is to be spent on public transport subsidies, the taxpayer or ratepayer has a right to expect good value for money and the maximum of efficiency. It does not believe in massive State handouts to finance inefficiency. Contrary to allegations made by the Government's critics, record amounts of public money are being spent on public transport - a total of £1700 million in 1983-4. The Government is actually spending more than ever before on the railways in money and in real terms to help the railways overcome their financial difficulties and to become more efficient. Grants now run at over £2.5 million a day. More money has been spent on investment in the railways than under Labour. The liberalisation of coach licensing has meant a dramatic increase in the number of long distance coach services with reduced fares. The Transport Act 1983 provided for reasonable levels of subsidy to urban transport and is designed to discourage the reckless seesawing subsidy policies of some Labour local authorities which damage everybody's interests. These are hardly policies of a Government

which is anti-public transport.

The Government is too
pro-car and pro-road
and has not done enough
for the environment.

All Governments have accepted the fact that most people want to own a car, and the rise of car ownership has dramatically increased personal mobility and living standards. Our economy is heavily dependent on freight transport, and lorries move over 82 per cent of all freight. We can not ignore these realities. In practice it would not be possible or right to force people or goods off the roads onto the railways; the last Labour Government recognised this fact as well. Instead, policy must be directed to ensuring that road traffic can move as quickly and efficiently as possible with the minimum of damage to the environment. The Government's road building policy emphasises the need for economically important roads, and gives higher priority to bypasses. 45 have been completed since May 1979 and a further 220 bypasses will be built in the next 4 - 5 years. Lead in petrol is being phased out. A stringent package of measures to control the heavy lorry and remove heavy lorry traffic from centres of population has been introduced. Action is being taken to reduce aircraft noise.

The Government is

The Government is not against cheap fares,

against cheap fares
and good subsidised
city transport.

but it recognises the price of the fare always has to be paid by someone. The GLC's 'Fares Fair' policy was not a cheap policy. The fares may have gone down but the price for this and for inefficiencies deliberately imposed on LT by the GLC was paid by the London ratepayer. 62 per cent of all rates in London are paid by businesses and in order to pay for the mounting rates bill, London businesses would have had to cut jobs. Although the Labour Party has now changed its mind, in Government it was against excessively high subsidy policies and penalised Councils like South Yorkshire who pursued such policies. It argued then that not only did high subsidy policies not attract people from their cars onto public transport, but that such subsidies tended to favour the better off at the expense of the less well off.

Of course the Government is in favour of cheap fares, but believes that they should be cheap for everybody, including the taxpayer and ratepayer. Therefore, transport operators should aim to cut costs and become more efficient, the only way to real 'cheap' transport. Neither is the Government against all subsidy, but a fair balance has to be maintained

between the interests of the ratepayer and the traveller. Subsidies should not be paid indiscriminately, regardless of need. The Transport Act 1982 provides for a reasonable balance to be maintained in future.

Why are transport systems abroad much cheaper than in Britain.

It is true that urban transport systems in cities abroad often enjoy higher levels of subsidy than they do in Britain. However, many do not and British urban transport operating subsidies are only a little below average for Europe as a whole. However, in many cases transport operators abroad are much more efficient. It is estimated that if London Transport was as efficient as other cities in Britain, savings of at least £80 million a year could be made. Of course with existing levels of subsidy, this would enable fares to be much lower and the existing subsidy would cover a larger percentage of total costs. The Transport Act 1983 will provide stability for urban transport operators to plan for better efficiency and cost reductions.

Deregulation on the buses is killing off rural transport.

Not true. There is no evidence that the new rules for the granting of licences for rural routes or delicensing in 'Trial Areas' has damaged rural transport. On the contrary, delicensing

in the Hereford and Worcester Trial Area has produced better rural services at lower cost.

The decline in rural bus services is no new phenomenon. It has been happening since the 1950s as a result of social changes in the countryside and

increased car ownership. It has happened under Governments of both parties, who have had to recognise that it is simply not cost effective to pour massive subsidies into keeping many conventional rural services running wholly or nearly empty. Nevertheless the Government has allowed local rural County Councils to provide generous levels of financial support to public transport in rural areas. The Government recognises that a new approach is needed to the problems of rural areas, so it is emphasising the need for alternative low cost and voluntary schemes, such as minibus schemes, the use of school and post buses for conventional transport services, and car sharing schemes. Since 1979 there has been a significant growth in such services, a growth which should continue.

That after Serpell
there will be wide-
spread rail closures.

The Serpell Report has been misunderstood and misrepresented. Most of the (majority) Report is concerned with scope for improved

efficiency on the railways and identifies scope for savings of £220 million annually by 1986 within the existing rail network. Critics of the Government have tried to shift attention to the part of the Report which sets out so-called 'options' for the future rail network, saying that Serpell recommends cuts in the network. In fact in the Report, these were only illustrations of the sort of network that could be expected given different levels of funding. Serpell made no recommendations. One of these illustrations was for an increased investment in a slightly reduced network. The Serpell Report is not Government policy, and the Government has already made it clear that it does not wish to see massive closures. It is the aim of the Government to achieve a better and higher quality railway which gives more value for money and improved services for the passenger. The Report helps to identify how this aim can be achieved.

That the Government
has starved the
railways of
investment.

in money terms
More has been invested in the railways/
(though not in real terms)
/under this Government than under Labour
(£1600 million from May 1979 as opposed
to £1100 million), and many investment
projects are going ahead. However, due
to losses from inefficiency and
industrial disputes, BR has not spent

up to its investment ceiling in recent years, even though the Government has given the railway more money than ever in real terms. The taxpayer cannot be expected to go on pouring money into the railways without some major improvements in efficiency. The Government accepts that more investment is needed, but as the Serpell Report demonstrated, BR could generate the money for this from putting its own house in order and reducing costs.

The Government has given approval to a programme of electrification, but BR has been slow in providing firm justification for specific projects. Electrification is not a panacea for all the problems of the railways, and there is little evidence to suggest that an electric train is any more comfortable or good for the traveller than conventional diesel. Therefore, since electrification is expensive, every project has to be justified on grounds of commercial cost effectiveness. Unfortunately on many lines BR has not been able to produce evidence to show that electrification is worthwhile commercially. Nevertheless approval has been given for electrification of the main line to Ipswich, Norwich and Harwich, and the Government hopes that

BR will be able to produce better forecasts for other lines and for their Intercity and freight businesses soon.

The Government has cut the road programme, it should be building more motorways.

The Government has maintained the size of the roads programme it inherited from Labour, and despite the recession, it has increased spending on roads over the last two years. Output, (ie the actual miles of roads built) is well up on levels inherited from Labour, and tender prices have been much more competitive than before.

It is unrealistic to compare the size of the motorway programme in the UK with the size of the programme in other countries. Britain has a much better system of minor and trunk roads than most other European countries, and our motorway programme is based on a realistic assessment of transport needs given our existing infrastructure.

Road users pay too much and are over taxed.

It is true that the amount collected in Vehicle Excise Duty and fuel taxes represents three times the cost of the roads programme. But in no area of Government taxation are tax revenues specifically allocated to particular spending programmes. To argue that car tax should only cover the road programme is as sensible as arguing that duty on drinks

should be spent only on help for drinkers, or oil taxation should only be used to develop North Sea oil reserves. Lower road tax would mean more tax on other items.

Although road tax and petrol duty have risen, they have not risen above the rate of inflation; in fact duty on petrol has actually fallen in real terms over the past few years.

Road users do not pay enough tax, and so there is unfair competition between road and rail.

As the Serpell Report demonstrates, if there is any unfairness in competition at all between road and rail, it is rail which has an unfair advantage. It gets massive subsidies from the taxpayer, while road users pay tax well in excess of what it costs to maintain, build and police the road network. However, before this Government came into office, heavy lorries did not pay their fair share of road track costs. This has now been changed, and the most damaging lorries now pay VED at a level reflecting the damage they do to the roads.

The Government does not care about the impact of transport on the environment.

This Government is the first, not only to recognise but to do something positive to curb the impact of heavy traffic on the environment. The Government's lorry package will mean fewer, cleaner, safer

and less obtrusive lorries. Lead in petrol is being phased out, aircraft noise is being reduced and greater priority has been given to bypasses.

The Government is
doing nothing to help
the cyclist.

In 1981, the Government published a Cycling Policy Paper which proposed safer construction requirements, simpler procedures to convert footpaths to cycle tracks, the appointment of regional cycling officers to look after cyclists' interests and plan improve facilities, and grants towards County Councils cycling schemes. In the last two years about £200,000 has been spent by central Government on 21 innovative cycle schemes in England and Wales, and in 1982, 10 schemes were completed to turn old railway tracks into cycle ways. 27 more schemes are going ahead now.

Why doesn't the
Government set up a
National Concessionary
Fares Scheme.

At present the power to grant concessionary fares rests with local councils; some give free travel to pensioners, some give half fares and so on. To satisfy everybody would be difficult without introducing a national free travel scheme for pensioners, but this would cost hundreds of millions of pounds. Even a national half fare scheme would cost an extra £100 million per annum,

money which would have to be found from somewhere, either from other expenditure programmes (perhaps other programmes which benefit pensioners) or at the cost of higher rates and taxes. A national scheme still would not be fair to everyone, because at least 20 per cent of pensioners are too infirm to use the buses or have no bus service nearby. Locally run schemes, tailored to the needs of the local population provide greater flexibility to adapt to the needs of the elderly.

Why can't the Government
do something to sort out
the British Ports
Industry.

Parts of the British Ports Industry have been declining over the past two decades because of shifting patterns in world trade, the movement of traffic from the West coast to the East coast, a decrease in world trade and overmanning problems in the wake of the 'container' revolution. All these problems have been exacerbated by the operation of the Jones/Aldington agreement which gave all registered dock workers 'jobs for life' no matter whether there was economic justification for their jobs or not. The finances of the Port of London Authority and Mersey Docks and Harbour Company have been particularly hard hit by all these factors and the Government has given both authorities financial help to enable them

to make essential manning reductions and to continue operating. Elsewhere, the story is much better. Many ports eg. Felixstowe, Southampton, have invested in better technology and cheaper and more efficient services, offering them a healthy financial future. The sale of 51 per cent of the Government's holding in Associated British Ports which owns 19 of Britain's most profitable ports shows increasing public confidence in the health of the industry.

The Government has given up its idea of privatising British Airways.

The aim has always been to privatise British Airways as soon as possible, but a precise date was never given. The main reason for the delay was the downturn in airline passenger demand in 1980 and 1981, which wiped out British Airways' profits. However, the opportunity has been taken since the appointment of Sir John King in early 1981 to remedy fundamental problems from which British Airways has suffered in the past, particularly low productivity and overmanning. Staff numbers have been cut and there has been an extensive programme of route reductions and asset disposals. These measures have involved minimal industrial disruption. As a result, British Airways faces a brighter financial future. The aim is to achieve

privatisation as soon as possible after the next General Election.

Deregulation of air services will mean the withdrawal of air services from remote areas such as the Scottish Islands.

Several air services in the Scottish Highlands and Islands are regarded as essential social services and since they are not of themselves economic to run they are subsidised both by central and local government. The inhabitants of remote communities, not only in the Highlands and Islands but also in the Channel Islands and elsewhere, are understandably very sensitive about the preservation of their scheduled air links with London and other major UK points. This is a consideration which has to be taken fully into account in any discussion of deregulation.

The CAA owns and operates 7 aerodromes in the Scottish Highlands and Islands (Benbecula, Inverness, Islay, Kirkwall, Sumburgh, Tiree and Wick). It also operates the aerodrome at Stornoway. Except for Sumburgh, these aerodromes have never been in a position to cover their total operating costs and the CAA's operations there are subsidised by the Scottish Development Department because they are an essential social service in the Highlands and Islands. In 1982-3 the SDD grant amounted to £3.6 million.

The Government has asked the CAA to consider how the aerodromes might be transferred to the private sector in the expectation that they could then be run more efficiently and give better service. The Government has given an assurance that the interests of local communities will be taken into account in any move to privatisation.

KM/CR
28.4.83

LIAISON COMMITTEE
PUBLIC TRANSPORT IN SCOTLAND

Annex

INTRODUCTION

Public transport is an important and sensitive issue in Scotland because of the country's general remoteness, and particularly because of distance and general difficulties of communication within Scotland. The Conservative Party in Scotland is most dependent for its support on rural areas, where the supply of public transport services has deteriorated in recent years, and is perceived to be under continuing threat. In recognition of this the Party undertook commitments in its 1979 Scottish Manifesto to increase subsidies for shipping services, and to press on with the Scottish trunk road programme, particularly the dualling of the A94 north to Aberdeen. These Manifesto commitments are being honoured in spirit, if not to the letter, and the Government therefore has a good story to tell. However there remains significant transport problems, actual or in prospect, and these will continue to require careful handling and presentation.

SHIPPING SERVICES TO THE ISLANDS

The 1979 commitment was to increase the level of shipping subsidies so that they would come nearer to road equivalent tariffs. We have trebled the revenue subsidies for shipping services (from £4.3m in 1978-79, when we took office, to £12.4m in the current financial year). The scope of shipping subsidies has also been extended and we now subsidise not only the Caledonian MacBrayne services to the Western Isles, but also fares and charges on the P & O services to Orkney and Shetland, and the charges of certain bulk freight carriers. Caledonian MacBrayne's charges have not now been increased since 1981, and this represents a substantial reduction in real terms for the islanders. The honouring of this commitment, against the background of all the other economic difficulties we have faced, is generally understood and appreciated by the islanders.

In addition, we have announced our commitment in principle to a programme of major vessel replacement for the Western Isles, and the first major vessel in the programme for the service to Arran - is now under construction, at a cost of over £7m.

What the Government has not done is to change the structure of the subsidy system in order to take on board the full technicalities of a road equivalent tariff system. This is because substantial practical difficulties have been encountered with such

a system. Our failure in this respect is occasionally criticised, but can be answered robustly by reference to our record of subsidy increases.

The Government is now considering what action to take following the recent completion of a report on Caledonian MacBrayne by the Monopolies and Mergers Commission. This produced numerous proposals for the more efficient and cost effective operation of that Company, and the implementation of these will be to the great benefit of ferry users. There is no need to be defensive about the Monopolies Commission investigation with Caledonian MacBrayne as with any nationalised industry, inefficient operation can only mean poor service to the customer, as well as greater cost to the taxpayer.

ROADS

Good progress is being made on the Scottish trunk road programme. Projected capital expenditure in the present financial year is £97m. . Major achievements since 1979 have been the completion of ^{most of the new A9 between Cromarty Firth,} / Perth and the/and good progress is being made on the dualling of the A94 to Aberdeen. Another main priority has been the A75 from Gretna to Stranraer, and considerable further progress is being made with this. A further major programme of trunk road schemes is now in preparation and includes a high proportion of bypass schemes to relieve communities at present situated on busy roads. The continuation of the Scottish trunk road programme at a high level will be of major importance for the development of commerce and industry in Scotland, hampered as it is by its relative remoteness from markets and sources of supply.

AIRPORTS AND AIR SERVICES

The Government's decision to allow British Midland Airways to operate on the London-Glasgow and London-Edinburgh routes has increased competition and the quality of service on these routes, to the great benefit of consumers. There have been further recent improvements in air services between Aberdeen and London; and the recent substitution of Dan Air for BA on the Inverness-London route will produce a significantly better service there.

Following a recent report by the Select Committee on Scottish Affairs, the Government has confirmed its policy for the management of the central Scottish airports owned by the British Airports Authority. At the same time the BAA and the Scottish Tourist Board have joined in a major promotional exercise for Prestwick airport, which has suffered badly from the contraction of transatlantic services during the recession. Central Scotland will therefore continue to enjoy a level

of airport provision unparalleled elsewhere in the country.

The provision of air services in the Highlands and Islands gives cause for concern. The Government does not in general subsidise air services (though it reserves the right and has the power to do so in certain restricted circumstances where such services cross regional boundaries, connect islands with the mainland, are essential to the life of the community served and would not otherwise be provided). The Government does however provide substantial subsidy (of approximately £4m a year) towards the upkeep of the eight Highlands and Islands airports, owned by the Civil Aviation Authority. The Government is not persuaded that the CAA is best placed to run these airports in the most efficient and cost effective way, and is therefore currently investigating the possibility of privatising them. This intention is publicly known, and is not unpopular, given widespread local dissatisfaction with the CAA's stewardship. It remains to be seen whether privatisation will be possible. If not, other alternatives - including possibly municipalisation - will need to be considered. It is important to present the current privatisation initiative as arising not from political dogma, but from a recognition of the widespread concern at the need to provide cheaper airport services, more flexible and responsive to local needs.

BUS SERVICES

The main providers of stage carriage (ie local stopping) bus services are the subsidiary companies of the Scottish Bus Group, a nationalised industry. SBG has now transferred completely to one-man operation and has recently undertaken major reviews of its network, to produce the most efficient and market-oriented pattern of services. Some of its more uneconomic rural services are subsidised by local authorities, but their subsidy remains much less significant than the cross-subsidy to such services provided from within the Scottish Bus Group itself. There has been local criticism in Scotland, echoed by the Select Committee on Scottish Affairs last year, of the Government requirement on the Scottish Bus Group to make a positive financial return, hence generating the local government subsidy requirement. The Government has said in response to the Select Committee that in fixing a new medium-term target for the Group, for the period from 1 January 1984, it will take full account of social as well as economic consideration. But the fixing of an appropriate financial target is a necessary discipline to ensure the continued efficient and cost effective operation of the Group's services.

The liberalisation of access to the bus market introduced by the Transport Act 1980 has had considerable beneficial effects in Scotland through the encouragement of new generally private sector, express bus services along main travel corridors - for example between Aberdeen, Inverness and central Scotland, and from Glasgow and Edinburgh to London. These highly efficient and low cost services have proved a particular advantage to the less well off - for example, pensioners and young people. Liberalisation of access has not, however, generated any private sector interest in low density rural areas, which are nevertheless highly dependent on the continuance of basic bus services. These services will remain dependent on subsidy or cross-subsidy, and any proposal to privatise the nationalised bus sector in Scotland will be very difficult to defend to traditional Conservative supporters.

RAILWAYS

The Serpell Report on railway finances has produced considerable concern in Scotland where the existing rail network, much reduced by the Beeching cuts 20 years ago, is widely regarded as being at a minimum. The remaining Highland railway lines, though probably inevitably loss-making, are major transport arteries connecting remote communities over very long distances. It is therefore important to reassure Scottish opinion that the Government does not "have it in" for British Rail, and fully understands the problems of remote communities, but is nevertheless concerned to ensure value for money and as efficient a public transport system as possible. The Government's willingness to support the railways where that is justified is amply evidenced by the substantial capital grant (up to £15m) which the Government is giving to Strathclyde Regional Council for the electrification of the Ayr railway line and for the refurbishment of electrified rolling stock on the Glasgow suburban network.

CONCLUSIONS

The Government's public transport policies, as they affect Scotland, can be presented very positively. The massively increased support for shipping services represents a new level of commitment to the island communities, and has led to the substantial reduction, in real terms, of travel costs for islanders. The surface transport infrastructure continues to be developed, principally through the trunk road programme. The Government is concerned to maintain a basic network of air services in the Highlands and Islands. It pays substantial subsidy for the local airports in these areas, and is seeking more efficient and cost effective ways of providing airport services. The Government is conscious of the dependence of many rural communities on their bus services and is committed to facilitating the maintenance of essential bus services. Their approach to problems of Scottish

railways is not dogmatic: the Secretary of State for Scotland is providing substantial financial assistance for new railway projects in west central Scotland, and the Government is fully sensitive to the importance of the Highland rail network in particular.