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P.0493

PRIME MINISTER

FOUNDRY COKE PRICES

MISC 56(81)7

BACKGROUND

United Kingdom foundry coke prices are about 30 per cent higher than in Europe. Coke amounts to 6 per cent on average of foundry costs. The foundry industry are campaigning for the reduction of UK prices to European levels.

2. In MISC 56(81)7 the Secretary of State for Energy proposes that National Smokeless Fuels Limited (NSF) - a wholly-owned subsidiary of the National Coal Board (NCB) - should be asked to cut their list prices for coke by £10 a tonne as soon as possible. To enable them to do so the NCB would be given grants of £7 million which they would somehow (the mechanics are not clear) make available to NSF. NCB's External Financing Limit (EFL) would be increased by £7 on top of the £1100 million for 1981-82 which has now been approved but not announced. As explained in paragraph 8 and 9 of the paper, this procedure is designed to avoid the need for legislation, which would be necessary if the Secretary of State were to pay the grants direct, and to avoid the difficulties with the European Coal and Steel Community (ECSC) which would result from reductions in the price of coal charged by the NCB to NSF.

3. There is also a problem with the private sector company - British Benzol Carbonising Limited - the only other United Kingdom producer of foundry coke, which is already in difficulties. The NCB are willing to give discounts to British Benzol to neutralise the benefits proposed for NSF and to consider the possibility of further help for the company.

4. The industrial case for helping the foundry industry is briefly set out in paragraphs 2-4 of the paper (though there is no explanation of why our foundry coke prices are so high).



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HANDLING

5. This is a relatively small issue and the Group are unlikely to spend much time on it. After the Secretary of State for Energy has introduced his paper you will wish to invite the Secretary of State for Industry to advise on the industrial case for supporting the foundry industry and the Chancellor of the Exchequer to comment on the implications for the EFL.

6. In discussion you will wish to establish in particular whether:-

(a) There is a sound industrial case for a special subsidy of this particular sector, ie will £10 a tonne off the coke price make a real difference to the fortunes of the foundry industry.

(b) If so, whether the help is best given by way of an energy subsidy (it is difficult to be sure without an explanation of why our coke prices are high).

(c) The proposals are free from both legislative and ECSC difficulties. In considering the latter it must be remembered that the scheme would undoubtedly become public knowledge - indeed the Government would wish to take credit for it.

(d) Enough has been done to safeguard the interests of the private sector company, British Benzol Carbonising - it would be politically very difficult if they could claim that the NCB, with Government help, forced them out of business.

(e) The NCB could be persuaded to cope with the £7 million within the very round EFL total of £1100 million (itself an increase from £886 million) so avoiding the need to announce the oddly precise new figure of £1107 million.

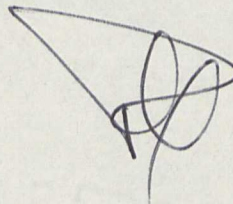
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CONCLUSIONS

7. In the light of the discussion you will wish to record conclusions

either ruling out the proposed scheme

or approving it, subject to a ruling on whether the National Coal Board's EFL of £1100 million is to be amended to £1107 million.



P Le CHEMINANT

Cabinet Office

9 June 1981