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Treasury Chambers, Parliament Street, SW1P 3AG

John Moore Esq MP
Parliamentary Under Secretary of State
Department of Energy
Thames House South
Millbank
London SW1P 4QJ

23 December 1982

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Prime Minister

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29/1/82

FOUNDRY COKE PRICES

Thank you for your letter of 17 December seeking agreement to the continuation of foundry coke grant for another year.

I am disappointed that it has not yet proved possible to produce an adequate plan for returning NSF to viability. Your suggestion that this grant should be extended yet again at a possible cost to the Contingency Reserve of £8 million is therefore particularly unwelcome. That said, it is encouraging that at least in the foundry coke area, NSF operations should become profitable again within the next year or so. I was glad to see that coke stocking grant can now finally be terminated this year, that there have been real cost reductions; and that the closure of one coke oven next year has been confirmed (although it is important that there should be no further slippage in the precise timing). The figures from the Company's plan shown to Treasury officials suggests that NSF should start to be able to cover their operating costs on foundry coke, without the need for grant, during 1983-84.

Against this background I am very reluctant to agree to an extension of the foundry grant for another year. It is clearly not a significant factor in the costs of foundries, which are in any case free to import. Looking at NSF alone, I see no reason why they should not simply increase their prices by the amounts suggested in your option (a) and carry any short-term further losses against the profits they will start to make once the surplus plant has been closed. I accept, however, that it might be unfair to the private sector company, British Bensol Carbonising to terminate the grant at short notice, and allow NSF's losses to be carried by the public sector. Even if the long-term future of this Company is in doubt, I accept that we would not wish to precipitate matters by sudden action. For this reason, I am prepared to contemplate the phasing out of the grant over a year as you propose, provided the following two conditions are agreed.

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First, the Department would find £8 million compensating savings from the NCB or elsewhere, so that no claim on the Contingency Reserve is necessary. (I accept that the NCB's deficit grant will need to be increased by up to £8 million). I should like to know before any announcement where the savings are to be found. Second, the early announcement about the continuation of the grant should make it unequivocally clear that it will end in December 1983. Please could your officials clear the text of the announcement with Treasury officials.

I look forward to seeing NSF's revised plan early in the New Year.

Copies of this letter go to the Prime Minister, members of E Committee, Norman Lamont, Sir Robert Armstrong and Mr Sparrow.

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