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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Peter Walker MBE MP
 Secretary of State
 Department of Energy
 Thames House South
 Millbank
 London SW1P 4QJ

9 November 1984

Dear Secretary of State

NCB DEFICIT GRANT

Thank you for your letter of 29 October.

I agree that the order under the Coal Industry Acts to increase the current limit on deficit grant should be placed as soon as convenient.

I also agree with your conclusion that we should seek a Winter Supplementary Estimate to increase the deficit grant payable in 1984-85 by £607 million. As you say, we shall need to look at the possibility of fresh legislation in the New Year.

On balance, I agree it would not be sensible to increase the NCB's external financing limit until after the strike. It will, however, be important to have a rapid review of their finances then so that the normal financial control framework can be restored. There is no reason to ease up on looking for cash savings in this financial year now. Two areas where we see further scope are:

- (a) Cutting back on new investment (i.e. beyond the natural shortfall that has occurred as a result of the strike). There is an ideal opportunity here to weed out the kind of doubtful investment of which the MMC was so critical. One could make a point of leaving new mines, such as Selby and Asfordby, untouched.
- (b) Sales of assets. Given the Board's dire financial straits, it seems reasonable to press them for further sales even if the market is not ideal. Their Australian mining interests and non-operational land holdings are two obvious areas.

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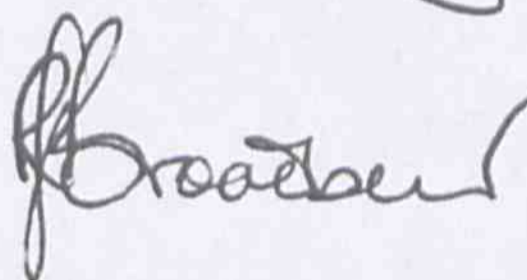
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I understand that the NCB will shortly be considering what export orders to take for 1985. Until we are clearer about the requirement for post-strike restocking, I think it would be unwise for them to get committed firmly beyond keeping a small, say 2mt presence in the market. It would be ludicrous in financial terms to find ourselves having to increase coal production, which we would rather have run down, to meet loss-making export orders.

As you say, the public presentation of these steps on deficit grant will need careful handling. I should be obliged if the Treasury could be consulted about the terms of any statements.

A copy of this letter goes to the Prime Minister, the Lord Privy Seal, the Chief Whip and Sir Robert Armstrong.

Yours sincerely



for PETER REES

[Approved by the Chief Secretary]

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