



IND. POL.

Q/SV

Prime Minister (2)

CABINET OFFICE
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

This is, notwithstanding
these points, likely to
be agreed by E (EA).

Qa 06165

From: John Sparrow
CONFIDENTIAL

1 December 1982

The Rt Hon Patrick Jenkin MP
Department of Industry
ASHDOWN HOUSE
S W 1

* the details,
which I mentioned to
you, are set out in
the attached letter from Mr. Lamont.
MS 1/12
MA

Dear Patrick,

United Paper Mills

The proposal set out in Norman Lamont's letter of 23 November is, of course, much less expensive than the earlier proposals for Government support of the Shotton project. There are, however, still some points which I think should be borne in mind in making the decision.

Integrated pulp and paper manufacture is so highly electricity intensive that it is very doubtful whether we can in the long run compete with other countries such as Scandinavia which have access to much cheaper sources of power. There is a strong risk that in a few years time UPM will be asking the Government for operating subsidies, perhaps citing a discretionary Government grant of £2 million as evidence of our commitment to the project.

Next, Governments have over the years sunk a lot of money into forestry, but this does not make a good argument for sinking more into a means of using its products. I question whether we should be subsidising the products of an already subsidised industry.

Finally, this case shows how important it is for the Quinlan Group's Review of the RDG system to be a radical one. Automatic grant to the tune of some £22,000 a job, against the background set out above, is not something I should be happy to see repeated.

I am sending copies of this letter to Norman Lamont and to the recipients of his letter.

Yours sincerely,
John.

John Sparrow

Ind 101 July 83

JK newspaper production

6106

MSPM

ms 30/4 6106

RT HON NICHOLAS EDWARDS MP

26 November 1982

Norman Lamont has copied to me his letter to you of 25 November about the United Paper Mills project. TAM

I need hardly rehearse my previous arguments in support of this project. As you know I am wholly convinced that its establishment would bring real benefits to the Shotton area as a result of the much needed direct jobs that it would provide and it would of course be of vital importance to the United Kingdom forestry industry not only in employment terms but also in providing a much needed boost to the forestry industry's marketing of its timber supplies.

The further discussions that have been held with UPM have resulted in a very significant reduction in the level of financial assistance now under consideration and I am convinced that the package that can now be negotiated represents, as Norman suggests, an attractive proposition from the Government's point of view. I therefore fully support Norman's recommendation.

I am copying this letter to the recipients of Norman's.

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON SW1

Incl Policy

UK Newspaper Production

July 1980

30 NOV 1982

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DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
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LONDON SW1E 6RB

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From the
Minister of State

Norman Lamont MP

The Rt Hon P Jenkin MP
Secretary of State for Industry
Ashdown House
123 Victoria Street

23 November 1982

Dear Secretary of State

On 3 August we considered in E(EA) a project for a pulp and newsprint mill to be built at Shotton by United Paper Mills (UPM), a major Finnish company. The project would cost £132 million and bring significant industrial and employment benefits both in itself and via the forestry sector.

The conclusion of the meeting was that the levels of Selective Assistance proposed were too high but we should explore with the company whether they would be prepared to carry out the project in return for a significantly smaller level of selective assistance, and report back. After discussion with the Chief Secretary £2 million was taken as an indication of the lower level which could be considered

Officials discussed the position with UPM in Finland on 5 August. UPM's immediate reaction was that such a significant reduction in the level of assistance would reduce the return on the project to an unacceptably low level. The projected IRR before tax and interest payments of the project in its original form was 17.8%. £2 million instead of £16.6 million selective financial assistance would reduce the IRR to 15.4%. But because they were convinced that the project in itself was sound, and because they had already expended so much effort on it, UPM wished to re-assess all the parameters involved to see if another way of financing the project could be found.

The UPM Board have now reconsidered the position and will shortly be looking at proposals for proceeding with the project with the much lower level of Industry Act assistance which has been indicated. They believe that the changes outlined below would enable the project to go ahead.

The most significant change concerns the cost of wood, where the Forestry Commission have agreed an improved deal on prices with UPM. This has been done on commercial grounds without any adverse effect on the Commission's grant in aid. There have been significant changes in the UK wood market since the original negotiations took place. Prices have weakened and the demand for exports from the UK to Scandinavian countries has fallen off substantially. Some export contracts have ceased altogether, and longer term prospects are further impaired by devaluation of the Swedish and Finnish currencies by 16% and 10% respectively. In these circumstances the Forestry Commission are very keen that the UPM project should go ahead.



It was always the intention that the price of wood over the life of the project should be governed by a formula which links it to the selling price of newsprint (thus reducing the risk for the project). The Forestry Commission have now in addition offered a temporary rebate on the wood price over the first four years of the project. On the basis of the private sector wood suppliers following suit, which is reasonable on the evidence of the current market position, and taking account of other modifications, these changes save £7 million at constant prices. The effect of these and some other adjustments is set out in the attached table A. Apart from the items shown, the main assumptions are unchanged. It will be seen that a considerable part of the new financial package depends on the rebate in world prices in the early years of the projects.

The second change is that UPM have decided to go for some leasing of assets rather than rely wholly on bank loans. Their current plans are to raise £50 million from leasing, and finance the balance from bank loans. Details are at table B. The borrowing will be guaranteed by UPM or the Finnish bank closely associated with it. Taken together, these changes bring the IRR back from 15.4% to 17.4% compared to the original projected 17.8%. If falling interest rates mean that at the time that the financing package is finalised there is little difference between the costs of leasing and of fixed interest loans, UPM may prefer the loans option.

UPM have also now decided that as the terms on which the City would want equity to be remunerated are too onerous, they would prefer to provide all the equity themselves which brings their equity contribution up to £22 million (they are considering a rights issue of £5-6 million to finance this increase).

In total UPM will be carrying responsibility for £104 million of the £132 million project costs for a venture promising them a return after tax and interest payments of 8-9%.

At present discussions are proceeding with two major UK financial groups about leasing finance and with the EIB and ECSC about loans. UPM are looking to finalise the arrangements before the end of the year by when their present options with the Forestry Commission and the BSC (for site) will expire. UPM are incurring considerable expense throughout this period and have asked for confirmation that £2 million of selective assistance will be forthcoming since without this they would not proceed further.

The Department of Industry's economic analysis has been revised to take account of the changes in the company's assumptions on costs and prices, the lack of alternative markets for wood and the smaller sum of selective assistance. The crux is whether the wood sales to UPM are additional to what the forest owners could have achieved



without the project. It was strongly argued by the Forestry Commission that this was so, and this view was supported by IDAB after detailed discussion. Thus the project enables us to use an indigenous resource which would otherwise be wasted. For these reasons, the analysis shows the benefits in terms of increased net UK income to be roughly double the total cost of assistance (including RDGs). This more than satisfies the Department's normal economic requirement and compares favourably with other assisted projects. £2 million selective assistance, including an element of training grant, is within the relevant cost per job and NGE limits. UPM now have one principal alternative investment option in Finland but firmly believe that this project will be viable, a view accepted by the Industrial Development Advisory Board.

I believe that, following restructuring of the project's financing in the more realistic way that is now proposed, then for £2 million selective assistance the project, which will provide some 270 direct jobs, plus another 940 indirect jobs, is an attractive inward investment proposition for the UK which is unlikely to occur again. The IRR has been brought back in reach of the figure the company had always regarded as necessary but this time in ways not making such large additional calls on public expenditure. I recommend we offer the £2 million: since we would now be within the normal limits for regional assistance, we would intend to make the offer under Section 7 of the Industry Act, thus avoiding the need for notification to the European Commission.

As well as selective assistance, UPM will benefit automatically and as of right from Regional Development Grants since Shotton is in a Special Development Area. Their entitlement is estimated at £26.2 million. I recognise that colleagues will find this a substantial figure. The RDG system, although it is currently being reviewed by the Quinlan Group, is at present an established part of our policy and practice, and the amount has been taken fully into account in the economic analysis carried out on this case. We have consistently been in favour of attracting wealth-creating capital intensive projects to the UK through our system of incentives. Examples of other large capital projects, approved by us, which will be receiving substantial RDGs include the Mossmorran cracker (project costs £350 million, anticipated RDGs £53 million) and Motorola (project costs £87 million, anticipated RDGs £12 million). The total grant assistance, including RDGs, would amount to 21% of project costs. The rest is being borne entirely by the company, demonstrating their confidence in its viability. It is, as I have said, the opinion of the Industrial Development Advisory Board that this is a sound, viable and valuable project which deserves this degree of support. Without the Selective Assistance UPM have made it clear the project will not go ahead.

To sum up, this project conforms to our policy of welcoming large capital intensive inward investment projects when these bring overall economic benefits. It passes all



the tests normally applied to selective assistance. Compared with the earlier proposal, the amount of Industry Act assistance has been substantially reduced, and a considerable degree of additional finance has been found in ways that do not make extra calls on the Exchequer.

The UPM board intend making a final decision on the project at a meeting on 2 December and I would hope to be in a position to communicate our decision to the Company before then.

I am copying this letter to the recipients of the previous papers.

Yours sincerely,

John Atky

NORMAN LAMONT

*(Approved by Mr Lamont and signed
in his absence)*

EFFECT OF CHANGES TO ASSUMPTIONS

The figures set out below show the changes to financial rewards and internal rates of return (IRR) of the project which have occurred since the project was first considered :

	<u>£m</u>	<u>IRR of project</u> *
1 Original assumption concerning selective financial assistance	16.6	17.8%
2 SFA reduced from £16.6m to £2.0m	- 14.6	- 2.4%
3 Forestry Commission-led temporary rebate in first 4 years	+ 7.3	+ 1.2%
4 Electricity change of tariff	+ 0.6	+ 0.1%
5 Leasing rather than medium term loans	+ 3.1	+ 0.5%
6 Newsprint price and other adjustments	+ 1.2	+ 0.2%
<hr/>		
UPM's reduced returns from project	- 2.4	- 0.4%
<hr/>		

* This refers to the rate of return before tax and interest payments. After tax and interest the return, on the original assumption concerning selective financial assistance, would have been about 10%. As a result of the changes outlined above it is now likely to be 8-9%.

The financing of the project is currently estimated to be as follows :

	£m
UPM equity	22
Leasing	50
Loans (including EIB and ECSC loans)	25
Bank overdraft	7
RDG & SFA	28
	<hr/>
TOTAL	132
	<hr/>

Ind Pt, July 80, dk newsprint
Production

23 NOV 1982

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Incl Pol.

10 DOWNING STREET

From the Private Secretary

10 August 1982

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UNITED PAPER MILLS

The Prime Minister has seen your Secretary of State's minute of 5 August in which he reported the conclusions of E(EA) on the UPM project at Shotton. She has also seen Mr. Lamont's letter of 6 August to your Secretary of State, in which he recorded UPM's reaction to the proposal that the Shotton project should proceed with no more than a very limited measure of selective financial support. She has noted both these reports without comment.

I am copying this letter to John Gieve (Chief Secretary's Office, HM Treasury), Gerry Spence (CPRS) and Richard Hatfield (Cabinet Office).

W. F. S. RICKETT

Jonathan Spencer, Esq.,
Department of Industry

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From the
Minister of State
Norman Lamont MP

Prime Minister 2

The Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria St
London SW1

WR
of

6 August 1982

Dear Patrick

In accordance with the minutes of E(EA)(82)12th meeting, officials have informed United Paper Mills that the selective financial assistance they were seeking will not be given. They then explored with the Finns, without commitment, the possibilities of the Shotton project proceeding with no more than a very limited measure of selective financial support on top of the Regional Development Grants that would be available automatically.

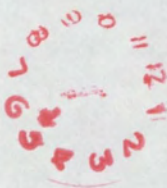
The instant reaction of the company's Managing Director and his colleagues present was that this would reduce the return on the project to an unacceptably low level. Before coming to a final formal decision, which would need ratification by the Board, they would wish to reassess all aspects of the project a final time. However it could not easily be seen how these aspects might be varied to bring the rate of return back to the level they and potential City investors would need. The company will therefore respond formally as soon as it can, at the latest by the end of September but very probably much sooner.

I am copying this to the Prime Minister, colleagues on E(EA), the Minister for Agriculture, John Sparrow and Sir Robert Armstrong.

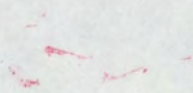
NORMAN LAMONT

Yours -

Nam



- 6 AUG 1982





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Prime Minister

1st JV

PRIME MINISTER

UNITED PAPER MILLS

You have already seen the minutes of (E(EA) regarding this decision, as well as UPM's reaction to the proposal that they should go ahead at a lower level of selective financial assistance. UPM will respond formally by September, but it seems likely they will not go ahead.

WM 9/8

The Ministerial Sub-Committee on Economic Affairs yesterday discussed (E(EA)(82)12th meeting, item 1) the United Paper Mills project at Shotton on which you commented in your Private Secretary's letter to mine of 2 August.

2 There was a general recognition in the Sub-Committee that the proposed total financial assistance to the project was very large (£43m including both regional development grants and selective financial assistance) and also that there was a risk that the project would not be viable in the longer term because it would have to compete with pulp and paper mills in Scandinavia which have the advantage of cheap hydro-electric power. The Sub-Committee did not therefore feel able to approve the proposal.

3 Some Ministers felt however that the main argument in favour of the project was the potential benefit to the United Kingdom forestry industry. Present forestry policy is geared to producing substantial amounts of timber around the end of the century when a shortage is forecast. To achieve this policy extensive thinnings are required in the years ahead and, as a result of recent developments, the market for such thinnings has



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virtually disappeared. The proposed Shotton mill would provide the market which is needed. Rejection of the proposal would therefore be likely to provoke a strong reaction from forestry interests and the Government would need to consider carefully how to deal with that.

4 The Sub-Committee therefore agreed that the Minister of State, Department of Industry might explore, entirely without commitment, whether the project might go ahead with the regional development grants (to which it is entitled automatically) and a smaller amount of selective financial assistance than the £16.6 million proposed. If, as might well be the case, United Paper Mills are unwilling to go ahead with a significantly smaller amount of selective financial assistance, that will be the end of the matter. Otherwise, the Sub-Committee would be prepared to look at a revised proposal, without any assumption that they would necessarily reach a favourable conclusion and with the position of the Chief Secretary, Treasury, fully reserved.

5 I am sending copies of this minute to the Secretaries of State for the Environment, Scotland, Wales, Energy, Employment and Trade, the Minister of Agriculture, the Chief Secretary, Treasury, the Minister of State, Department of Industry (Mr Lamont), Mr Sparrow and Sir Robert Armstrong.

P J

PT
5 August 1982

Department of Industry
Ashdown House
123 Victoria Street

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and see VB
cc: Mr. Walters

10 DOWNING STREET

From the Private Secretary

2 August 1982

Dear Caroline

As I said on the telephone this morning, the Prime Minister has seen the three papers for E(EA) on United Paper Mills' project at Shotton: E(EA)(82)21, 23 and 24.

The Prime Minister is not content with the proposal in E(EA)21 that UPM should be offered £16.6 million under Section 8 of the Industry Act for their project. She sees little merit in the scheme and agrees with the points made by the Chief Secretary in E(EA)(82)23. She also shares the concern expressed by the CPRS in E(EA)(82)24 that there is a considerable risk that in a few years' time the Government will face pressure from UPM to provide an operating subsidy in order to avoid closure of their plant.

Finally, the Prime Minister has noted that the Department of Industry's proposals involve total government assistance of £43 million, and she has commented that if such sums were in fact available, they would be far better spent on the Small Engineering Firms Investment Scheme.

I am copying this letter to the Private Secretaries to other members of E(EA), Robert Lawson (MAFF), Gerry Spence (CPRS) and Richard Hatfield (Cabinet Office)

yours ever

Willie Ricketts

Ms Caroline Varley,
Department of Industry.

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SK

1000 Cash off, DAI, and Tey

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Prime Minister

(1)

PRIME MINISTER

UNITED PAPERMILLS

MUS 30
Agree Alan Walters view?
(please see attached papers)
MUS 30/7

The proposal of the Department of Industry should be rejected. It asks for aid of £43.2million, comprising about a third of a £132million project, which will employ about 1,200 people - of which 270 will be in Shotton.

Most of the employed, probably more than 900, will not be in either intermediate areas, development areas or SDAs. They will be found in the forest areas of mid-Wales, and the Border District. These areas are many miles from Tyneside, Clydeside, and the depressed areas of South Wales or the Mersey.

In terms of Shotton itself, the investment associated with each man there will be £1million, of which £150,000 per man will be subscribed by Government. In other words, this is the typical enormously capital-intensive project which is ill-suited for soaking up the excess supplies of labour left in Shotton by the decline of its traditional industry, industrial base.

Norman Lamont puts great store by the approval of IDOD. But this merely means that there is likely to be a profit for the firm in this operation. Certainly it does not imply that it is a good way to spend Government money. I can see no merit in the scheme.

30 July 1982

ALAN WALTERS

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THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

E(EA)(82)21

COPY NO 2

28 July 1982

PA 102517
46 m aid!
see letter ment. in this scheme.
 The next thing we shall be asked for is a special energy contract. (cf. Bowden).
 If large sums like this are available they would be

CABINET
 MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY
 SUB-COMMITTEE ON ECONOMIC AFFAIRS

see letter sent on help to small business with

UNITED PAPER MILLS: ASSISTANCE UNDER THE INDUSTRY ACT
Memorandum by the Minister of State, Department of Industry

expensive purchase - which is overvalued - has had to be closed down

1 I am seeking the agreement of the Committee to the offer of £16.6 million under Section 8 of the Industry Act towards a £132 million project to construct and operate a pulp and newsprint mill at Shotton.

I am in full agreement with the Treasury. No

The Project

2 The applicant is a Finnish company, United Paper Mills (UPM), which is one of the largest Scandinavian paper companies. They propose to float a UK company in which they would hold 51% of the equity. The mill will use the latest technology, producing 180,000 tonnes/per annum of newsprint of a quality suitable for offset printing. Production per man will be better than any present or planned mill in the UK and equal to the most modern plant anywhere. The mill's output will be sold largely to non Fleet Street producers and will displace imports, primarily from Canada and Sweden.

3 At present the UK imports over 90% of its newsprint and the EEC as a whole imports 66% of its demand; thus the project provides a clear industrial advantage. On top of this, the mill will source all its wood from the UK, chiefly from Wales, the North of England and Southern Scotland. It will consume 510,000 cubic metres of pulpwood annually and 90% of the annual

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production in Wales. Detailed surveys have shown that there is no alternative market for this quantity of wood which otherwise would remain unused and, essentially, wasted. The sales, approximately £10 million a year at constant prices, will be genuinely additional and bring significant benefits to the forestry sector.

4 The project will also provide a significant number of jobs; 270 in Shotton itself, an SDA and a steel closure area; a further 840 in forestry-related jobs, largely in rural parts of Wales and the North of England; and 100 more in consequential transport and ancillary employment. These jobs would make a most important contribution to the economy of severely depressed areas, though that is not the main reason for supporting the project.

5 I recognise that the project requires a high level of support since it would also attract £26.2 million in Regional Development Grants. However UPM do have other options for their development and only have the capacity to undertake one such project. I am confident that this offer is the lowest that could attract them to the UK. Despite the risks of the project, particularly the £/\$ exchange rate, the internal rate of return, at 18% has been negotiated down from their normal criterion of 20%; it does seem that the project would be genuinely additional.

6 Because of its size, IDAB gave the project very careful consideration and discussed the underlying assumptions with the Forestry Commission. IDAB concluded that the wood sales to UPM would be additional and that the case did meet the criteria for assistance under Section 8 of the Industry Act, including the value for money threshold set by the agreed methods of economic analysis. This requires the net benefits to the UK economy to exceed the costs of assistance by at least 50%. An assessment of the benefits of the case turn on a commercial judgement of the future of the woodpulp market, exactly the kind of point on which IDAB was set up to advise Ministers. I would be most reluctant to see their advice on a commercial matter overturned. The

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Treasury however are still concerned both about the value for money and the amount of expenditure involved. I attach copies of the correspondence between us.

Recommendation

Given that the case meets our published criteria for support and has been endorsed by IDAB, I recommend that UPM be offered £16.6 million under Section 8 for this project. The offer would also be subject to the approval of the European Commission and of Parliament.

NL

Department of Industry
28 July 1982

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DEPARTMENT OF INDUSTRY
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From the
Minister of State

Norman Lamont MP

The Rt Hon Leon Brittan QC MP
Chief Secretary
HM Treasury
Parliament St
London SW1

23 June 1982

Dear Leon

I am writing to ask for your agreement to the offer of £16.6 million under Section 8 of the Industry Act towards a £132 million project to construct and operate a pulp and newsprint mill at Shotton. The applicant is a Finnish company, United Paper Mills (UPM). I understand that your officials are concerned about the level of assistance and whether it represents value for money.

I recognise that this is an important case but it has been considered extremely carefully by IDAB who have discussed it in detail with the Forestry Commission. They have examined all the assumptions about the project and its benefits to the UK including whether the wood sales to UPM would be genuinely additional. IDAB's conclusion was that these sales would be additional; that the case did meet the normal minimum criteria for assistance under Section 8; and that it should be supported. I endorse this conclusion. The whole purpose of IDAB is to have access to advice from experienced businessmen on questions of this kind and their advice must be given great weight.

This is particularly so for Section 8 assistance which requires there to be a significant net benefit to the UK economy and is not to be judged in terms of cost per job. I see little point in asking them to exercise their judgement on matters such as these if we then act contrary to their recommendations. It was for this reason that the Industry Act gave IDAB the opportunity, should the Board wish to take it, of asking the Secretary of State to inform Parliament of a case where he rejects their recommendation with respect to the use of his powers under Sections 7 and 8 of the Act.

I hope therefore that you will be able to accept IDAB's recommendation. The project will provide an efficient and modern mill, all of whose output will displace imports and which will utilise otherwise unusable small roundwood. There are therefore

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very significant industrial benefits as well as additional employment in a steel closure area and in other other areas of higher than average unemployment.

You should be aware that the company is committed to talking to its potential customers this week and in the light of this is likely to announce its aspirations on Friday. Thereafter there is likely to be considerable public interest in this case.

I am copying this letter to Nicholas Edwards, George Younger and Robin Ferrars who also have an interest in this case.

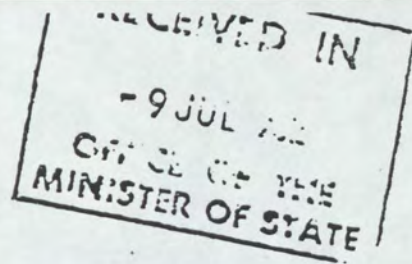
Yours -

NORMAN LAMONT

N Lamont

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Treasury Chambers, Parliament Street, SW1P 3AG

Norman Lamont Esq
Minister of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1

8 July 1982

Dear Norman,

UNITED PAPER MILLS

You wrote to Leon Brittan on 23 June about this project. George Younger and Wyn Roberts have also written in support of it.

I have given it very careful consideration because of the difficult issues it raises. The project has many good features but the cost of it must, as you will understand, be a matter of concern. I would value a discussion with you, not so much about the details of the project - which our officials have already examined at some length - as on the broader issues of the cost and the context in which it has to be seen.

I am concerned about the cost in two senses: first, about the value for money which the project would offer; and secondly, about the pressure on public expenditure in this area.

The project is poor value for money both in terms of cost per job and in terms of the balance of resource costs and benefits.

Section 8 assistance is not subject to a cost per job limit, but it is nevertheless instructive to compare the cost per job of the assistance proposed with what would be available if the assistance was provided under Section 7. Even if allowance is made for all the additional jobs in forestry and

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in support services (something which could not be done under the Section 7 guidelines) I am told that the cost per job comes out at over £13,000 - nearly double the Section 7 limit for a Special Development Area. Not all of the jobs created in forestry, it should be said, will be in assisted areas. The price for 276 jobs directly created at Shotton is extremely high.

Section 8 assistance does, as you say, require that there be a significant net benefit to the UK economy. The analysis carried out by your economists demonstrated that the maximum resource benefit from this project only just exceeded the threshold of one and a half times the assistance provided. That threshold is the one which is also used to judge whether Section 7 assistance provides value for money. The resource benefits could easily fall below it. I find it hard to see that there is an overwhelming national benefit which justifies assistance so much more generous than would have been justified on regional grounds.

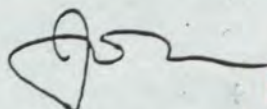
My second area of concern is the public expenditure context. This project would attract £26 million of RDGs as well as £16.6 million of selective assistance over the next few years. Your Department is already bidding for substantial additions to its programme in the Public Expenditure Survey - not least on account of a forecast upturn in RDG expenditure - and Patrick Jenkin has made it clear that he will find it difficult to identify the requisite offsetting savings. In these circumstances I am bound to ask you to consider most carefully whether you could not forgo a project which is at best marginal in economic terms. Unless alternative ways of saving money can be found we shall need to be very hard-headed about projects which, like this, represent poor value for money. Indeed, you will no doubt already be looking into the possibility of increasing the stringency of your criteria for selective assistance as one possible means of holding down expenditure.

I accept that we should not lightly overturn the views of IDAB and act contrary to their recommendations. But I cannot accept that the Treasury's role should be circumscribed by being obliged to agree to whatever IDAB recommend. The papers put to IDAB made it clear that the assistance proposed was subject to Treasury approval. We have to take account of other considerations than those of importance to IDAB - including in particular the pressure on public resources - and we may place a somewhat different weight on different arguments.

I will ask my Private Secretary to contact yours to arrange a meeting.

I am sending copies of this letter to Nicholas Edwards, George Younger and Robin Ferrers.

John Wakeham



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JOHN WAKEHAM