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FROM: CHIEF SECRETARY
DATE: 19 November 1984

PRIME MINISTER

COAL FIRING SCHEME

I have seen the letter of 13 November from Peter Walker's Private Secretary suggesting that the review of the Coal Firing Scheme should be deferred for 6 months and that in the meantime the scheme should be kept open for applications within the present £75 million commitment ceiling.

2 I agree that it makes sense to delay the review. The merits of the Scheme depend critically on the balance between coal supply and demand. A PSBR benefit arises only if, first, it creates additional conversions to coal firing and, second, burns coal which would otherwise be put to stock or sold at a loss abroad. We cannot form a clear view on this second part until after the strike. It is quite possible - if uneconomic pits are closed quickly after the strike - that there will not be excess stocks beyond those needed for power stations.

3 For this reason I cannot agree to Peter's proposal to keep the scheme open after December pending the review. I understand that something of the order of £25 million will remain uncommitted at the end of December. Accepting Peter's proposal would mean allowing this sum to be committed to grants for coal conversion without any clear view on the PSBR implications. This would be unwise at any time and must surely be wrong when the NCB is already a massive burden on public expenditure.

4 I am also uncertain whether it would be possible to make a "low key" announcement that the scheme was being kept open. Any announcement on coal attracts considerable

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attention at present. Apart from the oddity of encouraging the use of coal in present circumstances, it might be interpreted as indicating that the Government was prepared to ease up on pit closures. I think that for now we should make no announcement (I understand very few applications are being made under the scheme at present). When the stike has ended we should say, if asked, that the scheme is being reviewed as we intended, and that applications are not being accepted while the review is in progress.

5 In my view we should put the scheme into suspense from the end of December, accepting no further applications but take no final decisions on its future until the review has been completed.

6 I am copying this minute to Peter Walker and Norman Lamont.



PETER REES

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