

PREM 19/894

PART 1

Confidential Filing

PM's Meeting with Lord Plowden
to discuss the British Aluminium
Company's smelter at Inceyfordon

PRIME
MINISTER

December 1981

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
7.12.81		18.11.82					
14.12.81		1.2.82					
17.12.81		16.3.82					
24.12.81		19.3.82					
29.12.81		— Ends —					
30.12.81		X					
5.1.82							
12.1.82							
26.1.82							

PREM 19/894

"THE CASE FOR SURVIVAL" - INVERGORDON SHELTER ACTION
GROUP 1982

IS FILED IN YELLOW FOLDER AT REAR OF THIS FILE.

PART 1 ends:-

E (82) 31 19.3.82

PART 2 begins:-

Scottish office to MCS 22.3.82

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

1. House of Commons Hansard,

18 January 1982, columns 21-31 and 42-43

2. House of Commons Hansard,

21 January 1982, columns 436-514

Signed Wayland Date 18 September 2012

PREM Records Team



10 DOWNING STREET

(2)

Prime Minister

Invergydon

The Scottish newspapers have it that Invergydon is to be discussed at E on Tuesday. Please see attached cuttings.

I have suggested to Mr Younger's office that they draft alternative forms of words for use (by you at questions and by Mr Younger) after the meeting — and for discussion, perhaps, at the meeting.

MUS 19/3

Thatcher boost for Invergordon

GLASGOW HERALD
TUES. 16 MARCH
FRONT
PAGE

Highland case may yet save the smelter

By STUART LINDSAY and WILLIAM RUSSELL

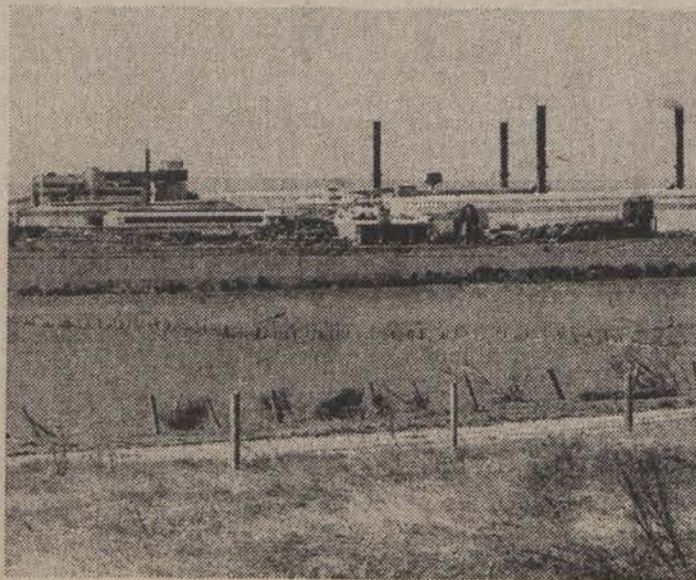
HOPES soared last night that the Invergordon smelter would reopen soon after the unprecedented success of a Highland delegation who argued the case with the Prime Minister.

For an hour they presented arguments on the impact of the closure on the region, and the country. At the close the delegation announced themselves well satisfied with the outcome.

In an unusual move Mrs Thatcher made it known that she had been deeply impressed by the delegation from the Highland Regional Council, Ross and Cromarty District Council and the action committee representing the 890 smelter workers who lost their jobs. She was particularly impressed by the fact that the delegation did not "come in and thump the table."

Yesterday's main development was the Prime Minister's keen interest in the proposal, first made by Rear-Admiral David Dunbar-Nasmith that the power contract for the smelter should be based on the cost of hydro-electricity generated in the Highlands at 0.8p per unit and fed into the national grid rather than the nuclear generation costs of 1.7p per unit based on production costs at the Hunterston 'B' power station. This had led the smelter into making a £200 loss on every tonne of aluminium being produced.

This argument was developed strongly by the convener of the district council, Mr George Finlayson, who told the Prime Minister: "The Highlands are really wealthy beyond their wildest dreams. Cheap electricity was supposed to regenerate the local economy but it has not been harnessed in the Highlands, although we have enough for major industry and the local consumers."



INVERGORDON: Time is the crucial factor now

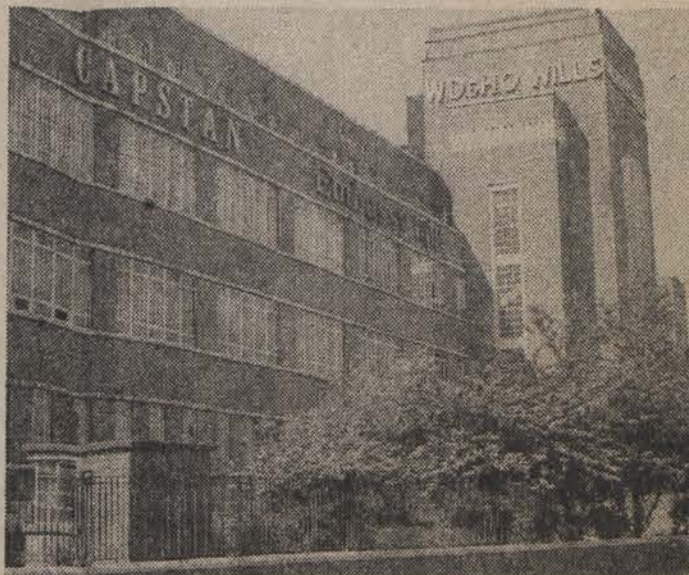
"I am not living in a dreamland," said Mr Finlayson. "I'm living in the real world. We have the resources and we have the people dedicated to the success of the smelter."

Mr Finlayson's plea to Mrs Thatcher was the one which all observers at the meeting agreed had made the greatest impact. Ross and Cromarty MP Mr Hamish Gray, Minister of State for Energy, said: "No stone will be left unturned to try to find a solution to the problems of reopening the smelter now. The Prime Minister has been most impressed."

Mrs Thatcher herself told the delegation: "I am very impressed by your presentation, the sincerity and the deep concern you expressed. Clearly I want to help you. I cannot say 'yea' or 'nay' today."

"You have put a very impressive case. Clearly the greatest hope lies in the hydro-electric option which the Government are already looking at and we will now actively pursue it with the greatest possible urgency."

While the Act by which the North of Scotland Hydro-Electric board was established gives them



ALEXANDRA PARADE: 600 jobs will go in 1984

the duty of regenerating the Highland economy, and in particular large power users, it also provides that they must protect domestic consumers. Government thinking is that legislation would be required for any power deal basing the price to the smelter on Hydro-generation costs. Time is also running, out with the smelter on a care-and-maintenance basis only until June.

Shadow Scottish Secretary Mr Bruce Millan, while he saw the problems of a hydro-based power price and consequent tariff increases for the North board's

domestic consumers, did not indicate that he would be opposed to any special legislation which might reopen the smelter.

All members of the Highland delegation were equally buoyed up by their meeting with the Prime Minister. Action committee chairman Mr Archie McGreevy said: "The smelter was born out of a political decision that the UK should be self-supporting in aluminium and we are maintaining that the logic now is as strong as it was 15 years ago. We feel that view is shared by Mrs Thatcher."

Thatcher speeds move to save Invergordon

By GEOFFREY PARKHOUSE
and STUART LINDSAY

THE Prime Minister is to chair a special Cabinet committee early next week to continue work towards saving the Invergordon smelter.

Mrs Thatcher told the Invergordon delegation, who had 80 minutes with her at Downing Street on Monday, that she intended to accelerate the work being done by senior Cabinet colleagues to try to save the 890 jobs at stake.

The special Cabinet committee was set up by Mrs Thatcher who is determined to find a new power deal which will keep the plant going. Her Monday meeting with the Invergordon delegation has increased her determination to find a way out.

Before the meeting next week, will be a plan to channel all Scottish hydro-electric power in the Highlands to service the smelter. This would mean special legislation by the Scottish Office to maintain the statutory obligation on the North of Scotland Hydro-Electric Board to provide cheap domestic power for the Highlands.

This obligation would have to be met by Government action to use South of Scotland energy from coal, oil and nuclear power stations.

Cabinet Ministers, prodded by the Prime Minister, are working hard on devising a way by which this can be financed.

A short Scottish Office Bill would entail no problem in Parliament, as there could be

little opposition to it from the other parties.

Despite the urgency injected into the situation by the personal backing of the Prime Minister, it is unlikely that a solution can be thrashed out in time for the Hillhead by-election on March 25.

At a press conference in support of Mr Gerald Malone, the Tories' Hillhead candidate, Mr George Younger, Scottish Secretary of State, predicted that a new deal would be agreed upon to reopen Invergordon, but he emphasised that the timetable would prevent any announcement before next Thursday.

The provision of electricity to a reopened Invergordon smelter, at a price based on the generation costs of hydro schemes in the Highlands, could be put to the test

of public approval in six weeks.

Indications yesterday were that the Government may have decided to go ahead with the hydro option by that time. But if qualms expressed by shadow Scottish Secretary Mr Bruce Millan and others threaten that solution to the smelter problem, the elections for the Highland Regional Council in May could provide the public response to the proposal.

Meanwhile, at Fort William, 70 staff and shift foremen came out on strike at the British Aluminium Company's newly modernised smelter in protest against the drafting-in of some members of staff formerly employed by BA at Invergordon.

Profile of smelter's champion

— Page 7.

G.H.
WED 7
MARCH 74
FP

PARLIAMENT

Smelter hopes rise

Solution in hydro-electric contract

By MARTIN DOWLE, Our Political Correspondent

Hopes for saving the Invergordon smelter switched dramatically last night from a coal-based solution to a hydro-electric power contract following a meeting between the Prime Minister and a smelter delegation.

Mrs Thatcher declared the "greatest hope" now lay in the hydro-electric option, and she told the delegation: "We will now actively pursue it with the greatest possible urgency."

Scottish Office Ministers are now moving fast to try to stitch together a solution which they would dearly like before the Hillhead by-election next week

because of the political benefits for the Conservatives.

But it now means that the rescue plan — which up until now has been based on taking electricity from the coal-fired power station at Kincardine — is likely to rest on the long-term attractiveness of a hydro-electric contract.

The argument for hydropower was put forcibly to the Prime Minister by Mr George Finlayson, convener of Ross and Cromarty District Council, who claimed that it could be provided at the incredibly cheap rate of 0.8p per unit.

This compares with 1.0p for the smelter at Lynemouth, Northumberland, where Alcan have a special deal with the National Coal Board, and Anglesey, where the RTZ smelter, linked to the development of the Dungeness B nuclear power station, get their electricity at 1.3p per unit.

Invergordon, at the time of the closure, in their deal with the South of Scotland Hydro-Electric Board, received their power at 1.7p per unit, though the Invergordon Action Group have been puzzled to see how it could have been less than 2p.

Mr Finlayson, who worked for 46 years on the accounting side of the North of Scotland Hydro Board, argued that a hydro-power contract could be implemented more swiftly than the Kincardine deal, and in the long term would be considerably cheaper.

He said that the coal plan had initial short-term attractions, because it would accelerate on cost, whereas the hydro plan would diminish looking into the long-term future.

The Prime Minister said after the meeting that she had been "really impressed" by the presentation, but it was being pointed out last night that no solution could involve any extra money being handed out by the Government.

The Government would in any event be racing against time to complete such a deal by June, when the six-month period over which British Aluminium, the former operators, agreed to keep the plant in working order, comes to an end.

Any hydro-power deal would require changes in legislation because the articles of association of the Hydro Board say that

Highland economy, they must also provide the electricity at an equal price for all consumers.

The plan put forward by the delegation yesterday would be two-thirds hydro-power and one-third from the grid, and it is understood that it would require a subsidy of 15p per consumer throughout the United Kingdom per annum.

In some ways, the hydro solution would be actually easier to implement than the coal-fired one, since under the latter the producer has to actually acquire all or part of a power station.

Mr Hamish Gray, Energy Minister and MP for Ross and Cromarty, who attended the Downing Street meeting, expressed the level of cautious optimism about saving the plant when he said: "I am too long in the tooth to raise hopes unnecessarily."

"We have seen the people of Easter Ross have their hopes raised and dashed on a number of occasions before. But I believe no stone will be left unturned to find a way of reopening the smelter," he said.

Mr John Robertson, vice-convenor of Highland Regional Council, summed up the delegation's mood as one of "qualified optimism," but argued that "euphoria" was a totally inappropriate word.

Family invited.

McLAREN — At Duntocher Hospital, on 15th March, 1982. **WILLIAM McLAREN** (formerly of 12 Balmeg Avenue, Giffnock and Brown Brothers (Boxes) Ltd / Clyde Packaging Ltd), youngest son of the late Mr and Mrs William McLaren of Bothwell and Pollock Shields, brother of Mrs William Shearer of Troon; Funeral service at Linn Crematorium, Lainshaw Drive, G45 tomorrow (Thursday) at 3 p.m.; no flowers (by request).

MARSHALL — Suddenly, at the Western Infirmary, Glasgow, on 15th March, 1982. **ALEXANDER ROBERTSON MARSHALL**, 15 Varn Road, Glasgow G14, beloved husband of Daisy and loved father of Carla, and grand-father of Susan and Graeme. Funeral to Glasgow Crematorium, Maryhill, tomorrow (Thursday), arriving at 10.25 a.m., to which all friends are respectfully invited; no flowers or letters, please.

MARTIN — At Monklands Hospital, Airdrie, on 15th March, 1982. **CHRISTINA LINDSAY**, 51 Langside Avenue, Glasgow, beloved wife of the late Patrick Martin. Service at St. Columba's RC Church, tomorrow (Thursday) at 10 a.m.; funeral thereafter to Bothwell Park Cemetery, arriving at 10.45 a.m.

MEIKLE — Suddenly, at home, Nether Kypessie Farm, Lesmahagow, on 16th March, 1982.

WYLIE — Peacefully, at Heathfield Hospital, Ayr, on Monday, 15th March, 1982 (after a short illness). **JAMES ALEXANDER**, beloved husband of Elizabeth Paisley, and father of Evelyn and grand-father of Brian, Ross, and Yvonne. Funeral service at Masonhill Crematorium, By Ayr, tomorrow (Thursday), at 11.30 a.m.; no flowers or cards, please.

310. In Memoriam

McLAREN — In loving memory of my dear wife and our dearest mother, **JEAN**, died 17th March, 1981. Just a memory fond and true. From those who thought the world of you. — From her loving husband, Tom, and daughters Lyn, Jean, and Sheila.

LOTHIAN — Liberals have promised open government and greater local democracy if they are elected to power in the regional elections in May. Their manifesto, launched in Edinburgh yesterday, also includes a 12-point programme for encouraging employment in the area.

The Liberals say they will bring

They also want to set up committees in each area region to gather local views to relieve the main committees of much decision-making.

Among their ideas encouraging employment fund to help local business competition for new and

FARMING

Feed men hit at EEC levy move

By IAN MORRISON

A NEW Common Market threat to the housewife's shopping basket came under attack yesterday from animal feed manufacturers.

Compounders claim that by keeping input costs in the production of meat and milk down to the "absolute minimum" they have helped livestock farmers

brans and other milling offals. "If the proposal is implemented a valuable raw material will become totally uneconomic," he warned.

Other substitutes such as maize, gluten, and brewers' and distillers' grains were also coming under closer scrutiny by Brussels.

shaw, explained: "We don't want to see it go up by more than 6% or the gap between EEC and world cereal prices will widen.

Craig Anderson writes from Brussels: As Common Market Farm Ministers continued their "mini marathon" negotiations over this year's EEC farm price rises, Mr Peter

Estate owners' radical scheme

ESTATE owners in Scotland have produced radical proposals for an integrated national policy to protect less-favoured rural areas, such as the Highlands and Islands.

Their submission to the House of Commons Agricultural Committee — whose members are com-

Catt Stee Lt. Med

BOUNDARY COMMISSION FOR SCOTLAND

General Review of Parliamentary Constituency Boundaries

House of Commons (Redistribution of Seats) Acts 1949 to 1979

NOTICE OF REVISION OF PROVISIONAL RECOMMENDATIONS LOTHIAN REGION

NOTICE IS HEREBY GIVEN, That the Boundary Commission for Scotland, having considered the report of the local inquiry held at Edinburgh on 29 and 30 April, and on 1 and 4 May 1981, by the Assistant Commissioner, Sheriff Principal F. W. F. O'Brien, have decided to revise their provisional recommendations for parliamentary constituencies in Lothian Region by altering the contents, in so far as they affect City of Edinburgh District only, as follows:

Name of Constituency (1)	Contents of Constituency (2)	197 Parliamentary Electorate (3)
BURGH CONSTITUENCIES		
	The following regional electoral divisions and district wards in the City of Edinburgh District:	
Edinburgh Central	21, 26, 27, 28, 29	56,600
Edinburgh East	22, 30, 31, 39 and district ward 30	52,000
Edinburgh Leith	12, 13, 14, 17, 18 and district ward 29	62,900
Edinburgh South	32, 33, 34, 37, 38	60,800
Edinburgh Pentlands	10, 24, 25, 35, 36	57,800
Edinburgh West	11, 15, 16, 19, 20	58,500

FOOTNOTE

- i. The regional electoral divisions and the district wards referred to in column (2) are as constituted by the Lothian Region (Electoral Arrangements) Order 1978 and the City of Edinburgh District (Electoral Arrangements) Order 1979 respectively.
- ii. The 1978 electoral quota, which is being used in the present general review, is 53,649.
- iii. A copy of this notice, with the Assistant Commissioner's report and maps illustrating the revised recommendation, may be inspected at the following Regional / District Council premises:

Regional Headquarters, George IV Bridge, Edinburgh
 City Chambers, High Street, Edinburgh
 Blackhall Library, Hillhouse Road, Edinburgh
 Colinton Library, Thorburn Road, Edinburgh
 Corstorphine Library, Kirk Loan, Edinburgh
 Fountainbridge Library, Dundee Street, Edinburgh
 Gilmerton Library, Gilmerton Dykes, Edinburgh
 Leith Library, Ferry Road, Edinburgh
 Morningside Library, Morningside Road, Edinburgh
 Portobello Library, Rosefield Avenue, Edinburgh
 Sighthill Library, Sighthill Wynd, Edinburgh
 Stockbridge Library, Hamilton Place, Edinburgh
 District Council Office, Kirkliston
 District Council Office, South Queensferry
 Council Buildings, Court Street, Haddington
 Brunton Hall, Ladywell Way, Musselburgh
 1 White Hart Street, Dalkeith
 14 Lothian Street, Bonnyrigg
 2 Clerk Street, Loanhead
 33 High Street, Penicuik
 District Headquarters, South Bridge Street, Bathgate
 County Buildings, Linlithgow
 1 Cedric Rise, Dedridge, Livingston
 8 Newtown Street, Duns
 District Council Sub-Office, Eyemouth

REPRESENTATIONS with regard to these revised recommendations may be made to the Commission within one month of the date of publication of this notice and should be addressed to the Assistant Commissioner for Scotland, Room 226, St Andrew's House, Edinburgh EH1 3DE.

BOUNDARY COMMISSION FOR SCOTLAND General Review of

House of Commons 1981 NOTICE OF PROVISIONAL RECOMMENDATIONS FOR PARLIAMENTARY CONSTITUENCIES IN THE LOTHIAN REGION

NOTICE IS HEREBY GIVEN, That the Boundary Commission for Scotland, having considered the report of the local inquiry held at Edinburgh on 24 March 1981 by the Assistant Commissioner, Sheriff Principal F. W. F. O'Brien, Q.C., have decided to revise their provisional recommendations for parliamentary constituencies in Lothian Region only, namely:

- i. the proposed county constituency of Roxburgh and Berwickshire
- ii. The proposed county constituency of Tweeddale, Ettrick and Lauderdale

A copy of this notice and maps illustrating the revised recommendations may be inspected at the following Regional / District Council premises:

Regional Headquarters, Newington, Edinburgh
 8 Newtown Street, Duns
 District Council Sub-Office, Council Chambers, Paton Street, Edinburgh
 Municipal Buildings, Selkirk
 High Street, Hawick
 Exchange Street, Jedburgh
 Town House, The Square, Rossetia Road, Peebles
 Council Buildings, Court Street, Livingston
 43 Powdermill Brae, Gorebridge

REPRESENTATIONS with regard to these revised recommendations may be made to the Commission within one month of the date of publication of this notice and should be addressed to the Assistant Commissioner for Scotland, Room 226, St Andrew's House, Edinburgh EH1 3DE.

Dated this 16th day of March 1981
 By Order of the Board



00-E9543.

involved in project
 s. The work will
 nents to design,
 Engineer's staff, HQ
 orities, Community
 s. Applicants must
 A current driving

posts)
 37371.

in Careers Guidance
 the probationary
 es in Further and
 requirements of the
 be advantageous.
 alist team providing
 yment advice for
 cademic potential,
 s. Ref. G3433.

pointment, Priesthill
 Centre — Priest-

Urban Aid Programme
 tion of the project.
 na in Careers Guide-
 be involved in the
 vice, but in addition
 people who are not
 in contact with the
 n to register and to
 training or further
 3434.

posts are funded
 and are temporary
 they will be located at
 areas.

DER

37371 or 36666

PERSONAL
 COLUMN
 starts here

to give thanks to the
 policies XVI, 34.

MESSAGES

single, separated,
 widowed men and
 ne for the brochure
 at why thousands
 countryside. 041-
 10807R

LADY wishes to
 h no ties for occa-
 sions out. Friendship
 Box No. E172,
 Publications. 31525N

ities, would like
 nition for social
 % Reply to Box
 man Publications.
 62719H

OUR CAR-

though the board have a specific
 function to help regenerate the

George's case melts the Iron Lady

By STUART LINDSAY

THE SLIGHT, silver-haired figure of George "Dodie" Finlayson, convener of Ross and Cromarty District Council, looks the least likely on earth, and he would be the first to agree, to rivet the attention of Prime Minister Mrs Margaret Thatcher.

Yesterday, however, when the full impact was being assessed of the delegation which succeeded in persuading Mrs Thatcher that the Invergordon smelter should and could be re-opened, it was his contribution which everyone agreed had tipped the balance.

For the pensioner bachelor, born on a croft not far from his present home in Muir of Ord, it was back to the corridors of more mundane power.

He played down his own contribution: "I think the whole delegation performed magnificently — it was superbly planned and presented and everyone made a contribution.

"I was concentrating on the vital issue of the power contract, but I think others were concerned with even more important issues; the people concerned, a young workforce most of them with young families whose lives could be destroyed.

"I always felt that if we could get Mrs Thatcher's ear and put our case she would listen to us and she would agree."

The strength of that case, however, owed much to Mr Finlayson's long-held and total commitment to the old ideal of cheap hydro power for the Highlands.

When he retired five years ago he had spent 46 years, from the age of 17, in the electricity industry, first with the Ross-shire Electricity Supply Company, then with the Grampian Supply Company and finally with the North of Scotland Hydro Electric Board, in charge of their accounts in the Northern Area.

"I grudge every day when I see the millions of units of electricity which are pouring away down our Highland rivers, unused," he said.

In the early 1950s the Hydro board produced figures assessing that the potential of hydro power to produce 10,000m units of electricity in the Highlands existed, but only a third of that has been developed as the emphasis has shifted to nuclear power and the problems of obtaining capital for investment have multiplied.

For all that, however, George Finlayson believes that the hydro board has been the greatest force for progress in his region's history, arresting a century of depopulation.

"What we argued was quite simple," he said. "The resources of the Highlands should be used in the Highlands. Unless they are, what we all thought was a new dawn breaking when they opened the smelter, will turn out to be a pretty gloomy sunset."

WOMEN

It's



Contrasting the black, look is (above) Andre Lar rust puddle dot chiffon p slim sheath style with and (right) Fendi's re coat printed with rit

HOME NEWS

Make glue-sniffing a crime urges SNP

A REGIONAL councillor has called for legislation to make the abuse of solvents and their sale to minors criminal offences.

SNP Councillor Henry Constable told Central Regional Council's social work committee yesterday that he felt the authorities were not going far enough in their efforts to stamp out glue-sniffing.

"We have tried to help through all the

CONFIDENTIAL



Prime Minister

(2)

M/S 19/3

MS

PRIME MINISTER

INVERGORDON SMELTER: PROPOSED NEW POWER CONTRACT

I have seen the Memorandum of the Secretary of State for Scotland (E(80)31) and, in view of the proposal to legislate to remove, for limited purposes, the "undue preference" provision in the Electricity (Scotland) Act 1979 as it affects the North of Scotland Hydro-Electric Board (NSHEB), and the fact that the Secretary of State considers the "Coal Option" unrealistic, I confine myself to examining the Community implications of the "Hydro option".

I consider that if the price for Hydro Electricity charged to the smelter operator is reasonably related to the actual cost of producing the electricity any possible difficulties would be minimised. In particular, having regard to the EEC Treaty, the principal source of difficulty would seem to be in relation to that aspect of the proposal which could be said to constitute a State Aid within the meaning of Article 92 of the EEC Treaty. However bearing in mind the employment situation and other conditions in that part of Scotland, it seems reasonable to assume that the Commission could be persuaded that Article 92.3(a) was applicable; namely that the aid was to promote the economic development of an area where the standard of living is abnormally low or where there is serious under-employment.

It would also be of assistance if the price proposed to be charged could be shown to be comparable with the cost of electricity to other aluminium producers elsewhere in the Community.

It is possible that Article 86 might also be relevant in relation to the imposition of unfair trading conditions or the application of dissimilar conditions to equivalent transactions. However since it appears that the smelter would take the equivalent of some 50% of the NSHEB output and that no other consumer comes within reach of that level of consumption it seems unlikely that this would be a real difficulty. In that connection, consideration would also require to be given to the effect of Article 90.2 since clearly the NSHEB is an undertaking entrusted with the operation of a service of general economic interest.

CONFIDENTIAL

CONFIDENTIAL



2

However if the Commission do agree to the State Aid aspect of the proposed scheme in terms of Article 92.3, the risk of their opposing the scheme under Article 86 or 90 would obviously be minimised.

Whatever happens it would be essential that there be full consultation with the Commission in relation both to the legislative form of the proposal and to the way in which it would be expected to operate. In addition, in so far as the scheme constitutes a State Aid, it would require to be notified to the Commission under Article 93.3.

My view is based on the information in the Secretary of State's Memorandum, but there are a number of factual points in respect of which I would require further information before I could give any more specific advice.

This Minute is copied to other Members of E Committee, the Secretary of State for Scotland, the Attorney General and to Sir Robert Armstrong.

Cms

for M of C

19th March 1982

CONFIDENTIAL



22 MAR 1957



COMPTROLLER

RECEIVED

cc Mr. Gow
Mr. Scholar

PRIME MINISTER

Invergordon

We have had an approach this week from Mr. John Corrie, M.P. about Invergordon. He suggested that it would be helpful if a group of Scottish backbench MPs could call on you to discuss Invergordon. The purpose would be to show that the Government supporters were taking positive action over Invergordon, and thus avoid leaving the field free for the Government's opponents.

I explained to Mr. Corrie that you had a firm rule about your own involvement on closures, and that this was to limit yourself to meeting the constituency Member, leaving other deputations to see the Departmental Minister concerned. I further explained that you had made an exception over Invergordon because of the restrictions of Ministerial office on Mr. Gray, and that you had therefore seen him a second time with a local deputation.

Mr. Corrie accepted that you had become more involved than usual over this closure, but said that Mr. Gray had been behind their approach. He said that he understood that your programme was very tight, and suggested that a letter from you to him, commenting on the active interest of the Scottish backbench Members, might enable them to achieve the publicity they sought. I told Mr. Corrie that I would raise this with you, and that you would of course be ready to see them if they eventually felt that this would be the best solution.

I have since been in touch with Mr. Younger's office. He is not at all keen to suggest terms in which you might write to Mr. Corrie at present. I understand that he feels that the opposition is already difficult, and that this looks like an attempt by Mr. Gray to bring you even more publicly into the discussion.

Events may now move quite fast, with further discussion scheduled for Tuesday morning. I think that we should let matters

/ rest

rest for the present, but that you or Ian might seek to have a word with John Corrie when you next meet him in the House. Content?

M. A. PATTISON

19 March 1982

MG



Prime Minister

(2)

2 MARSHAM STREET
LONDON SW1P 3EB

MCS 19/3
[Handwritten signature]

My ref:

Your ref:

19 March 1982

Dear Michael

Invergorran

The Secretary of State hopes that the Prime Minister will excuse his absence from E Committee next Tuesday 23 March. He is committed to a programme of meetings and visits in Liverpool all day Monday and Tuesday morning; and will then be travelling on to Glasgow to make a speech at the final rally of the Hillhead By-Election.

Yours sincerely

J J Jacobs

J JACOBS
Private Secretary

Michael Scholar Esq

ROSS AND CROMARTY DISTRICT COUNCIL

Prime Minister (2)

MES 22/3

Convener of the District,
G. D. Finlayson, J.P.

Telephone No. Muir of Ord 870677



"The Birches",
West Road,
MUIR OF ORD.
IV6 7QN

GDF/BJM

18th March, 1982

The Prime Minister,
10 Downing Street,
LONDON.

R.22.

Dear Prime Minister,

May I express my most sincere thanks for the extreme courtesy extended to the delegation which you so graciously received at No. 10 Downing Street. I can assure you that I deeply appreciate the opportunity given to us to emphasise the tragic consequences in both social and economic terms following the closure of the smelter at Invergordon. In the context of a peripheral area such as the Highlands the opening of the smelter was seen as a new dawn breaking and its early reactivation would see a fresh resurgence of confidence in a truly wonderful people which I am privileged and proud to represent.

I therefore do trust that a power contract linked to our richest natural resource, the waters which flow from our lochs and rivers, can be achieved at the earliest possible date and which I am convinced would lead to a new operator taking over.

Ross and Cromarty District Council will do all in their powers to help in every way towards the revitalisation of the Highlands and following our meeting with you we do feel that you and the Members of your Government are deeply sincere in your efforts to ameliorate the tremendous problems facing us at the present time.

May I again personally thank you for receiving us in such a friendly manner and listening to our heartfelt plea for a solution to our case put forward on behalf of a young workforce and their families whose roots are now embedded in a much more pleasant environment than they had experienced in years gone by.

Yours very sincerely,

G.D. Finlayson
Convener



*Mc Min Russell
Scottish Office*

Prime Minister (2)

ms 19/3

Highland

Chief Executive
R.H. Stevenson, M.A., LL.B.

Highland Regional Council
Regional Buildings
Glenurquhart Road
Inverness IV3 5NX

Telephone (0463) 34121
Telex No. 75313

Please ask for **Mr. Stevenson**

Our ref **RHS/SF**

Extension No **201**

Your ref

Date **17 March, 1982.**

R19 pps

Rt.Hon. Mrs. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
LONDON.

MT

Dear Prime Minister,

INVERGORDON ALUMINIUM SMELTER - POWER CONTRACT

I am writing on behalf of the representatives of this Council, Ross and Cromarty District Council and the Invergordon Work Force to thank you most sincerely for receiving our delegation in Downing Street on 15 March. All who attended were appreciative of the attentive and constructive way in which you heard their representations.

The representatives were particularly interested to note that thinking now appears to be focussing strongly on the hydro-power option, which is much in accord with the views of the Councils and work force. The representatives noted your assurance that efforts to resolve the crucial question of a power contract would be pursued with all vigour and having regard to the time factor, which is crucial, we have therefore taken the liberty of re-affirming our views on these matters both to the Secretary of State for Energy and the Secretary of State for Scotland. I am attaching hereto for your interest copies of letters sent to both Ministers.

Yours sincerely,

CHIEF EXECUTIVE.

Encs:



Highland

Chief Executive
R.H. Stevenson, M.A., LL.B.

Highland Regional Council
Regional Buildings
Glenurquhart Road
Inverness IV3 5NX

Telephone (0463) 34121
Telex No. 75313

Please ask for Mr. Stevenson

Our ref RHS/SF

Extension No 201

Your ref

Date 17 March, 1982.

The Rt.Hon. George Younger, M.P.,
Secretary of State for Scotland,
New St. Andrew's House,
St. James Centre,
EDINBURGH. EH1

Sir,

INVERGORDON ALUMINIUM SMELTER - POWER CONTRACT

Representatives of this Council, Ross and Cromarty District Council and the Invergordon Work Force Action Committee met with the Prime Minister in London on 15 March. The discussions, which were most constructive, centred on the crucial question of the power contract.

It has always been common ground among all parties that the price of electricity is the vital factor in making the smelter viable. It is not that power needs to be uniquely cheap, let alone subsidised, but only that it be available at an internationally competitive price for such bulk supplies. The two Councils are quite clear in their minds that they received an assurance when they met you in January that power at such a competitive price would be supplied to Invergordon.

The two Councils have therefore been concerned at apparent doubt and hesitancy within Government over recent weeks about this simple and basic matter. They find this alarming, appearing to carry undertones of the ill-fated gas-gathering announcement of a few months ago.

It is well known that for the past decade or more the smelter in Anglesey has had, and continues to have, power from the grid at a price which is properly competitive and which would meet the needs of Invergordon. This seems to have been supplied without subsidy from public funds and without special burden on the general electricity consumer.

However/

17 March, 1982.

However, the representatives of the Councils and work force were most encouraged at their meeting with the Prime Minister to note that Government thinking is now focussing strongly on the hydro-power option. This in the view of the Councils and work force is entirely appropriate as a solution to the Invergordon situation. This Region, unlike the rest of the U.K. generates a substantial proportion of hydro-electric energy. It is a matter of fact that the "sent-out" cost of this power is around 0.8p per unit, a price well below the 1.0p to 1.2p per unit needed to be internationally competitive for the aluminium business in 1982.

Given these basic facts and the proximity of our Region to the United Kingdom's principal resources of oil and gas, the basis is surely already there for electricity to be supplied to Invergordon at internationally competitive prices.

The time factor remains crucial, however, to the prospects of a re-start at Invergordon. The Council were glad to be assured by the Prime Minister that the examination of the power question, and the hydro-power option in particular, would be pressed as a matter of extreme urgency. We therefore urge you now, with your colleagues and your officials, to bring these to a successful conclusion.

A letter in identical terms is being sent to the Rt Hon Nigel Lawson, M.P. Secretary of State for Energy.

I am Sir,
Your obedient Servant

A handwritten signature in dark ink, appearing to read 'R. S. Lawson'. The signature is fluid and cursive, with a large initial 'R' and 'S'.

CHIEF EXECUTIVE



Highland

Chief Executive
R.H. Stevenson, M.A., LL.B.

Highland Regional Council
Regional Buildings
Glenurquhart Road
Inverness IV3 5NX

Telephone (0463) 34121
Telex No. 75313

Please ask for Mr. Stevenson

Our ref RHS/SF

Extension No 201

Your ref

Date 17 March, 1982.

The Rt.Hon. Nigel Lawson, M.P.,
Secretary of State for Energy,
Thames House South,
Millbank,
LONDON. SW1P 4QJ.

Sir,

INVERGORDON ALUMINIUM SMELTER - POWER CONTRACT

Representatives of this Council, Ross and Cromarty District Council and the Invergordon Work Force Action Committee met with the Prime Minister in London on 15 March. The discussions, which were most constructive, centred on the crucial question of the power contract.

It has always been common ground among all parties that the price of electricity is the vital factor in making the smelter viable. It is not that power needs to be uniquely cheap, let alone subsidised, but only that it be available at an internationally competitive price for such bulk supplies. The two Councils are quite clear in their minds that they received an assurance from the Secretary of State for Scotland when they met him in January that power at such a competitive price would be supplied to Invergordon.

The two Councils have therefore been concerned at apparent doubt and hesitancy within Government over recent weeks about this simple and basic matter. They find this alarming, appearing to carry undertones of the ill-fated gas-gathering announcement of a few months ago.

It is well known that for the past decade or more the smelter in Anglesey has had, and continues to have, power from the grid at a price which is properly competitive and which would meet the needs of Invergordon. This seems to have been supplied without subsidy from public funds and without special burden on the general electricity consumer.

However/

17 March, 1982.

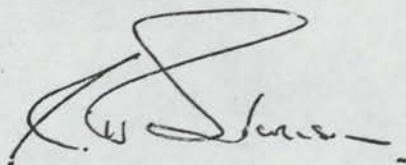
However, the representatives of the Councils and work force were most encouraged at their meeting with the Prime Minister to note that Government thinking is now focussing strongly on the hydro-power option. This in the view of the Councils and work force is entirely appropriate as a solution to the Invergordon situation. This Region, unlike the rest of the U.K., generates a substantial proportion of hydro-electric energy. It is a matter of fact that the "sent-out" cost of this power is around 0.8p per unit, a price well below the 1.0p to 1.2p per unit needed to be internationally competitive for the aluminium business in 1982.

Given these basic facts and the proximity of our Region to the United Kingdom's principal resources of oil and gas, the basis is surely already there for electricity to be supplied to Invergordon at internationally competitive prices.

The time factor remains crucial, however, to the prospects of a re-start at Invergordon. The Council were glad to be assured by the Prime Minister that the examination of the power question, and the hydro-power option in particular, would be pressed as a matter of extreme urgency. We therefore urge you now, with your colleagues and your officials, to bring these to a successful conclusion.

A letter in identical terms is being sent to the Secretary of State for Scotland.

I am Sir
Your obedient Servant,



CHIEF EXECUTIVE.



PM
SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

NBPM

Michael Scholar Esq
Private Secretary
10 Downing Street
LONDON SW1

17 March 1982

Dear Michael

INVERGORDON

Following the Prime Minister's meeting with the local authority deputation on Monday there are two points which I should draw to your attention for clarification. Firstly at the pre-meeting with Mr Alex Fletcher and Mr Hamish Gray, the Prime Minister asked when the Scottish Office was informed in writing about the problems of Invergordon by HIDB. Mr Fletcher said that this was in September 1981 and I can confirm that the acting-Chairman Rear Admiral Dunbar-Nasmith wrote to the Secretary of State on 4 September, this was the only written notification we received from HIDB.

Secondly, during the meeting there was some confusion over the amount of hydro-power available in the North of Scotland Hydro-Electric Board area and the requirements for the Invergordon smelter. The facts are that, the average annual output of all of the Board's conventional hydro-electric schemes is approximately 3,000 million kिलowatt hours and the requirement of the smelter at a capacity of 100,000 tonnes of aluminium is 1,750 million kिलowatt hours.

Yours sincerely

John Wilson

JOHN S WILSON
Private Secretary

UNITED STATES
POSTAL SERVICE



17 MAR 1982





10 DOWNING STREET

From the Private Secretary

16 March 1982

Dear Mrir,

MEETING WITH INVERGORDON DELEGATION

The Prime Minister received a deputation, led by Mr. Hamish Gray, M.P., from Invergordon about the closure of the Invergordon Aluminium Smelter yesterday.

* I attach a record of the meeting. I enclose a copy of a document which representatives of the Invergordon Smelter Action Group handed to the Prime Minister.

I would be grateful for any comments which you may have about the meeting record, taking account of the fact that we have undertaken to make the record available to the members of the deputation.

I am sending copies of this letter to the Private Secretaries to the Secretaries of State for Industry, Wales, Energy and the Chief Secretary, HM Treasury, and also to David Wright and Gerry Spence (Cabinet Office).

Yours sincerely,

Michael Scholten

A.M. Russell, Esq.,
Scottish Office.

x NB document not circulated to D Wright + G Spence [+ Welsh office due to limited number of copies]

ER
SUBJECT

cc master

RECORD OF A MEETING HELD AT 10 DOWNING STREET AT 1715 ON MONDAY,
15 MARCH 1982

THE INVERGORDON ALUMINIUM SMELTER

PRESENT

Prime Minister	Mr. Hamish Gray, M.P.
Mr. Alex Fletcher - Parliamentary Under Secretary of State for Scotland	<u>Highland Regional Council</u> Mr. Ian S. Campbell, Convenor
Mr. Donald Harrison - Scottish Office	Mr. John C. Robertson, Vice- Convenor
Mr. Michael Scholar - No. 10	Mrs. I. C. Rhind, Invergordon
Ms E. Drummond - No. 10	Mr. R. Mardon, Alness Mr. R. H. Stevenson, Chief Executive

Ross and Cromarty District Council

Mr. G. D. Finlayson, Convenor
Mr. J. C. Stuart, Vice-Convenor
Mr. A. McCreevy, Tarbat, Fearn
Mr. R. Ruddle, Invergordon
Mr. W. A. Cuthbertson, Chief Executive

Invergordon Smelter Workforce

Mr. N. Cook
Mr. Gormanley
Mr. M. Moran
Mr. G. Brown

* * * * *

The Prime Minister welcomed the deputation. She recalled that she had visited Invergordon as Leader of the Opposition in 1977, and had seen the smelter and the surrounding area.

Mr. Campbell said that the deputation recognised that it was most unusual for the Prime Minister to see such a group. They much appreciated her readiness to do so. The economy of the Highland Region had lost its two sheet anchors - the Corpach Pulpmill and the Invergordon Smelter. The area had been plunged into gloom and despondency. There had been little benefit to the area from North Sea oil and its spin-off. They were looking for long term employment in the region. They much hoped that they would be able to take a message back to those they represented which would give them hope.

/If the Prime Minister

If the Prime Minister agreed, they would each make a short presentation so as to cover the five important topics of which they wished to make her aware. The Prime Minister agreed: what was needed was long term employment; this was not easy to assure.

Impact of Closure

Mrs. Rhind said that Scotland, and the Highlands in particular, would never forget the events of 29 December 1981. They had made a paramount sacrifice for the benefit of an individual company. The Secretary of State for Scotland had told them that he regarded the closure of Invergordon as the most significant closure in Scotland, not excepting those at Linwood and Bathgate. This was no more than the truth. There was no alternative employment at Invergordon. They much appreciated the Government's commitment, through the Highlands and Islands Development Board (HIDB) and through other channels, to the Highlands. But the removal of Invergordon from the industrial scene was the removal of its very heart; and the massive job losses would be a continuing haemorrhage. The job losses ranged from small businesses in the service sector, to shops, and businesses in manufacturing. The stability of the social fabric was threatened. Mrs. Rhind concluded by saying that the cost to the nation of countenancing the continued closure of the smelter would be far greater than the cost of reopening the plant. It was shameful that so little had been done so late. The Prime Minister commented that the British Aluminium Company (BACO) had not warned the Government of the difficulties which faced Invergordon until October 1981. The earlier warnings by the HIDB had been to the effect that BACO's future was precarious; but this was also true of the aluminium smelter industry all over the world.

Mr. Brown recalled that people had been encouraged to come from all over Britain to Invergordon when it had been set up. Only 15 per cent of the workforce had come from the immediate area. They had been led to believe that their employment there would be for life. The company had shown great lack of consideration in the manner of its closure. The impact would be particularly marked on the children of the workforce, especially the school-leavers.

/Mr. Mardon recalled

Mr. Mardon recalled the Prime Minister's visit to Invergordon in 1977. She had been warmly welcomed and had stayed three hours. The Community had much appreciated her interest. She had then spoken of Invergordon as the reversal of the de-population of the Highlands, and as offering a future also for the children and grandchildren of the workforce. Since the announcement on 29 December, the community had united as never before with the single aim of re-opening the smelter. Those whom the deputation represented were placing a great measure of hope in the present meeting. Prayers had been said in churches up and down the region. Mr. Mardon described the knock-on effect of the closure on many small companies and said that the company's operations had generated spending power of over £1 million a month in the area. Many individuals stood to lose a great deal of their own money if the smelter were not reopened. All these problems could be solved very easily, if a power contract for the smelter were established on the right terms. This would be a triumph for the community spirit, which was so strong in the area. The Prime Minister would be warmly welcomed at the re-opening ceremony.

Power Contract

Mr. Finlayson said that 150,000 people had left the Highlands over the last century. The purpose of the creation of the Scottish Hydro-electric Board had been, in large part, to regenerate the Highlands' economy. The Highlands were rich in resources, but were not getting their due return. They produced a substantial quantity of electricity in excess of their own requirements and exported it to other regions. The power cost to the Invergordon Smelter should be related to the cost of producing hydro electricity - 0.79p per unit. This was about one-third of the cost of electricity derived from alternative energy sources.

Hydro-electricity would not meet the Highland region's total electricity requirements, but would go a long way to that end. He recognised that the consequence of this solution would be to pass higher electricity costs on to other consumers. He did not himself believe that this would be intolerable. It would amount to no more than about £5 per annum per consumer (around 2 per cent of their present costs). There was a precedent for this in the proposals in the Budget whereby heavy industrial users of electricity were being /assisted;

assisted; this, too, would load extra costs on the other consumers. This solution offered the prospect of permanent employment at Invergordon since the hydro plant had a lifetime of 100-200 years. Hydro-electricity had been a great gift to the Highlands region. The time had come to make good use of it. An answer to the problem of a suitable power contract for Invergordon must be found. He believed that, if the will was there, it would be found.

Mr. Stuart said that they understood that the other smelters in the United Kingdom had paid less for electricity than Invergordon had. This seemed immensely unfair, since all had access to the same national grid, and since line losses, at only about 1 per cent per 100 miles were a negligible factor. They were not looking for subsidies, but for the earmarking of one of the prime resources of the Highlands to the Highlands' prime need. The uniqueness of the Highlands hydro resource should go far to making this solution an acceptable one in United Kingdom terms. The Prime Minister noted the force of these points.

Smelter - basis for availability

Mr. McCreevy said that it was regrettable that BACO had not made over their plant to the Government at the end of December. He hoped that the Government would negotiate with BACO to make the plant available. It might be that BACO would procrastinate, and that a potential purchaser might be inhibited on this score. The Government would need to be on the look out for action of this kind. There was a case for a study of the possibilities of "downstream" development at Invergordon and also for port development to permit shipping direct to Europe.

Smelter - Potential

Mr. Cook said that the efficiency of the smelter had been at its greatest during the last months of operation. There had been a high degree of co-operation between the workforce and management. It had been the most efficient smelter in the United Kingdom, and probably in Europe. New techniques had been introduced recently, involving a micro-processor control unit and other new technology, to increase the efficiency of the plant. They had reduced the plant's use
/of energy,

of energy, improved the purity of the product, and also the collection of emissions from the plant.

Mr. Moran stressed the quality of the product of the smelter. No-one had been able to equal the quality of Invergordon aluminium.

The Workforce

Mr. Gormanley said that the workforce at Invergordon had followed the Government's often repeated precepts: they had increased their productivity, accepted new technology and reduced their manpower.

Mr. Ruddle spoke of the excellent industrial relations which had prevailed. Invergordon was an example for the rest of British industry. The workforce was highly experienced, and would achieve a start-up in record time.

Summary

Summing up, Mr. Robertson said that they all hoped that better times were coming now to the United Kingdom. They were not coming to the Highlands on present form. The future of the smelter was the key element. It had been brought down by high electricity prices. Other smelters had enjoyed cheaper power; yet Scotland had the natural resources which should have given it the cheapest power of all. They looked to the Government to take the necessary steps, and stressed the importance of moving fast. BACO were maintaining the plant on a care and maintenance basis for six months only.

The Prime Minister said that she was most grateful to the deputation for their clear and helpful exposition of the problem. The most hopeful avenue to explore was the possibility of relating the power contract to the costs of hydro-electricity. The Government was already pursuing this urgently, and would press ahead. A solution on these lines would probably require legislation (Mr. Finlayson interjected that the Hydro Boards had increased the cost of electricity to the Islands without legislation).

/ The Prime Minister

[REDACTED] The Prime Minister said that the Deputation would understand that she could not give them the Government's decision on the matter at this meeting. But they had made an impressive case, and the Government would carry forward its consideration of the matter with all speed.

15 March 1982

CONFIDENTIAL



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Michael Scholar Esq
Private Secretary
10 Downing Street
LONDON SW1

12 March 1982

Dear Michael,

INVERGORDON

In preparation for the Prime Minister's meeting with the local authority deputation on Monday you asked me for a note on developments since last Monday's E Committee discussion, and in particular on the hydro option. Scottish Office officials are preparing a paper on the hydro option for discussion at E committee which I now understand has been arranged for Tuesday 23 March. The paper will examine the possibility of concessionary charges based on hydro generation costs either for the smelter alone or for the smelter and other large users in the Highlands. An outline of the form a concession scheme might take was included in the Annex to my Secretary of State's E Committee paper considered last Monday (E(82) 19).

The hydro option is certain to be mentioned by the deputation; Mr Finlayson, the Convener of Ross and Cromarty District Council, is a former employee of the North of Scotland Hydro-Electric Board. We suggest that the Prime Minister should respond by acknowledging that hydro power is a unique resource and that one of the objectives of the original Hydro Board was to develop it for the economic development and social improvement of the North of Scotland district. To set it aside now for the smelter or for industry in the Highlands would require legislation (to remove the "undue preference" provisions in the Board's statutes) and would increase the cost of electricity for other Scottish consumers, but the Government are examining this option carefully along with other ways of providing competitive power for the smelter.

Three other developments have occurred since 8 March. Firstly, the British Aluminium Company have published their annual accounts for 1981 and they confirm that the companies position was precarious prior to the closure of the smelter. Secondly, officials of the Scottish Office have met a delegation from the Church of Scotland, including local Invergordon ministers, and were impressed by their fears of the social effects of a permanent closure. Thirdly, the attached Scotsman article suggests that Scottish Office ministers received a pointed warning about the future of the Invergordon smelter in February 1980. We stand by our earlier statements that the meeting in February

Mr. Campbell.

1. Long-term employment in the region.

2. The Rhaid - Ruppie letter
- Apperhi field
- 9 empty shops.

Welcomed the Smelter.

Early 1970's - 1982.

3. 15% + 20% Subs, Mr. Brown.

Encouraged to go to Inverjordan

Lack of consideration.

Young workforce

4. Mr. Pender.

£1 1/2 m
in wages.

£20 m
£ -

~~Cost of energy.~~

H.O.D.B.

Smelter not viable

New renaissance

5. Mr. Finlayson. - Hydro electric.

Coal - nuclear.

Apperhi by

→ ~~£1000~~
£1000

Hydro generation

1980 discussed the dispute between the company and the North of Scotland Hydro-Electric Board but that at no time did the company suggest there was a doubt about the future of Invergordon. A note was tabled which covered issues with which the Company was concerned including their serious concern about the escalation of electricity costs but this did not mention the possibility of closure. The first informal indication of potential closure was relayed to a Scottish Office official in early September 1981 and the first indication from the company came in their meeting with the Department of Industry on 5 October 1981.

X | The Prime Minister should also be aware of the attached paper forwarded to the Secretary of State by the local authorities at the end of last week. It sets out their views on the smelter issue, but I do not think it contains any points which will be unfamiliar to the Prime Minister.

Yours sincerely,

John Wilson

JOHN WILSON
Private Secretary

PS. No need to send you the paper referred to at X1. I have just seen your letter of 11 March to the Chief Executive of Highland Regional Council and note that the Prime Minister already has a copy of the local authorities' joint statement.

P 12/3

7 Mr. Stewart,

Concept Swellin' higher than others

Not coming in for subsidies

8 Mr. Lawrence

B.A. Co. - Price?

- Revenue function
- Cost function

10

9 Mr. Cook. Man hours per production

10 Mr. Garvan.

11 Mr. Gormley.
Productivity. - 42,000 \rightarrow 35,000.
Concretedoes. -

12 Mr. Ruddle

Very high energy costs.

Two-year warning 'given on smelter'

By CHRIS BAUR

New evidence has come to light which suggests that the Scottish Office were warned almost two years before the closure of the Invergordon aluminium smelter last Christmas, that rising electricity costs were "undermining the whole basis of the operation."

This specific warning was given by senior executives of British Aluminium when they met the Secretary of State for Scotland, Mr George Younger, in February 1980.

It was later reinforced, with added urgency, in June last year when officials of the Highlands and Islands Development Board told the Scottish Office several times that "the company's balance sheet was in jeopardy."

The evidence that Scottish Office officials and Ministers had substantial foreknowledge of a developing crisis at Invergordon is confirmed both by the company and the board. It contrasts with the department's own account, which suggests that the Government were not aware of the seriousness of the company's position until October last year.

CRIPPLED

According to Mr Younger, the February 1980 meeting with the company was held to discuss the dispute between them and the North of Scotland Hydro Electric Board about charges for electricity supplies to the smelter — a dispute which eventually crippled the smelter and involved an outstanding sum of about £47 million at the time of the plant closure.

"The company made a number of points to me about the terms of their contract with the board and about the issues in dispute," Mr Younger told the House of Commons in January.

"But at no time during the meeting did they suggest that there was an underlying doubt about the future of the company as a whole or the Invergordon smelter in particular.

"The first indication the Government received from the company of the seriousness of their position and of the possibility of closing the smelter came during a meeting in October 1981 between officials of the Department of Industry and representatives of the company.

WARNING

"The Government immediately instituted an intensive series of discussions with the company involving both Ministers and officials in an effort to find a solution."

The company acknowledge that the possibility of "liquidation" was not raised at that meeting. But they insist that a pointed warning was issued — the words actually used and munitied were that "the extent of the escalation in power prices undermines the whole basis of the operation at Invergordon."

Just over a year later this warning came home to roost. The company's half-yearly financial results published last June showed that the previous year's £9.3 million profit before tax had been transformed into a £8.8 million loss, with the company having to set aside more than £37 million in accumulated provisions for power charges that were under dispute with the Hydro Board.

Continued on Page 3, col 1

'Cold sweat' on smelter

The Highlands and Islands Development Board, apparently, read these results "in a cold sweat" according to one source. "It was like a funeral oration."

A statement by the board's then chairman, Rear-Admiral David Dunbar-Nasmith, at the end of December placed on record the fact that the board had "altered the Government to the very serious situation which we have seen developing over recent months."

What actually happened, it appears, is that in June last year the board warned the Scottish Office of the precariousness of Invergordon's position twice in writing and several times in face-to-face representations. "They had at least six months warning," I was told.

For their part, the company suggest that the Scottish Office had less reason to be surprised by the eventual closure decision than the Department of Industry, who were not brought into discussions about the smelter's future until October last year.

It appears, however, that the danger signals were not displayed with sufficient vigour or were simply misread. The Scottish Office say there was no question of their being forewarned about the possibility of closure.

It was not until October 6 last year, they say, that "British Aluminium came to us in dire straits, although we did have indications in early September that the company were encountering difficulties."

The company agree that it was in October that they initiated a final round of negotiations with the Government and

CONTINUED FROM PAGE 1

told Ministers that they were confronted with three choices

ONE — To continue with the existing power contract, negotiated originally in 1968, in which case the entire company would go into liquidation;

TWO — To negotiate a power contract from now until the end of the century;

THREE — To close the Invergordon smelter.

By December 17, according to the company, negotiations with government officials had reached a point where the company believed a new power

contract was possible. Directors were asked to approve the terms in the expectation that a final offer would be made by the Government on the following day.

However, as the record now shows, Ministers overruled the proposed deal which according to Mr Younger, would have involved the Government in raising their annual deficit payment to the Hydro Board smelter account from £8 million to £16 million a year until the year 2000. "Such a commitment was unacceptable", he said.



11/15
2 MAY 1947

Scholar

p. 9

Invergordon

My notes show only a few discrepancies with yours;
Only a couple of ~~points on your note~~ ^{discrepancies with yours}

1) Page 2. (following Mrs Rhind) P.M. ~~did say~~ ^{said} government didn't know until September 81. Fletcher corrected this, saying the company's letter was dated 6 October.

2) page 4. (Mr Finlayson) The extra cost would be to Scottish consumers (£5 pa)

3) page 4. (Mr Stuart) BARD's residual interest in the non-smelter functions at the plant could inhibit potential buyers.

4) page 5. (Mr Moran) The unequalled product from Invergordon was the high quality wire bare used in a continuous extrusion product for aluminium wire.

5) p 5 (Mr Ruddie) Add: the workforce would disperse if the re-opening did not happen soon and their experience would be lost.

Liz D.



10 DOWNING STREET

From the Private Secretary

11 March, 1982

Invergordon Aluminium Smelter

I am writing on behalf of the Prime Minister to thank you for your letter of 5 March, with which you enclosed a copy of the joint statement by your Authority together with Ross and Cromarty District Council about the Invergordon situation.

The Prime Minister was glad to have this joint statement. She looks forward to meeting the joint deputation from the two authorities on Monday next.

M. C. SCHOLAR

R H Stevenson, Esq

1/10

From: HAMISH GRAY, M.P.
Ross & Cromarty



HOUSE OF COMMONS
LONDON SW1A 0AA

✓ CF
Pl copy urgently
to Scottish Private
office + BT
MCS 11/3

11th March, 1982

Dear Prime Minister,

Thank you for your letter of 8th March confirming our meeting with representatives of Highland Regional Council, Ross & Cromarty District Council and the Invergordon Smelter Action Committee on Monday, 15th March at 17.15 hours at No.10 Downing Street.

I have now received the names of the representatives which I enclose as promised. For your information I have put my own comments as appropriate.

~~Yours sincerely,~~

Yours ever

Hamish

The Rt. Hon. Mrs. Margaret Thatcher,
Prime Minister,
10 Downing Street,
London SW1.

HIGHLAND REGIONAL COUNCIL

Mr. Ian S. Campbell, Convener *(Conservative but slightly wet)*
Mr. John C. Robertson, Vice-Convener *(Lib - Very bright + not unhelpful)*
Mrs. I.C. Rhind, Invergordon *(Sympathetic to us but not political) to us.*
Mr. R. Mardon, Alness *Represents the Smelter Area.*
(SNP. + Conservative of the Sixties. Represents Alness where many Smelter Workers live.)

ROSS & CROMARTY DISTRICT COUNCIL

Mr. G.D. Finlayson, Convener *LAB (Moderate + highly respected locally)*
Mr. J.C. Stuart, Vice-Convener *SNP*
Mr. A. McCreevy, Tarbat, Fearn *LAB - Moderate Shop Steward at Smelter.*
Mr. R. Ruddle, Invergordon *LAB - also as above.*

INVERGORDON SMELTER WORKFORCE

Mr. N. Cook
Mr. W. Gormanley
Mr. M. Moran
Mr. G. Brown } *Four of the Smelter Committee who have behaved with great restraint and responsibility.*

Also attending:

Mr. R.H. Stevenson, Chief Executive,
Highland Regional Council;
Mr. W.A. Cuthbertson, Chief Executive,
Ross & Cromarty District Council



10 DOWNING STREET

From the Private Secretary

8 March 1982

BF

The Prime Minister has asked me to arrange with you a convenient time for the meeting which she has agreed to have with a deputation from the Highland Regional Council and the Ross and Cromarty District Council along with representatives of the Invergordon Smelter Action Committee. May I suggest 1715 on Monday 15 March at 10 Downing Street? It would be most helpful to us here if you would, as you have indicated you will do, let us have a list of the names of the people who will be attending.

M. C. SCHOLAR

Hamish Gray, Esq., M.P.

PRIME MINISTERInvergordon smelter

The Secretary of State for Defence is not able to be present, but has asked for the following message to be given to you, for transmission to the Committee if you will.

There is no direct Ministry of Defence interest in the matter. But the Secretary of State is concerned about the high degree of subsidisation involved in what is proposed, which would be contrasted with the firmness with which the unemployment consequences of closing the dockyard at Chatham are being handled. It would not look even-handed.

RJA

8.iii.82

Could we

- dedicate the output of a hydro-electric station to Invergordon
- enable the North of Scotland Hydro Board to write off the capital cost of their station, so that
- the cost to Invergordon would be only the current production cost.



Chief Executive
R.H. Stevenson, M.A., LL.B.

APJ → C.B.I. Prime Minister (2) R813
MCS 8/3

Highland

Highland Regional Council
Regional Buildings
Glenurquhart Road
Inverness IV3 5NX

Telephone (0463) 34121
Telex No. 75313

Please ask Mr. Stevenson

Our ref RHS/DJM

Extension No 201

Your ref

Date 5th March, 1982.

The Rt. Hon. Mrs. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
LONDON. S.W.1.

Dear Prime Minister,

INVERGORDON ALUMINIUM SMELTER

This Council and Ross and Cromarty District Council were pleased to be informed by Mr. Hamish Gray, M.P., that you had agreed to meet the joint deputation from the authorities in connection with the Invergordon situation.

The two authorities are continuing to act in close concert, and have prepared a joint statement consolidating and expanding their views on the Invergordon situation and a copy of the statement is enclosed herewith.

The two authorities do hope that it will be possible for the meeting to be arranged as quickly as possible.

Yours sincerely,

CHIEF EXECUTIVE.

Enc:

HIGHLAND REGIONAL COUNCIL
ROSS AND CROMARTY DISTRICT COUNCIL -
JOINT STATEMENT OF OBSERVATIONS ON
INVERGORDON ALUMINIUM SMELTER.

EFFECTS OF CLOSURE

1. More than two months have passed since the fateful announcement of 29th December, 1981 and still the future of the smelter is in doubt. It is appropriate therefore for the two Councils to express their continuing concern at the impact of this untimely closure. The Councils also place on record their deprecation of the action by the Company whose failure to forewarn the labour force and the Local Authorities, was both cavalier and disdainful of their responsibilities to the Highland community.
2. Closure of this major industry is a crippling blow to the economy of the Highland Region; all the more so as it follows the recent closure of the Corpach Pulp Mill and the Government's decision on gas gathering. All these events and circumstances, compounded by the continued uncertainty for nuclear power generation at Dounreay, diminish the confidence that should prevail for the Highlands. As a result, prospects for continued growth and expansion are seriously prejudiced. It is a major setback to the achievements of the last decade.
3. The difficulties are compounded by the circumstances already prevailing in the Highlands. At the time of closure there were already 11,479 unemployed in the Region (14.5%). Of this 2,361 were in the Cromarty Firth area, i.e. 17% of the local work force. Closure raises this latter figure immediately to over 20% and during the ensuing few months, the "knock on" effects will raise the figure even further to 3,000, i.e., over 22%. These statistics compare unfavourably with the current Scottish average of 15.2% and 12.6% for Great Britain as a whole.
4. /

4. Moreover, even before closure, the recent MacDowall/Begg Report reasserted the findings of the Council's Structure Plan that many new jobs would have to be created during the early and mid eighties to retain the new labour force created by recent population growth. This task is compounded by the closure and it is now the case that the aggregate factors of existing unemployment, closure and growth in the labour supply, create a need for some 4,000 new jobs in Ross and Cromarty by 1990 only to retrieve the situation that existed in 1976. This obviously makes no allowance for growth in the local economy but even so, against the background of continuing economic depression and receding opportunity, it is a formidable task.

5. The impact of closure severely prejudices both the social and economic interests of the community. This manifests itself in a variety of ways that can not have been properly considered by the Government. If they had been, the decision would not have been so clearly influenced by financial considerations. Impact on the local community will occasion a total job loss of approximately 1,500 and will have a substantial impact on local services. The main elements of impact can be listed as follows:-
 - (1) Direct unemployment of 890.
 - (2) Loss to subcontracting and other services.
 - (3) Recession in local trading and business.
 - (4) Recession in the building industry, particularly in relation to private house building.
 - (5) Increased demand on social welfare and other Local Authority services.
 - (6) Reduced income to the Water and Sewerage Authority (£64,000 per annum).
 - (7) Loss of rate revenue up to £1 million per annum.

6. Loss is not confined to the local community. Value added in Scotland to the material processed at Invergordon amounted to about £38 million per annum. A large share of this total accrued /

accrued directly to the Cromarty Firth area. The smelter accounted for some 20% of Hydro Board units sold, and for many £ millions per annum of revenue. Smelter traffic was also valuable to British Rail, and its loss might contribute to further reduction of rail services in Highland Region. If it does not result in retrenchment, the loss will have to be offset by subsidy. As for rate income, it is small consolation to the Highland community that the loss of around £1 million per annum will be spread over all Scottish ratepayers via Rate Support Grant.

7. Normal commercial dictates would suggest that the loss of £30 million revenue to the generating boards would be of particular concern. In the event, however, the area of concern seems to shift ominously. If the Government is correct in its assertion that such losses will be offset by savings in generating costs, there are serious implications within certain sectors of the power-producing industry. Output capacity of 10,000 megawatts by the two Scottish Boards is already far in excess of demand. According to the Secretary of State for Scotland this means that the more expensive coal-burning stations at Cockenzie and Kincardine and the oil burning station at Inverkip will be used less frequently, in which event the coal mining industry could be severely prejudiced with up to 2,000 direct job losses. Worse still, given the normal multiplier effect of such heavy industry, a further 1,000 redundancies could be occasioned by the "knock on" effect.
8. In aggregate, therefore, closure of the smelter could lead to 3,000 - 4,500 redundancies throughout Scotland, at a cost to the Exchequer in the range of £15m. - £20m. (Based on a parliamentary reply on 28th October, 1981) By comparison, the Government's offer of assistance to the Company was £16 million.

9. /

9. Turning to social impact, it is of note from the preliminary results of the 1981 Census, that the recent population growth in the Highland Region does not reflect the general trends of the rest of Scotland. This is a direct result of successful campaigning for new job opportunities in major industries such as the smelter and it has led to settlement expansion and major investment in infrastructure particularly in the Cromarty Firth. The prospect of economic recession and enforced migration will have serious repercussions, primarily illustrated by the inability of the depleted community to amortise the major capital investments committed. Hardship will be occasioned in a variety of ways not least, for example, by further depression in the private housing market where there has been substantial investment of late in local settlements. In this regard, closure is a loss of faith to local people and those who have been attracted to the area because of new opportunity and growth prospects. The initiative that the people have shown, their commitment and personal investment will have been wasted. This could rebound too on the Local Authorities in terms of housing, social and other services at a time when general recession already strains their limited resources.

10. In total, the circumstances arising from closure have a material and adverse effect on the social and economic welfare of the District, the Region and throughout the country, and it is the clear and unambiguous view of both Councils that the Government must therefore give high priority to retrieval of economic stability in the Region by restarting the operation of the smelter.

ISSUES AFFECTING RE-OPENING

11. The two Councils welcome the endeavours of the Highlands and Islands Development Board and the Workers Action Group to obtain a restart of operations. The Councils will collaborate to the full in supporting these endeavours. It is the Councils' belief /

belief, however, that restart can only be achieved if economic viability is assured. This is dependent on a number of issues:-

- (1) An economic power contract.
- (2) Availability of premises and plant.
- (3) Operational efficiency (manpower and plant).
- (4) Market conditions.
- (5) Securing a user.

These issues are examined in the ensuing paragraphs (Nos. 12 - 20).

12. An analysis of previous production costs shows that power represented nearly 40% of the total. This compares unfavourably with European competitors where it is believed that power costs equate to 25% and even less in Norway and Canada where hydro electric power is comparatively cheap. For 1981/82 the charges provisionally notified to the Company are reputed to equate to 1.67 pence per unit of consumption. To secure viability, however, it is the Councils' understanding that unit costs must be substantially reduced to approximately between 1 pence and 1.2 pence. This the two Councils believe could be pursued from various bases:-

- (1) Firstly; on the basis of hydro power generating costs of 0.8 pence per kwh.* This would be entirely equitable as a benefit deriving to the Highland Region which is a low cost, energy producer.
- (2) Second; on the basis of the surplus generating capacity existing in the rest of Scotland, it should be possible to make power available at more favourable rates, the more so given the special needs of this power intensive industry. Continued consumption of power should be of material benefit to the Scottish coal-mining industry which provides nearly two-thirds of the generating board's fuel. It is particularly relevant that the coal-fired Kincardine power station has an output capacity of 225 megawatts, almost equivalent /

*Pro rated from 0.7 pence per unit stated in NSHEB Annual Report 1979/80.

equivalent to the 250 megawatt demand of Invergordon smelter.

It also bears consideration that the Hydro-Electric Board was originally established with a Social purpose in addition to its economic function. This was to bring benefit to the Highlands. It is paradoxical therefore that while the low cost production of energy has been achieved, it is the imposed tariff that militates against the survival of high energy-consuming industries. Surely the principle of discount for bulk consumption should apply particularly to the Highlands which already markets its abundant power resources and can offer reserves for the future, variously from nuclear, oil, gas and other untapped resources.

13. The Councils believe that a negotiated power contract should take account of the smelting industry as a whole. In effect, a standard "smelter" tariff should be considered and applied, for example, to the operation at Holyhead (Anglesey) and Invergordon. This would be appropriate and equitable for two smelters which were established as part of a Government scheme and which do not have their own power generation. The logic of a smelter tariff is to reflect the economy of scale and it avoids dependence on the efficiency (or inefficiency) of any particular power station.
14. Publicity has been given to a conventional generating cost of 1.9 pence per unit implying an uneconomic gap which could not be reconciled even by the most optimistic forecasts of efficiency improvements or rise in aluminium market prices. The Government should, however, clarify how much of this stated generating cost represents "fixed" or "capital" costs, so that only the true "variable" costs are used to determine the basis of tariffs for the smelter. Thus it is the Councils' belief that the gap between generating cost and tariff may be more favourable than hitherto suggested.
15. /

15. The premises and entire area of land holding must be released by the Company and made available intact (and without burden) to the Government for development by one of their Agencies. This would be an appropriate course of action because:-
- (1) It shows positive intent and commitment by the Government.
 - (2) It secures the best means of promotion and control.
 - (3) It avoids the imposition of restrictions by the Company or any other prejudice.
 - (4) It provides for flexibility to consider a variety of options and/or diversification.
16. Furthermore, the Councils believe that transfer of ownership should be effected at nominal cost to a Government agency so as to create the most favourable circumstances for promotion and restoration. This would be entirely appropriate given that restoration costs will already be substantial; it would also be equitable given that the Company ceased operations on the most favourable terms agreed with the Government. The Councils would expect absolute co-operation in this regard considering that continued operation was a liability to the Company. In the event of resistance compulsory acquisition should be pursued.
17. The Councils have no way of assessing the operational efficiency of the existing works. They would submit however that in seeking improvement, manpower adjustments should be nominal only, given that the benefits to production costs would be marginal. The cost of power exceeds the aggregate of all other factors and it is this that will determine economic viability or otherwise.
18. Informed opinion suggests that the aluminium market will recover its present recession by 1984 or '85, as a result of recovery in the mainstream industrial economies. Best opportunity for recovery and increase in capacity will however exist in countries with low cost and abundant power supplies. But it is for consideration /

consideration that the U.K. and more particularly, the Highland Region, comes into such a category: this, and the high quality "up-market" product should secure competitiveness in the arena of world markets, and in the view of the two Councils, further need for importation of aluminium to the U.K. should be inconceivable.

19. The search for a new user should continue with vigour. BACo should be invited to tender individually or in consortium with others and consideration should be given to equity holding by the power generating authorities. This would secure their commitment and avoid the problems of the past. Such arrangement need not prejudice management by those who are best suited for the job.
20. Although two months have already passed since closure search for a new user must continue at least for one year. To this effect, the Government should require the present Company to maintain and retain the plant intact for that time. The original six month undertaking is inadequate.

IN CONCLUSION

21. The Councils support the actions of the workers who have demonstrated the quality of the labour force which exists in the Highland Region. People want to live and work here and they should be encouraged to do so. The Government should note that it is the Councils' policy to bring jobs to people; it is not accepted that emigration should be forced on the Highland community particularly at this point in time and following the achievements of stability and growth during the last two decades.
22. The Councils welcome the special study by the Highlands and Islands Development Board in association with Scottish Economic Planning Department and they welcome the opportunity to contribute /

contribute. They welcome too the assistance of £10 million offered by the Government to the Board for the purposes of special measures to create new job opportunity. It is the view of the two Councils however that this investment is a palliative and falls to be considered only as complementary to the strategy for retrieval of the smelter operation. It is not an alternative. Nevertheless, the Councils wish to collaborate with the Board to determine the most cost-effective investment programme and seek ways and means to enhance the assistance offered, not least by affording the area "Special Development" status. This is one way by which corporate endeavour can be marshalled to secure economic prosperity and growth in the Highlands.

23. Finally, it is appropriate that the Councils remind the Government of the provisions of the approved Structure Plan. Employment is the key issue and given the opportunities that exist, deriving from the natural and manpower resources, there is a "strong presumption that industry is welcome" in the Region. The particular opportunity and potential of the Cromarty Firth is also identified as a key issue and there is presumption that large scale, labour intensive industry should be encouraged where manpower and servicing requirements can be met. This is endorsed in the Adopted East Ross and Invergordon Local Plans and in total such policy represents commitment by the local community. Equal commitment by the Government should be demonstrated in the most tangible way - by the "restart" of the smelter.

5th March, 1982.



10 DOWNING STREET

From the Private Secretary

5 March 1982

Dear Muir,

INVERGORDON SMELTER

As you know, the meeting of E planned for yesterday afternoon was postponed until Monday morning. The Prime Minister, nevertheless, had a preliminary discussion yesterday afternoon with the Ministers most closely concerned: the Secretaries of State for Industry, Scotland, Wales, Energy, the Chief Secretary, Treasury, Mr. Mellor (PUSS, Energy), Dr. McCrone (Chief Economic Adviser to the Secretary of State for Scotland) and Mr. Ibbs.

Your Secretary of State said that the closure of the smelter at Invergordon had provoked great bitterness in Scotland, and was having very far-reaching repercussions, both political and economic. British Rail expected to lose nearly £3 million a year in revenue; NCB were losing sales of 750,000 tonnes of coal a year; and the total job losses including indirect effects were of the order of 1500. Scotland had the cheapest indigenous electricity in Britain; yet it was the smelters at Anglesey and Lynemouth and not that at Invergordon which were still in operation, enjoying low priced energy. There were four possible purchasers of the smelter; but their interest could only be taken further if a new power contract were available on terms which were competitive for the aluminium industry internationally. He had examined, as his E paper made clear, a number of different possibilities. His conclusion was that a coal-based power contract offered the best prospect of re-establishing the smelter on a viable basis, and that discussions should proceed with the NCB with the aim of making coal available at a price which would permit electricity to be produced at a target cost of 1p to 1.2p per unit.

The Prime Minister said that she had reservations about this approach. She believed that the arrangement your Secretary of State was envisaging positively entrenched the NCB habit of averaging the price of coal and therefore perpetuating the life of the less economic pits. She considered that if that habit could be broken and a variation in pithead prices be secured and passed on to the consumers, we should be on the way to a more efficient coal industry and cheaper coal. The Prime Minister said that, whatever the shortcomings of this approach or of your Secretary of State's approach, some way forward had to be found; she accepted that the existing situation arising out of the closure of Invergordon was not politically tolerable.

/ In discussion,

SUBJECT

76 JF
bc AW
David Moore
(co)

cc Master

JF

In discussion, the following points were made:

- (i) If a cheaper source of coal was earmarked for Invergordon, these supplies would not be available for other industrial users, and would unjustifiably raise the price of coal or electricity for them. Some of these were large employers of labour, in areas of high unemployment.
- (ii) If it was accepted on political grounds that Invergordon must be kept running, it would be better to pay an explicit subsidy on regional policy grounds rather than distort, with serious general economic consequences, the Government's energy pricing policies; there were, on the other hand, serious EEC objections to a regional subsidy on these lines.
- (iii) There was at present a substantial surplus of coal in Scotland, and no immediate practicable possibility of pit closures to reduce this surplus. The coal was therefore available, and it made little sense to export it and so to supply cheaper energy which we were denying ourselves to our overseas competitors.
- (iv) The output of privately-owned open-cast mining operations, which could produce coal at around £18 per tonne, might be earmarked for Invergordon; if ownership of these operations were transferred to the owners of Invergordon, the EEC objections to an energy subsidy might be overcome.
- (v) It had to be recognised that one of Alcan's motives in considering the purchase of Invergordon might be to push the Government into subsidising energy for its Lynemouth smelter when the present arrangement there expired. Certainly, if a subsidy were now set up to re-start Invergordon, there would be increased pressure to perpetuate the present subsidised arrangements at Anglesey and at Lynemouth.
- (vi) There was a case for limiting any subsidy to Invergordon's energy to a period of three years; on the other hand, once the smelter was re-started there, it would in practice be politically difficult, or impossible, to cease the subsidy at the end of the three year period. Furthermore, it seemed most unlikely that a potential purchaser would clinch the deal unless there were guarantees of a continuing subsidy well beyond three years' duration.

Summing up, the Prime Minister said that the Department of Energy, in consultation with the Scottish Office, should examine urgently the practicability of earmarking for Invergordon the output, perhaps through a purchase, of suitable open-cast mining operations in Scotland. They would need to ascertain the size of the grant which would be necessary to finance such a purchase;

/ the price at



10 DOWNING STREET

Prime Minister

Invergarden

2 new papers since Thursday:

(i) my note of Thursday's
meeting - which E colleagues
should have had in their
weekend boxes;

(ii) Nigel Lawson's minute on
the open cast option (the Scottish
Office were involved in this).

No further papers or work is
under way.

MUS 5/3

the price at which coal could be provided for Invergordon from this source; the size of the coal subsidy which would be required to permit viable smelting at Invergordon; and whether the arrangement would be consistent with the NCB's statutory responsibilities. One of the advantages of the arrangement, if it proved practicable, would be that the miners at the open cast operations would have an incentive to provide coal at the lowest possible price in order to preserve jobs at Invergordon. Departments should make as much progress as they could over the weekend, and E Committee would return to these matters on Monday morning.

I am sending copies of this letter to the Private Secretaries to the members of E Committee, to the Secretary of State for Wales, to the PUSS at the Department of Energy, to your Secretary of State's Chief Economic Adviser, to Mr. Ibbs (CPRS) and David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

A.M. Russell, Esq.,
Scottish Office.

AW



Prime Minister

CONFIDENTIAL

MT

ML5 5/3

PRIME MINISTER


INVERGORDON: OPENCAST COAL

At Thursday's meeting you asked my Department to explore the possibility of dedicating the coal from Westfield or some other suitable Scottish opencast site to the smelter at Invergordon.

2. The Westfield site in Fife is the lowest cost opencast site in Scotland which could supply the necessary 750,000 tpa of coal. It produces 1 mtpa; at present its production costs are just below £20/t before interest. The present site will be exhausted in about 3 years, but coal will then be available from a nearby successor site where, however, the costs will be a little higher. Although, therefore, enough coal will be available, even before interest the cost would be 80% higher than the price which Alcan now pay. Further, because the coal has a low calorific value, the effective price of heat would be higher than these figures suggest. There would therefore be a substantial margin to be covered in order to bring the coal price down to what Alcan are likely to be willing to pay.

3. The dedication might be carried through in a number of ways. One way would be a sale of coal from Westfield by the NCB at cost. I am less confident than the Lord Advocate that it would be easy to reconcile such an arrangement with NCB's obligations on undue preference or with Community Law under either the Treaty of Paris or the Treaty of Rome.

4. Alternatively, the site could be transferred to Alcan who would then have the opportunity of reducing their coal costs by more efficient operation. However, primary legislation would be needed. At present all coal reserves in the UK are vested in the NCB. Private sector mines require a licence from the Board in exchange for payments of royalties on the coal produced, and the Board are forbidden by Statute from including in a licence a deposit of more than 25,000 tonnes total reserves. This limit could only be removed by primary legislation, which would inevitably be controversial especially on the question of compensation to the NCB. The NUM would be extremely hostile, since they would see such a move as the first step to the privatisation of the coal industry. (My paper E(DL) (82)3 deals with the general issues involved in the possible privatisation of opencast).

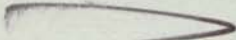

CONFIDENTIAL

5. Further, it is not clear what the position of Alcan's smelter at Lynemouth would be under such a scheme. As I understand it, Alcan's proposal is to use the two smelters in tandem. If so, the new arrangement now proposed would nominally relate to Invergordon alone but make it practically impossible for us to escape supporting Lynemouth as well. We must keep in view the costs of supporting both.

6. Economically these schemes would be disguised subsidies to Alcan. All the objections set out in my minute of 3 March would apply. The fact is that attempts to support Invergordon by manipulating energy prices do not in any way reduce the cost of government support: but they do raise legal complications and pressures for favourable treatment to other energy users whose costs could be enormous but which it would be difficult to resist politically. If we accept the social and regional case for reopening Invergordon alone, we should act directly and be ready to justify our action on those grounds, where the case is strongest. I repeat the suggestion in my previous minute that the Scottish Office should pay a direct grant to the smelter operators sufficient to keep the smelter in operation, taking new powers if necessary. This grant might be subject to arrangements which would secure for the Exchequer a share in any subsequent profits from the plant.

7. In addition I should be prepared to press the NCB to supply coal for the smelter's use at a price which would give them the same revenue as if the coal had been exported but only for 5 years or as long as we foresee NCB's current excess production continuing. This course risks pressure for similar concessions to others but I believe that we and the NCB together could resist it in most cases.

8. I am sending copies of this minute to the other members of E Committee, the Lord President of the Council, the Secretaries of State for Scotland and Wales, the Chief Whip, the Lord Advocate, Sir Robert Armstrong and Mr Ibbs.

3.12. 

Approved by the Secretary of State for Energy
and signed in his absence

5 March 1982

From: HAMISH GRAY, M.P.
(Ross & Cromarty)



HOUSE OF COMMONS
LONDON SW1A 0AA

Prime Minister

①

Agree to seeing mem

for 1/2 - 3/4 hour, on

Monday 15 March?

4th March, 1982

MLS 5/3

Dear Prime Minister,

You will recall that when I met you some time ago along with George Younger about the Invergordon Smelter you kindly agreed to meet a deputation from the Highland Regional Council and Ross & Cromarty District Council along with representatives of the Invergordon Smelter Action Committee. I am now coming under some pressure from all three groups regarding such a meeting and I wonder if it might be convenient for you to suggest a date. The deputation will consist of 12 persons representing all three bodies. I am not yet certain what the breakdown will be or the names of those attending, but I will ensure that this is provided beforehand.

My constituents would make themselves available to come to London at any time to suit you. I may say that the Action Group are completely self-financing having raised their funds from voluntary subscription.

Perhaps I might suggest a Monday or Wednesday since I am tied up on Standing Orders on Tuesdays + Thursdays morning + afternoon.

Yours and

Hamish

The Rt. Hon. Mrs. Margaret Thatcher M.P.
The Prime Minister,
10 Downing Street,
London SW1.



HOUSE OF COMMONS
LONDON

[Faint, illegible text, likely bleed-through from the reverse side of the page]



MAR 1982

[Faint, illegible text at the bottom of the page]

FILE SW



10 DOWNING STREET

bcc: Mr. Duguid

From the Private Secretary

3 March, 1982

Dear Muir,

Invergordon Smelter: E (82) 19

The Prime Minister has now had an opportunity to study your Secretary of State's paper for E Committee on the next steps in relation to the Invergordon smelter.

The Prime Minister has minuted that she fears that the approach in this paper is not sufficiently "canny". She believes that the arrangement proposed positively entrenches the NCB's habit of averaging the price of coal and therefore perpetuating the life of the less economic pits. She considers that if that habit could be broken, and a variation in pithead prices be secured and passed on to consumers, we should be on the way to a more efficient coal industry and cheaper coal. The Prime Minister believes that simply to subsidise down the price for the purposes of restarting operations at Invergordon would get the Government into great difficulties. The Prime Minister has further minuted that, notwithstanding these difficulties, she accepts the need to keep Invergordon going.

I am sending copies of this letter to the Private Secretaries to the other members of E Committee.

Yours sincerely,

Michael Scholer

A. Muir Russell, Esq.,
Scottish Office

SW

AW



Prime Minister

(2)

I don't think

you saw this in

the folder.

Ms 4/3

PRIME MINISTER

mt

INVERGORDON

I have serious reservations about George Younger's proposals for a restart of the Invergordon Smelter. I had hoped to be able to explain this at tomorrow's meeting of E Committee but, since Hamish Gray is ill, I must attend the Standing Committee of the Oil and Gas (Enterprise) Bill at 4.30, especially since that will be the first session after the guillotine motion is announced in the Business Statement. I am therefore writing to explain those reservations.

Let me start by saying that I fully agree about the special difficulties of the Highlands and the need to restart the smelter if there is any sensible way of doing so. If this could be done and any support given under Scottish Office powers, including new legislation if necessary, I should welcome it. But George Younger's proposal to use coal prices as a means of support raises the problems set out in the CPRS paper.

First, the proposals would not only secure a restart at Invergordon but also protect Alcan, who designed these proposals, from attempts by the NCB to end their present contract for the supply of coal for their smelter at Lynemouth, Northumberland. NCB have given notice of their intention to end this disastrous contract on which they lose £26m pa. There has been no suggestion that the social case for protecting Lynemouth is anything like that for restarting Invergordon. We should simply be doubling the cost of saving Invergordon.



- 2 -

Second, as CPRS point out, there is no reason to think that it will be easier to close the smelter in five years time than it is now. I fear that if we give support, we shall be taking ourselves into providing coal below economic prices for the rest of the smelters' lives. I understand that the Scottish Office estimates of the rise in world aluminium prices over the next five years are in fact marginally less than my Department's estimates of the likely rise in coal prices. If so, we cannot expect rising world aluminium prices to reduce the burden of support for Invergordon.

Third, the proposed arrangements could not be commercial for NCB. The suggested coal price of £15 a ton (assuming that Alcan could pay that much) bears no relation to any of their costs. (At present the coal supplied to Lynemouth costs £37 a ton to produce before interest, while the cheapest Scottish deepmined coal costs £34.30 a ton). Nor incidentally is it true that the price of NCB coal to consumers overseas is lower than the domestic price. For example, the delivered price of the NCB's exported coal in Germany is £40-46 a ton.

Fourth, special low prices could be justified as long as NCB are over-producing coal. We should not however commit ourselves to arrangements which only make sense if NCB's over-production continues indefinitely, which is not our objective. They would also undermine all our recent progress in getting the NUM to accept that they must contribute to holding down production costs.

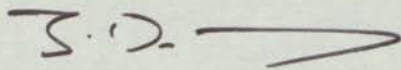
Fifth, this proposal would make nonsense of all our attempts to introduce market disciplines into energy pricing. Concessions to Invergordon could not be concealed. Other high load-factor electricity users, many in industries with a better long term future than aluminium smelting, would demand similar treatment. The political pressure on us

would be immense - and the potential costs enormous.

The suggestion, in your Private Secretary's letter of today, that NCB prices should reflect the costs of individual pits would not remove the main obstacle to faster closures, namely the strength of the NUM. It would be far more likely, I am afraid, to reduce the pressure on the NCB to make the coal industry viable as a whole by making our support appear to be not a transitional measure but aid to particular pits on social grounds. That would make closures harder to achieve.

I hope that you and my colleagues will be able to bear these points in mind in coming to a view.

I am sending copies to the members of E Committee, the Lord Advocate, Sir Robert Armstrong and Mr Ibbs.


Approved by the Secretary of State for Energy and signed in his absence.

3 March 1982

CONFIDENTIAL

P.0669

PRIME MINISTER

Invergordon Smelter

E(82)19 and 21

BACKGROUND

flag A In E(82)19 the Secretary of State for Scotland invites the Committee to agree to negotiations aimed at reopening the aluminium smelter at Invergordon on the basis of a coal-based power station contract. His minute to you of 1 March summarises the main issues - and the political importance in Scotland of finding employment in Invergordon - but adds little to his memorandum. The Lord *flag B* Advocate in his minute of 2 March sets out the legal and European Community implications.

2. It will be impossible to enable the reopening of the smelter by covert subsidies. The question before the Committee is whether a scheme, and subsidies, on the lines proposed by the Secretary of State for Scotland could be defended against the economic disadvantages set out by the CPRS in E(82)21 and introduced without leading to unacceptable repercussions.

3. There is very considerable pressure in Scotland for action by the Government to reopen the smelter. If the Committee were to approve further negotiations on the lines proposed, the Secretary of State for Scotland would probably wish to let this be known publicly and to indicate that the Government had hopes of finding a satisfactory solution.

Proposed Scheme

4. The Secretary of State for Scotland sees no prospect of finding significant alternative employment opportunities in Invergordon for the 1500 or so people who will lose their jobs, either directly or indirectly, as a result of the smelter closure. For the reasons explained in paragraph 7 of E(82)19 he rejects the possibilities of reconstituting a nuclear power station arrangement similar to that with British Aluminium (BACo) and of hypothecating part of the hydro-electric

CONFIDENTIAL

CONFIDENTIAL

system for use by the smelter. He recommends examination of the possibility of a scheme based on a contract with the National Coal Board (NCB) for coal, on lines similar to Alcan's contract for their Lynemouth aluminium smelter near Newcastle.

5. If Alcan were to take over the Invergordon smelter the main features of the arrangements are likely to be that:-

(i) Alcan would buy from BACo the assets and site of the Invergordon smelter. The price would be for negotiation but the Scottish Office think that it would be at the lower end of the range £10-20 million.

(ii) They would buy or lease from the South of Scotland Electricity Board (SSEB) a coal-fired power station which is at present largely surplus to the Board's requirements.

(iii) They would contract to purchase coal from the NCB both for Invergordon and for their existing Lynemouth plant (employing about 1150 people). On the assumption that for a viable smelting operation Alcan would not pay more than £15 a tonne for coal and that NCB's price would be based on coal export prices the subsidy, to be paid to the NCB, for the two Alcan smelters would be £22.5 million a year (for details see Annex B of E(82)19).

(iv) The contract would be for 10 or more years with some form of revision - as yet undefined - after five years.

6. Alcan UK are likely to need to drive a hard bargain if they are to go ahead. They are about to report a significant loss in their last financial year and they are dependent on continuing support from their Canadian parent company. If they were not to go ahead there are other companies in the offing (paragraph 6 of E(82)19) notably the American company Alumax. The contract with any other company would differ in that they do not have an existing coal contract for Lynemouth which could be used in part for the benefit of Invergordon.

7. The papers refer to the third UK smelter which is at Anglesey and jointly owned by RTZ and Kaisers of America. Anglesey Aluminium has a fixed price contract with the Central Electricity Generating Board until such time as Dungeness B is on stream; even then it is uncertain when they will have to pay the full operating costs. The details of this contract are not known to departments and they regard its re-negotiation as a matter between the company and the CEGB. The Welsh Office regard as unproven the claim that the CEGB are giving Anglesey an effective subsidy of £30 million a year. The main point relevant to the present discussion is that if a subsidy were to be given to Alcan for Invergordon and for Lynemouth, Anglesey Aluminium would expect a similar subsidy if their present contract with the CEGB were to terminate.

MAIN ISSUES

Size and Nature of Subsidy

8. The CPRS argue, in paragraph 3 of E(82)21, that the Scottish Office estimate of an annual subsidy of £22.5 million is too low because it is based on coal export prices. They suggest that it should be calculated on the basis either of coal domestic prices, giving a subsidy of £40 million a year, or of the electricity prices charged to other heavy users giving a range of £43-51 million annual subsidy.

9. It may well be accepted that it is reasonable to use export prices for, say, the next three years since over that period the NCB will have surplus production which they might as well devote to a power station supplying aluminium smelters rather than sell at a loss in export markets. But, consistent with the Government's approach hitherto to the NCB, it seems right to assume that thereafter they should aim to close unprofitable pits where practicable, to avoid locking themselves into long term contracts to sell at a loss, and to use short term export contracts only to deal with temporary surpluses. This points to calculating the subsidy, at least for the later years of the contract, by reference to NCB domestic prices even if not to electricity prices for other heavy users.

10. Irrespective of which coal price is held to be relevant to the calculations the subsidy could be higher than suggested, and of indefinite duration, because:-

- (i) It is by no means certain that Alcan would be willing to pay as much as £15 a tonne when they are currently paying only £10-11 a tonne for Lynemouth.

CONFIDENTIAL

(ii) It is thought that Alcan are thinking in terms of provision for relatively minor price variations after five years rather than for a major break clause in the contract and, in any event, it would be very difficult for the Government to withdraw subsidies from Invergordon five years after reopening the plant.

(iii) While the price of aluminium might rise from present levels over the next year or so (which, under the likely terms of the contract, would reduce the deficit to be financed) it is thought likely that over a period the price of coal will rise faster than that of aluminium so increasing the subsidy to be paid to the NCB for holding down their coal prices under this contract.

Thus it seems that the Government would be entering into a long term commitment to pay a subsidy of uncertain but significant size in order to reopen the Invergordon smelter. You will recall that one reason for deciding on closure last December was unwillingness to pay a subsidy of about £16 million a year without break to the year 2000. (NB. this £16 million is not directly comparable with the present subsidies under discussion since they apply to Lynemouth as well as Invergordon).

11. On top of the direct subsidy:-

(i) The Department of Industry could well be pressed by Alcan to give them grants to help with the purchase of the smelter from BACo.

(ii) If Anglesey Aluminium's contract fell through they would expect subsidies similar to those offered to Alcan.

(iii) Other heavy energy users could seek similar help.

12. The Lord Advocate has looked provisionally at whether the proposals would be acceptable in terms of the NCB's statutory powers and of European Community law. As he points out, in his minute of 2 March to you, the answers to the legal questions must depend on details of the proposals which have yet to be worked out. He considers, however, that the probability of favourable answers to the questions

of law is sufficient to make it worthwhile proceeding to work out these details if the Committee consider that the principle is acceptable.

Implications for Energy Policy and possible repercussions.

13. If the proposals were to be discussed further, it would first be necessary to clarify what should be the basis of grants to make up the difference between the coal price paid by Alcan and the price which the NCB could reasonably expect (either the export or the domestic price) and how this would fit in with the Government's objectives for NCB's capacity and profitability in Scotland (paragraph 9 above). If it were agreed that a subsidy should be paid it would be for consideration whether this could be offered under present powers. In any event, the Department of Energy might argue that a grant should be paid from Scottish Office votes rather than from Department of Energy votes.

14. It would also be for consideration what repercussions a subsidy for the Invergordon smelter might have for industrial energy pricing generally. The load management scheme which will be announced shortly will help those large users of industrial electricity willing to accept some variation in supplies, but not those users involved in continual processes. The latter could well demand similar concessions which, if granted, could be expensive and could prejudice the further review of industrial electricity prices which has now been put in hand.

15. The Department of Industry agree with the CPRS view, in paragraph 9 of E(82)21, that assistance to the aluminium industry does not merit priority on industrial grounds. There is no difficulty in securing supplies of primary aluminium and no expectation that problems of security of supply will emerge later. Thus, if a subsidy for the Invergordon smelter is to be justified and further subsidies for other heavy fuel users resisted, the case will need to be defended primarily on regional and social grounds.

HANDLING

16. After the Secretary of State for Scotland and Mr Ibbs have spoken to their papers, the Committee will wish to have advice from the Secretary of State for Energy on the implications for energy pricing policy and for the NCB in particular; from the Secretary of State for Industry on the industrial case and the risk of repercussions; and from the Chancellor of the Exchequer on the subsidy and energy pricing. At this stage, and in advance of detailed negotiations, the legislative and

perhaps
Nigel Lansmill
shd speak
before Mr Ibbs
given his
time constraint

M.S.



CONFIDENTIAL

European Community implications are of secondary importance and the Committee has the provisional advice of the Lord Advocate before it; the Minister of State, Foreign and Commonwealth Office may, however, want to comment on the Community aspects.

17. The Committee is likely to recognise the strong regional and social case for helping Invergordon and the reality that apart from the smelter there is no other new source of significant employment in prospect. In considering the case for a subsidy to enable re-opening the main questions are whether it is possible:

(i) to justify a significant, partly open-ended, indefinite commitment to subsidise the fuel for the smelter;

(ii) to work out a satisfactory basis for a coal subsidy;

(iii) to reconcile a subsidy for the Invergordon smelter with present policy on industrial energy pricing and to avoid opening the way to further substantial subsidies.

18. If the Committee decide that the objections to the particular scheme put forward by the Scottish Office are overriding, you will wish to consider whether there are any alternative possibilities for re-opening the smelter. It is, however, highly unlikely that any alternatives would be immune to similar objections; no scheme will avoid substantial subsidies. If the Committee were to decide that the smelter cannot be re-opened, the Secretary of State for Scotland will need to consider when this should be made public.

19. If, on the other hand, the Committee decides that the problems of Invergordon are such as to justify assistance, you will want to decide on the next steps. Before entering into negotiations with Alcan it will be necessary to be clear on the basis for the offer of a subsidy for the price of coal. Subject to the guidance of the Committee on this point, a small group of Ministers with the Secretary of State for Energy in the lead might be invited to agree on the approach to the coal subsidy (ie Scotland, Industry, Treasury with assistance from the CPRS). If agreement could not be reached in that group the matter would have to come back to the Committee for decision. Once the decision had been taken on the coal subsidy, it might be for the Scottish Office to take the lead in the further negotiations, with the Departments of Energy and Industry, the Treasury and the CPRS in support. Further discussions would have to be

CONFIDENTIAL

without any commitment to eventual subsidy. The final decision would have to be taken by the Committee in the light of the report which would also advise on the legislative and Community implications.

20. If the Committee were to authorise further work on this basis, you will need to consider what the Secretary of State for Scotland should say publicly at this stage. There is a strong case for no more than a relatively non-committal announcement that the possibilities of re-opening the smelter are under consideration. It would be a mistake to indicate that the Government is optimistic on the outcome: it is highly uncertain whether a satisfactory deal could be negotiated with Alcan or any other company and the Government will not wish to arouse expectations prematurely; it would be a tactical mistake to let Alcan and the NCB think, in advance of the negotiations, that the Government is determined to re-open the smelter.

21. As an intermediate course the Committee might decide tomorrow that they wish to reserve a decision until they can consider further inter-departmental work by officials. This work is however unlikely to be productive unless officials are given clear guidance about the points which need to be clarified and on how far Ministers are prepared to contemplate energy subsidies for Invergordon, for aluminium smelting generally and for other heavy energy users.

CONCLUSIONS

22. In the light of the discussion you will wish to reach conclusions on whether:

(i) the possibility of re-opening the Invergordon smelter is ruled out and, if so, when this decision should be announced;

OR (ii) the Committee favours in principle a scheme on the lines proposed by the Secretary of State for Scotland, subject to agreement by Ministers on the level and nature of coal subsidy to be offered, and to the outcome of discussions with Alcan and other private sector companies;

OR (iii) the Committee should postpone its decision until further inter-departmental work has been done in the light of guidance from the Committee.

P.G.
P L GREGSON

3 March 1982

CONFIDENTIAL

CONFIDENTIAL

3 March 1982

ALAN WALTERS

PRIME MINISTER

INVERGORDON SMELTER

MS

1. I agree with the main recommendations of the CPRS paper. Invergordon should never have been built and will never be economic. It would be best, on economic criteria, to close it forthwith.
2. You believe, however, that we must keep it open in order to maintain employment. I think it can be shown that if Invergordon requires a subsidy per worker of more than £10,000 per annum, it is likely that maintaining it open will reduce the level of employment generally. Although of course, maintaining it at Invergordon.
3. Assuming Invergordon is to stay open, however, I think it would be worth while considering extracting a quid pro quo. I suggest that as a condition of Government support you require the Invergordon Smelter to cut labour costs next year by 10%^{nominal} and each year thereafter ensure that labour costs rise by the rate of inflation less 3% or more. This would be the condition for continued Government support. It is, in the nature of a long-run productivity agreement.
4. The advantages of extracting this agreement are that you could present the Government subsidy in a much better light politically to your supporters. At least we will get something back for our hand-outs. I believe that also it is necessary to have a limited period over which this applies and I would suggest that it be extended only for, say, four years to 1986/87. The details, however, can be worked out later.
5. The other advantage of this approach would be to bring pressure on wage rates and productivity. The fact, however, that the reduction is imposed on the wage bill enables the workers and management to settle how it is to be distributed between redundancies on the one hand, and reductions in wage rates on the other.
6. Presentationally this would be best achieved as an initiative by, or at least agreement with, the workers. This would be their "contribution to survival".

AW

3 March 1982

ALAN WALTERS

CONFIDENTIAL



CONFIDENTIAL

Qa 05851

To: MR SCHOLAR

3 March 1982

From: J R IBBS

Invergordon Smelter

1. I told the Prime Minister on Monday evening that the CPRS note on the Invergordon Smelter concluded that there was not a sound case on economic grounds for the proposals put forward by the Secretary of State for Scotland. She asked whether we had any positive suggestions.
2. The CPRS has had further discussions with Scottish Office officials and, among other possibilities, has explored whether assistance for the Smelter could be provided as some form of 'social grant' in order to avoid the problem of blatantly subsidised electricity prices. We have been unable to find any satisfactory proposition of this kind.
3. In the circumstances the CPRS would regard general help for the Invergordon area of the kind agreed by Ministers at the time of the closure decision in December as the most appropriate. In view of the high cost per job of the support envisaged in the Secretary of State's proposals such assistance might be on a very generous scale. It could, for example, include special assistance for starting small businesses, although there are limitations to the extent to which this is feasible in such an area. It would not in the short term offset the obvious immediate consequences of closure.
4. I am sending a copy of this minute to Sir Robert Armstrong.

CONFIDENTIAL



3 MAR 1982



COMPTROLLER

CONFIDENTIAL



B (2)
Prime Minister
MS 2/3

PRIME MINISTER

INVERGORDON SMELTER: PROPOSALS FOR A RESTART

I have considered with officials the legal questions arising from the proposals by the Secretary of State for Scotland to be discussed by E Committee on Thursday 4th March.

The proposals involve difficult questions of domestic and Community law. A great many details of the proposals remain to be worked out and the answers to the legal questions must depend on what these details are. For example, much will turn on the terms on which the coal-fired power station is made available by the SSEB and the coal is made available by the NCB. I consider that the probability of favourable answers to the questions of law is sufficient to make it worthwhile proceeding to work out these details if colleagues consider that the principle is acceptable. I should be glad to advise further on the details in that event.

I am copying this to those who will be attending the E Committee meeting, to the Attorney General and to Sir Robert Armstrong.

my C

MACKAY OF CLASHFERN
2nd March 1982

CONFIDENTIAL



E-2 MAR 1982

CONFIDENTIAL



CONFIDENTIAL



(2) A

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

Prime Minister

INVERGORDON SMELTER: PROPOSALS FOR A RESTART

MCS 1/3

The paper I have circulated for the meeting of E Committee next Thursday shows that the issues are complex. I thought it might help to say briefly why the issue is of so much concern to me.

When we discussed the proposed closure of the smelter in December we were unable to accept the terms which BACo had indicated for keeping the plant going. The smelter accordingly closed at the end of December with the direct loss of 890 jobs.

As I feared this closure has provoked a degree of bitterness unparalleled even in Scotland. In contrast to Linwood, Singers or Massey Ferguson, where the job loss was many times greater, Invergordon is relatively isolated. New industry on the scale of the smelter is virtually impossible to attract in anything like a reasonable timescale. The knock-on effects are extremely serious for a wide range of small business in the area, for British Rail's services in the north of Scotland and for the coal industry. The Highlands have had more than their share of disasters over the generations, and no doubt this helps to account for some of the intensity of feeling. We are coming to be regarded as the Government that "lost" the two major projects which had been brought to the Highlands as a result of Government policy in recent years: the other was the pulp mill at Fort William which closed in 1979. The implications of this are serious for the Highlands economically; politically they could be disastrous for us as well.

My task in explaining what has happened is made extremely difficult on two counts. First, the closure certainly cannot be blamed on the workforce or the management at Invergordon. Industrial relations and productivity were good. The problem lies squarely with the terms on which electricity was made available, and although Government were not party to the contract this is widely and justifiably regarded as a matter in which Government has major responsibility. Secondly, although it is the Highlands with their hydro power which have the cheapest indigenous electricity supply in Britain, people see that the other two large aluminium smelters continue. Invergordon was linked to the nuclear station at Hunterston B; it failed because the £8m-£10m which Government paid annually by way of subvention to the power contract was not enough. Anglesey Aluminium is estimated to receive a subvention from other CEBG consumers of around £30m a year and Alcan at Lynemouth have power based on a contract with the Coal Board which, if similar terms were available to Invergordon, would certainly make it viable also.

Prime Minister

(Written before me

Secretary of State knew of

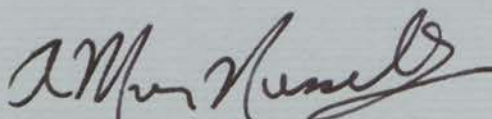
your comments on his E paper.)

I consider it essential to get the Invergordon smelter restarted. A number of companies have shown interest in taking over the plant, but they cannot negotiate terms with BACo until we are in a position to offer a power contract which could make its operation viable. I recognise the difficulties; but the arrangement set out in my paper, which is based on a coal contract, seems to me to offer the best chance of success. The proposals put forward by Alcan have particular attractions since their existing coal contract provides enough to cater for 40% of Invergordon's needs in addition to those of the smelter at Lynemouth. There are break clauses in this contract: the first occurs in December 1983. The continued operation of the Lynemouth smelter depends critically upon any adjustment to the terms which may then be negotiated. This is crucial to the proposed restart of Invergordon also as would be the terms on which the additional 60% of Invergordon's supplies could be obtained. The implications for other industries must be considered, but I do not believe that my scheme will weaken our general position on power costs. The massive facility at Invergordon was only built because special arrangements were made for its power supply and its consumption of electricity is in a different league from any other industrial user in Scotland. To make special arrangements for a new owner seems entirely justifiable.

I recognise too the NCB's difficulties over the price of the coal required. But we are already exporting surplus coal from Scotland at prices below the domestic selling price. The surplus is likely to be particularly acute for the next 3 or 4 years while Peterhead power station burns liquid gases from the North Sea; it is likely to continue thereafter since the Torness nuclear station is scheduled for start up in 1987. It seems to me much better to use British coal to keep one of our own industries in existence rather than export it abroad to our industrial competitors at a price which is not available in the home market, that way we give them energy on terms which we deny ourselves.

The Lord Advocate is considering the legal and EC implications of the course I propose, and I will arrange for his advice to be available to the Committee.

I am sending copies of this minute to those who will be attending the E Committee meeting.



(Approved by the Secretary of State
and issued in his absence.)

SCOTTISH OFFICE
1 March 1982



Handwritten red ink markings on the left side of the page, including a circular stamp and some illegible text.



ACTION

CONFIDENTIAL

Prime Minister

2

A very difficult solution

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

E(32)19

I fear we are not being 'carry' enough

COPY NO 2

26 February 1982

This arrangement positively exacerbates the WCB's habit of covering the rule of cost

CABINET

to a very awkward problem.

and therefore keeping in the position. If we can break that habit and secure a variation in

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

rule at pit-head, select those to consumers, we should be on the way to greater efficiency & cheaper coal.

MS 26/2

INVERGORDON SMELTER: PROPOSED RESTART WITH A NEW POWER CONTRACT

Memorandum by the Secretary of State for Scotland

It is to subsidize down the price for this purpose felt

us into difficulties. I accept the need to keep Invergordon going

but don't like the suggested route.

1. This paper reports on the situation following the closure by British Aluminium (BACo) of their smelter at Invergordon. It describes discussions which have been held with aluminium companies interested in taking over the smelter in order to restart it, explains the issues involved in a possible new power contract which could make the smelter operation viable and seeks the agreement of colleagues to the steps which would be necessary to put such an arrangement in place.



*Please copy
to Mr. Russell,
Swishon
Office*

10 DOWNING STREET

PRIME MINISTER

I suggest that the best way of handling the request for a meeting on Invergordon is to reply through Hamish Gray. The letter needs to explain why you may be ready to make an exception to your usual practice, and I hope that the attached draft will suffice. You might want to add a personal note to Mr. Gray on a separate sheet, asking him to let you know if he is reluctant to be used as the messenger in this way.

MAD

29 January 1982

FILE

JR

cc SO

PM

10 DOWNING STREET

THE PRIME MINISTER

1 February 1982

Dear Stewart

INVERGORDON

As you know, the Chief Executive of the Highland Regional Council wrote to me on 15 January, asking me to receive a joint deputation (covering also Ross and Cromarty District Council) to discuss the closure.

As I have made clear in the House, I am always ready to meet the constituency Member to discuss a major closure, but where a larger deputation wishes to hold detailed discussions with the Government, it is my invariable rule to ask them to go to the Departmental Minister. You therefore came to see me, together with the Secretary of State for Scotland, on 26 January, and you will know that I am very much aware of the circumstances of the closure and of its very serious implications for the Invergordon area in terms of jobs lost and the effect on the local economy. At our meeting, I told you that I recognised your particular difficulties over this matter because of your position as a Minister. I told you that I would, therefore, be ready - exceptionally - to consider seeing you again with a small deputation from the Councils, but that I should prefer to wait until a time when the way forward might be a little clearer.

/I will therefore

ds

I will therefore be in touch with you again about a meeting.
In the meantime, I have asked that George Younger and you should
keep me fully up to date with developments regarding Invergordon.

I know that you will have been in touch with the Councils
about our meeting on 26 January and I should be grateful if you
could convey my reply to their approach.

*Y
Cousin
Raymond*

Hamish Gray, Esq., MP.



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Michael Scholar Esq
Private Secretary
No 10 Downing Street
LONDON SW1

28 January 1982

Dear Neil,

Reply, through Mr Gray, with PM.

MAR 29/1.

INVERGORDON

Thank you for your letter of 26 January reporting on the outcome of the meeting that day between the Prime Minister, Mr Gray and my Secretary of State.

I now attach a draft reply for your signature to Highland Regional Council's request that a deputation should meet the Prime Minister (your letter of 20 January and Mike Pattison's letter of 22 January refer). I should be grateful for a copy of the reply which you eventually send.

*Yours,
Muir*

A MUIR RUSSELL
Private Secretary

E.R.

bc to BT

Muir Russell

DRAFT FOR THE PRIME MINISTER'S PRIVATE SECRETARY

pl arrange a suitable b/f.

R H Stevenson Esq MA LLB
Chief Executive
Highland Regional Council
Regional Buildings
Glenurquhart Road
INVERNESS
IV3 5NX

INVERGORDON - CLOSURE OF BRITISH ALUMINIUM SMELTER

The Prime Minister has asked me to thank you for your letter of 15 January in which, on behalf of your Council and Ross and Cromarty District Council, you request a meeting with her to discuss the closure of the British Aluminium Company smelter at Invergordon.

vcm/L
The Prime Minister is very much aware of the circumstances of the closure and of its serious consequences for the Invergordon area in terms of jobs lost and the effect on the local economy. She has been fully briefed by the Secretary of State for Scotland on the action which is being taken to seek an alternative operator for the plant. The Secretary of State has reported to the Prime Minister on his meeting with the Regional and District Councils on 12 January and Mrs Thatcher has also ~~discussed the matter~~ with Mr Hamish Gray MP.

Had a number of discussions about this closure

B/F
for meeting to be arranged
Recognising the exceptional circumstances of the closure the Prime Minister is willing to meet the deputation from the Councils, but she feels that the meeting could, with advantage, be considered at a later stage when the way forward may be a little clearer. I will be in touch with you again in the near future and in the meantime would like to assure you that the Prime Minister will be kept fully in touch with developments regarding Invergordon by the Secretary of State and Mr Gray.

SUSPECT

cc Marki.

FILE DS
bcc: Mr. Gow
Mr. Ingham

10 DOWNING STREET

From the Private Secretary

26 January, 1982.

Dear Muri,

Invergordon

The Prime Minister had a meeting this evening with Mr. Hamish Gray, as constituency MP for Invergordon. Your Secretary of State was also present.

The Prime Minister said that it was normally an inflexible rule with her not to see local councillors and other deputations in closure cases. She was prepared, however, in the present case, to see the Highland Regional Council and the Ross and Cromarty District Council, and would explain this decision on the grounds that Mr. Gray, as a member of the Government, was unable to make his case on the floor of the House. Mr. Gray said that he thought there would be little point in her seeing them now; it would be better to say that she was prepared to see them at a later stage when there was a prospective purchaser for Invergordon in sight. The Prime Minister agreed to write a holding reply to the councillors on these lines, making it plain that Mr. Gray had kept her in touch with events throughout.

Your Secretary of State said that it would be intolerable if the closure of Invergordon were thought to result from more onerous electricity prices for Invergordon than those which applied to the two other smelters at Anglesey and Lynemouth. There were at present two possible prospective purchasers, one a US company which Mr. Ian MacGregor had interested in a possible purchase. The Government would have to try to ensure that any potential purchaser secured an electricity price contract no less favourable than those on which Anglesey and Lynemouth operated.

The Prime Minister said that the problem lay with the electricity supply industry. It was inefficient, and this inefficiency had killed Invergordon. Was it not possible for a potential purchaser to buy a source of power supply at the same time as purchasing the smelter? Your Secretary of State explained that this would be very expensive, but if the sale price of the smelter was low, it might be possible. An alternative would be to earmark the supply of hydro-electricity in Scotland for use at Invergordon; this would be a device for reducing the cost of electricity to the plant. The consequence would be higher prices for other consumers in Scotland.

CONFIDENTIAL

/ He

He thought this consequence tolerable, given the general unemployment position in Scotland, and given that the low electricity price at the other two smelters was similarly subsidised by consumers elsewhere.

The Prime Minister commented that this approach would be awkward if the favourable terms for power supply at Anglesey and Lynemouth were at some later date reversed. She wondered whether the NCB Scotland could be asked whether they could produce coal at £10-15 per tonne, to match the supply at Lynemouth: and to preserve jobs in Scotland. Your Secretary of State pointed out that the poor quality of the coal seams in Scotland might make this difficult.

Your Secretary of State said that, with hindsight, it would have been desirable to have secured the British Aluminium Company's agreement at the end of December, to transferring ownership of the site at a suitably low price; this would be around £5m for the scrap value of the plant plus about £1m for the surrounding 300 acre farm. It was for consideration whether the Government should approach Lord Plowden in order to secure this agreement at some stage. The Prime Minister commented that there was a risk if the Government itself took an option on the site, that it would seem to be taking responsibility for keeping the smelter going. Your Secretary of State acknowledged this risk, and said that the next step was for Scottish Ministers to discuss the terms of a power contract with potential purchasers of the plant, so as to explore what might be negotiable. If such discussions got anywhere (and he was not at all confident that any of the potential purchasers would prove serious enough for this to be the case), he would bring the matter to colleagues.

B/F / I should be grateful if you would take account of this discussion in framing your draft reply for the Prime Minister to send to Mr. R.H. Stevenson of the Highland Regional Council.

Yours sincerely,

Michael Scholar

A. Muir Russell, Esq.,
Scottish Office.

CONFIDENTIAL

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

25 January 1982

Invergordon

The Prime Minister had a private talk with your Secretary of State on Tuesday 19 January about the closure of the aluminium smelter at Invergordon.

Your Secretary of State reported the latest developments and the prospects which lay ahead. It was still not accepted in the Highlands that the smelter would close down permanently; there was a hope, however slender its basis, that a purchaser would be found who would take over the smelter as a going concern. Scottish Ministers had done nothing to encourage this hope, because of its inherent improbability. They had, on the other hand, taken it seriously as a possibility, and this was the unavoidable public position. Your Secretary of State made it plain that, in the unlikely event of such a purchaser materialising, it would be necessary to consider an electricity price far below that which the British Aluminium Company had enjoyed up to the end of last year. This would present difficult problems in relation to other electricity users, and one should not under-estimate the serious difficulties in a course on these lines - which might involve setting an electricity price purely in relation to existing hydro-electric cost structures. Your Secretary of State commented that if such a possibility arose the Government would have to consider it very seriously.

The talk concluded with a general discussion of the problems of artificial job-creating enterprises like the Invergordon smelter; and on the shortcomings of the electricity supply industry. Here, the Prime Minister commented that there would be much to be said for a cost structure which associated the costs of a particular coal-mine, or of a particular power generation station with its output prices and with the input prices of a particular industrial plant which it supplied.

M. C. SCHOLAR

Muir Russell, Esq.,
Scottish Office.

CONFIDENTIAL



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Mike Pattison Esq
Private Secretary
No 10 Downing Street
LONDON SW1

25 January 1982

Dear Mike,

I refer to your letter of 22 January and attach a briefing note for the Prime Minister's meeting with Mr Hamish Gray MP. We have now agreed that this will be held at 4 pm tomorrow and that my Secretary of State will attend.

Mr Younger has asked me to say that he considers that the effect of the closure of the smelter has been so great - not just in the Invergordon area but throughout Scotland - as to justify the Prime Minister agreeing, exceptionally, to meet the local authority deputation. In considering this it is also important to bear in mind, as the briefing note makes clear, that the major issue which has now to be faced is policy on energy prices not just for Invergordon but for the other smelters at Anglesey and Lynemouth.

*Yours,
A. Muir Russell*

A MUIR RUSSELL
Private Secretary

INVERGORDON SMELTER: PRIME MINISTER'S MEETING WITH MR HAMISH GRAY MP

1. The Prime Minister will recall the consideration which was given to the future of the smelter in December. Official level discussions began in October 1981 and the Secretary of State for Scotland met the Chairman of the company at the beginning of December, when it was made clear to him that the company's financial position was such that closure of the smelter by the end of the year appeared inevitable, otherwise there was the risk that the company would go into liquidation. Intensive efforts were made involving officials including the CPRS to identify a basis on which the company's operations at Invergordon could continue and it became clear that the cost to Government would be £16m per annum and that the company would require that support at this level should be guaranteed until the end of the century. Ministers agreed on Friday 18 December that, on these terms, the cost of keeping the smelter open would be too great and negotiations were then opened with BACo on the financial details of the closure settlement.

2. The key features of the closure settlement were that the company was paid £79m for its share of Hunterston B nuclear power station. Out of this it met disputed electricity charges of £47m. Of the remaining £32m the company paid £4½m to the Hydro Board in respect of current debts for electricity and £12m in part repayment of a loan outstanding to the Department of Industry. The balance of the loan (£21m) was written off leaving the company with £15.5m. It was judged that a settlement of this generosity was necessary to improve the company's overall financial position and reduce the threat to its other operations (including 2,700 jobs in Scotland).

3. The company announced the closure of the smelter on Tuesday 29 December and the Secretary of State for Scotland issued a statement almost simultaneously. Reaction to the closure in Scotland has been enormous. It has produced a greater effect on public opinion throughout Scotland as a whole than other major closures including those, such as Linwood, involving substantially greater job losses. There has been no serious challenge to the Government's decision that the terms worked out with BACo for keeping the smelter open were too heavy to be borne. But there is no doubt that all shades of opinion are looking to the Government to do everything possible to secure the re-opening of the smelter. No one at present seems prepared to contemplate that this large and relatively new asset should be scrapped.

A deputation from Highland Regional Council and Ross and Cromarty District Council met Mr Younger and Mr Fletcher in Edinburgh on 12 January. (Mr Fletcher had already met the authorities in Inverness and Dingwall on 5 January. Mr Gray was present on 5 January and for part of the meeting on 12 January.)

4. At the meeting on 12 January the authorities pressed Ministers -

- (a) to allow the HIDB or some other public body to acquire the plant quickly from BACo and re-start it, to prevent BACo obstructing the re-opening of the smelter by bargaining over the terms of sale to a new operator; and
- (b) to undertake that any new operator could be offered terms for power which were internationally competitive.

Mr Younger told the deputation that he could not ask HIDB to run the smelter but that acquisition of the plant and site was a possibility. On power terms he said he believed the Government and the electricity boards would be able to offer a price which would be internationally competitive.

5. Discussions between the Scottish Office, BACo and HIDB about the plant and site have taken a new direction as the result of the intervention of a potential new operator from the USA - Alumax - which held exploratory talks with the Board and the Scottish Office today (25 January). These talks were of preliminary nature and it is plain that the critical factor will be the price of power. Scottish Ministers are considering circulating to colleagues for discussion in E Committee a paper about a possible new power contract.

6. There are two broad approaches to bridging the gap between the standard industrial electricity price of around 2.5p per unit and the price of 1.2-1.4p which seems likely to be needed to attract a new operator. One would involve hypothecating a cheap power source - probably hydro-electric stations - for the smelter, and the other would involve the Government making up the Board's losses. The former would push up to some extent the cost of meeting the requirements of other consumers, leading to higher borrowing by the Boards or higher prices for other consumers and would probably also necessitate amendment of the provision in the Board's statutes which prevents "undue preference" being given to an individual consumer. The latter course would require new legislation to empower

the Secretary of State to reimburse losses.

7. A particular point of concern to which the local authority deputation drew attention was the apparent security of the other smelters at Lynemouth and Anglesey. They argued that comparable terms for power should be available at Invergordon. The Opposition raised this on several occasions during Thursday's Supply Day debate and alleged that the prices charged at other smelters were 1p and 1.3p respectively. In fact we understand the current price charged by the CEEB at Anglesey is around 0.5p, although it may rise to around 1p when Dungeness B is commissioned. At Lynemouth Alcan generates its own electricity from coal supplied at around £10 per tonne - around 25% of the price currently charged to the electricity boards by NCB. The first stage of the Alcan contract has to be re-negotiated by the end of next year and it seems likely that unless a price below £20 per tonne (possibly around £15) can be agreed, Lynemouth will be closed. To provide competitive power for Invergordon from surplus coal-burning power stations in Scotland would similarly require a supply of coal at around £15 per tonne.

SCOTTISH OFFICE
25 January 1982



File
a 19

10 DOWNING STREET

State Secretary

22 January 1982

BF 25/1/82

I mentioned to you on the telephone that Mr. Hamish Gray, M.P., had asked to speak to the Prime Minister about Ayrsgordon before a reply goes to the Highland Regional Council, responding to their request to the Prime Minister to receive a deputation which would also represent the Ross and Cromarty District Council.

As we discussed on the telephone this afternoon, you will now hold your reply on the Prime Minister's behalf to the Regional Council. I expect the Prime Minister to see Mr. Gray at 1530 hours on Tuesday 26 January. The Prime Minister may well wish to have a Liaison Office Minister present, and we will arrange this as soon as possible. It would be helpful to have a short brief, prepared in the name of the Prime Minister's involvement in discussions before Christmas, by close of play on Monday 25 January.

Wilson, Esq.,
Office.

M. A. PATTERSON

GT

From: HAMISH GRAY, M.P.
Ross & Cromarty

a.l.g. 22/1/82
1.



HOUSE OF COMMONS
LONDON SW1A 0AA

R22

Prime Minister

This is being
arranged for Tuesday.

Would it be helpful to
have a Scottish Office Minister with you?

21st January, 1982

Yes - George
Zander
please
not

M.P.

Dear Prime Minister,

I have been sent a copy of a letter from Highland
Regional Council who write also on behalf of
Ross & Cromarty District Council, who both wish
to send a joint deputation to meet you regarding
the Invergordon Smelter.

E

I would be most appreciative if you could spare
me a few minutes for a brief discussion on this
matter before a reply is sent to the Local
Authority.

Yours ~~sincerely,~~ *yes,*

Hamish

The Rt. Hon. Margaret Thatcher M.P.
The Prime Minister,
10 Downing Street,
London SW1

From: HAMISH GRAY, M.P.
(Ross & Cromarty)



HOUSE OF COMMONS
LONDON SW1A 0AA

cc IG ✓

18th January, 1982

(19)

Dear Prime Minister, *PH*

You will be aware of the catastrophic impact of the closing of the Invergordon Smelter in my constituency. I am enclosing a letter which was sent to my Constituency Chairman by Mr. W.B. Dewing, Managing Director of the Royal Garage, Invergordon and a Director of a number of other local companies. He reflects the view of many small business and not so small business voters in my constituency and I can confirm from meetings I have had with various groups that a state of alarm has existed in the area for some time and now has reached a climax as a result of the smelter closure.

This is a supporter who has never taken an active part at Branch or Association level, but at every election contributes a most handsome donation to my fighting fund.

I would be most grateful if you could write me a short note commenting on some of the points which he makes, which I could then enclose with my own reply.

Yours sincerely,

Your ass
Hamish

The Rt. Hon. Mrs. Margaret Thatcher M.P.
The Prime Minister,
10 Downing Street,
London SW1

Mr J A Douglas-Menzies
The Chairman
The Ross & Cromarty Conservative Association
Fernside
Mill Street
DINGWALL

5.1.82

WBD/JM

Dear Hamish - Please return to me when you have finished it. I have written to Bill about more or less on acknowledgment from you.

Dear John

When I told you on Sunday that it was my opinion that the sitting member, Mr Hamish Gray, would get between 500 and 1000 votes were an election to be held at the present time you were angered and disbelieving, and I am therefore writing to you to convince you that I was not speaking hastily, that my views were carefully considered, and that they are shared by many Conservative voters who would find difficulty in expressing those views. I was for instance told on the day after the last General Election by a Conservative voter that "if Mr Gray failed to bring development to the area he would lose his deposit next time" so there is nothing new about my statement.

The reasons for this remarkable loss of confidence in the Conservative Party are both national and local, and the weight that individual voters put on each of the following reasons will vary according to circumstances, but there are very few Conservative voters who have not been bitterly disappointed by the Government's failure to fulfill their election promises.

In particular the main plank of Mrs Thatcher's campaign was that "she would put the economy right", and after three years very few people in Easter Ross would accept that she has been successful. The loss of three thousand five hundred jobs in the area in four months, with a further thousand job losses forecast, is hardly an indication of economic recovery.

It was claimed that the Conservatives would support and encourage small and family businesses. The deliberate inflation of interest rates, which gave the initial impetus to the international raising of rates which has subsequently prevented their reduction, has been particularly harmful to such businesses, as you, a farmer will know. It has been said in the last few weeks that the average farmer has trebled his overdraft since this government came to power and that if this trend continues at the present rate, with land prices falling, every farm from Fife to Caithness will be effectively owned by banks or finance houses before the next General Election, making the nationalisation of land a practical proposition for -/

for the first time in our history should a left wing government come to power.

The high interest rates, which have been clawed back by the immoral and retrospective windfall tax on the banks, have been a direct tax on small and medium businesses.

A further tax burden has been placed on such business, among other people, by the withdrawal of a substantial portion of the rate support grant. This has inevitably meant a substantial increase in rates, a tax which is not related to profitability and which is particularly hard on business in a recession, as it tends to increase in inverse ratio to the prosperity of an area. Whilst everybody accepts that local government spending must be brought under control it cannot be done by transferring the financial burden from central government to local businesses who often have no vote at all in local government elections, and who certainly have no vote in proportion to their financial liability.

Thus a party which was elected on a tax cutting manifesto has vastly increased the taxation on the very type of business that they promised to support. Indeed the present government, who practically doubled VAT in their first budget, has increased taxation generally more than any other government in history in direct contravention of their election manifesto.

Many young people voted Conservative because they believed that it would help them to buy their own home, and those who have been able to buy their council house have been rewarded. However many people have little wish to own a badly sited council house and those who wish to build or buy their own house have seen prices rocket beyond their means, with the cost of borrowing forced to unprecedented levels by Government action, allied with a collapse of private building.

The Government's fight against inflation is of vital importance but it is being fought largely at the expense of private businesses who are faced with bills from nationalised industry and services which have doubled during the life of this Government. Small businesses and medium businesses are only able to pay their managers and staff at rates which are rapidly falling far behind those paid in local government, in the Health Service, in the Police, in the British National Oil Corporation, or in the Services, and in particular the inflation linked pension schemes, which are far beyond the ability of private companies to buy, cause intense anger. As an example, whilst it can be accepted that Police pay was too low three years ago the present pension levels paid to men with fifteen years of useful work ahead of them are so different to those provided by private pension schemes that urgent action must be taken.

As long as those in government service who control inflationary pressures and government spending are themselves protected from its effects they are never going to accept or know how devastating a scourge inflation is.

Thus the national scene is one of economic recession, vast unemployment and a substantial variation in security and reward which bears too low a relation to merit to be accepted as being justified. No longer are the unemployed out of work because they are lazy and incompetent, or the well paid secure and comfortable because they are intelligent and hard working, and unless this unfair state is corrected there will be anger, and in the extreme cases riot and insurrection.

As far as the local area is concerned the prospects both for the area and for the Conservative Party have become unbelievably bleak when compared with the high hopes of only a year ago, when Mr Gray, in his capacity as Minister of State for Energy announced a firm Government commitment to build the gas gathering pipeline in the North -/

Sea. This project would undoubtedly have brought substantial prosperity to the Cromarty Firth area, which would have provided the base area for much of the work involved, and it might have brought with it the petro-chemical development which would have absorbed the labour force working on the BNOG tank farm at Nigg and provided continuity of employment for four to six years at least.

As we all know, this whole project was abandoned in September. Whether it was right or wrong to abandon it is debateable, but what is certain is that the two main reasons for the failure of the scheme were the Government's failure to reach agreement with the Norwegians to buy their gas reserves and secondly the scale of the Government's tax on the oil companies who were expected to finance the scheme, which left them with an inadequate financial return. Mr Gray's department was thus intimately involved in all the negotiations with the Norwegians, with the Oil Companies and with the other Government departments, and must accept the blame for their failure. It is known that Mr Gray was bitterly disappointed, but it remains undeniable that the abandonment of this project has left the Government with no policy for the development of the North Sea reserves after three years in power, other than to tax the output to excess. The result is that the Government that was elected to expand and develop the North Sea has proved to be even less successful than their labour predecessors.

The effect on the Invergordon area has been the loss of two thousand five hundred jobs but at the same time many local businesses had gone ahead with substantial expansion plans acting on the Minister's statement of intent, and are thus doubly hit by the failure to establish any new oil related developments in the area.

Finally the closure of the British Aluminium smelter will deal a devastating blow to Easter Ross and in particular to Invergordon and Alness. The timing of this closure which appears to have been designed to avoid paying earnings related unemployment benefit, will leave a bitter memory of the meanness and pettyness of those who have taken advantage of a loyal workforce.

This Government has during the last two years abandoned the policy of regional development supported by successive Conservative governments. The pulp mill at Fort William, Linwood, and the Bathgate complex are all the products of Conservative policies and the smelter was founded in accordance with such plans, and its closure is a breach of faith with the many families who moved north in accordance with government plans to encourage the mobility of labour. The new policy is entirely contrary to Mr Gray's firmly stated opinions in the past, and it appears to have been implemented without regard for the consequences in accordance with a bigoted theory which has been conspicuously unsuccessful elsewhere.

We are far too close to ~~the~~ the closure to forecast the effects accurately but they will undoubtedly be devastating, and will result in de-population, in the eventual closure of up to eighty percent of businesses in Invergordon and Alness and in dereliction and distress.

The effects on power supplies in Scotland, on the railways and roads in the Highlands on the Highland Regional Council who will not only lose the direct rates paid by British Aluminium but who will also be left with empty and derelict housing, and on the morals of those who thought that they had a steady job for life are all incalculable. None of these consequences are acceptable, all of them will remind those who stayed that they have been betrayed by an English Conservative Party which has learnt nothing from the mistakes of the last two hundred years.

The -/

Mr J A Douglas-Menzies

5.1.82

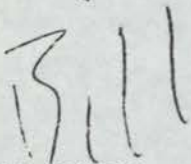
September 4

The history of Ireland, of Wales, of the Highland Clearances, and of many of the Colonies show the dangers which stem from the narrow minded pursuit of the policies adopted by the present Government, and they must be changed before it is too late to repair the damage being done.

As you know, I am English and no advocate of Scottish Nationalism, which I would consider a disaster were it to succeed, but I can imagine no circumstances more likely to encourage the growth of militant nationalism than those being forced on the Easter Ross area.

I hope you will pass this letter on to Mr Gray, and to any other Conservative party members or officials who may be interested in my views. I am well aware of Mr Wilson's statement that " five minutes is a long time in politics " but it is my opinion that unless immediate and substantial action is taken on a scale far greater than that so far envisaged the financial consequences in Easter Ross will be disastrous and the electoral consequences will be permanent and devastating. Those who say there is no alternative will not be forgiven.

Yours sincerely
for WILLIAM MUNRO (INVERGORDON) LIMITED


W B DEWING
Managing Director

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

20 January 1982

I attach a copy of a letter the Prime Minister has received from Mr. R.H. Stevenson, the Chief Executive of the Highland Regional Council about the closure of the British Aluminium smelter at Invergordon.

The Ross and Cromarty District Council and Highland Regional Council have claimed on the telephone to us that your Secretary of State has given them some support in their request that the Prime Minister should receive a joint deputation from them. I do not know what substance there is in this, but the Prime Minister thinks that it would be better if Scottish Office Ministers saw them, and hopes that your Secretary of State will reply to their letter.

Muir Russell Esq
Scottish Office

CONFIDENTIAL

PRIME MINISTER

The Chief Executive of the Highland Regional Council asks you to receive a joint deputation from the Highland and Ross and Cromarty District Councils about the Invergordon closure.

They have claimed on the telephone to us that Mr. Younger has given them some support in this. He may possibly have touched upon this when he discussed Invergordon with you today. But once you accept a delegation - other than a constituency M.P. - over a specific closure, however calamitous, you open the flood gates to this type of meeting. And in practice, if there is anything that Government can do to help in a particular case, or to mitigate the effects of closure, it must be for the Departmental Minister to pursue the point.

May we therefore ask the Scottish Office to handle Mr. Stevenson and his colleagues? -1

am already in close

touch with them

check it - and

Hannish Gray is

then member.

19 January 1982

Yes not

MJ

not

PRIME MINISTER

cc: Mr. Gow

INVERGORDON

I attach a copy of Mr. Younger's Statement. You saw this over the weekend, but it may be helpful to glance at it again before Questions tomorrow, as the issues raised may well be brought up with you.

Bruce Millan said that the Opposition would insist on a Debate. (He later tried, unsuccessfully, to move an S09 Debate). He wanted much more information about the Secretary of State's involvement in discussions leading up to the closure announcement. He wanted the Company to give a break-up value for the plant, and the utilities to set a new lower electricity tariff for a new operator. He argued that the other UK smelters were heavily subsidised, but not in the open way that had applied to Invergordon. Neither the Opposition nor the workers had accepted that the closure was final. Mr. Younger replied that the Government had accepted the closure, and the financial arrangements, because this offered at least some chance of saving the rest of British Aluminium's operations.

Subsequent exchanges ranged widely. Jo Grimond and Keith Best both argued that the case illustrated the folly of our high cost energy, compared with the situation of European competitors. John Home Robertson and John Corrie were concerned about the effect on the electricity supply industry and other Scottish consumers, whilst Jeremy Bray objected that Scottish consumers carried the costs of a very large share of the UK's spare electricity generation capacity. David Myles said that the original viability forecasts for the business could now be seen to have been wildly optimistic. Dick Douglas and Alex Pollock were concerned about the knock-on effect elsewhere in Scotland. George Foulkes drew attention to the import of £61m. worth of worked aluminium in the latest three months - over £11m. worth from East Germany. Other Opposition Members were unconvinced about the reasons for leaving British Aluminium with £15m. from its closure decision.

/ Mr. Younger

Mr. Younger handled the Questions adroitly, but the Opposition will continue to press on the matter. They may yet opt to use this week's Supply Day.

MR

18 January 1982

STATEMENT

MONDAY 18 JANUARY 1982

HOUSE OF COMMONS

INVERGORDON SMELTER

STATEMENT BY THE SECRETARY OF STATE FOR SCOTLAND

(MR GEORGE YOUNGER)

MR SPEAKER, WITH PERMISSION, I WISH TO MAKE A STATEMENT ABOUT THE CLOSURE OF THE BRITISH ALUMINIUM COMPANY'S SMELTER AT INVERGORDON.

TOWARDS THE END OF LAST YEAR THE COMPANY TOLD THE GOVERNMENT THAT THE VERY LARGE LOSSES IT WAS INCURRING AT INVERGORDON HAD REACHED THE POINT AT WHICH THE SURVIVAL OF THE WHOLE GROUP WAS SERIOUSLY AND IMMEDIATELY THREATENED; IT WAS THEREFORE PROPOSING TO CLOSE THE SMELTER BY THE END OF 1981. THE GOVERNMENT NEVERTHELESS DECIDED THAT OUR FIRST PRIORITY SHOULD BE TO TRY TO KEEP THE SMELTER IN OPERATION, AND URGENT DISCUSSIONS TOOK PLACE WITH THE COMPANY IN SEARCH OF A BASIS ON WHICH THE SMELTER COULD CONTINUE.

TO ENABLE IT TO CONTINUE IN OPERATION THE COMPANY WOULD HAVE REQUIRED THE DISPUTED CHARGES OF £47M DUE TO THE NORTH OF SCOTLAND HYDRO ELECTRIC BOARD TO BE WRITTEN OFF AND ELECTRICITY CHARGES TO BE REDUCED TO A LEVEL WHICH WOULD HAVE CAUSED THE BOARD TO MAKE ANNUAL LOSSES ON THE POWER CONTRACT OF AROUND £16M A YEAR, CONTINUING AT THAT LEVEL, AND POSSIBLY INCREASING, UNTIL THE YEAR 2000. THE GOVERNMENT THEREFORE CONCLUDED WITH GREAT RELUCTANCE THAT SUCH COMMITMENTS IN RESPECT OF ONE COMPANY WOULD BE AN UNACCEPTABLE BURDEN TO THE TAXPAYER AND THAT THE CLOSURE WOULD HAVE TO PROCEED. THE COMPANY THEN ENTERED INTO DISCUSSIONS WITH THE BOARD ABOUT THE TERMINATION OF ITS POWER CONTRACT. BECAUSE THESE DISCUSSIONS WERE STILL IN PROGRESS THE GOVERNMENT WERE NOT IN A POSITION TO MAKE ANY ANNOUNCEMENT TO THE HOUSE BEFORE THE BEGINNING OF THE RECESS.

UNDER THE TERMS OF THE SETTLEMENT REACHED BETWEEN THE COMPANY AND THE BOARD, THE COMPANY'S RIGHTS UNDER THE CONTRACT TO ELECTRICITY SUPPLIES FROM HUNTERSTON B TO THE YEAR 2000 WERE VALUED AT £79,328M. FROM THIS SUM THE BOARD DEDUCTED £47,049M IN SETTLEMENT OF DISPUTED POWER

CHARGES. AT THE DATE OF TERMINATION OF THE CONTRACT THE OUTSTANDING BALANCE OF THE GOVERNMENT LOANS TO THE COMPANY, INCLUDING INTEREST DUE, TOTALLED £33.527M. BECAUSE IT WAS THE GOVERNMENT'S INTENTION THAT THERE SHOULD BE AN EQUITABLE SETTLEMENT WHICH WOULD REDUCE THE THREAT TO THE COMPANY'S OTHER ACTIVITIES CAUSED BY THE CONTINUING LOSSES AT THE SMELTER MY RT HON FRIEND THE SECRETARY OF STATE FOR INDUSTRY DID NOT INSIST, AS HE WAS ENTITLED TO DO, THAT THE WHOLE OF THE REMAINDER SHOULD GO TOWARDS REPAYMENT OF THE OUTSTANDING BALANCES OF THE COMPANY'S LOANS. OF THE REMAINING £32.279M THE COMPANY PAID £4.488M TO THE BOARD IN SETTLEMENT OF CURRENT DEBTS FOR ELECTRICITY SUPPLIED AND £12.279M TO MY RT HON FRIEND IN PART REPAYMENT OF THE LOAN AND RECEIVED £15.512M.

THE PAYMENT OF £12.279M WAS SUFFICIENT TO REPAY THE PRINCIPAL AND INTEREST OF THE 1975 LOAN IN FULL (£6.547M) AND THE INTEREST DUE AND PART OF THE PRINCIPAL OF THE 1968 LOAN (£5.732M). WITH THE APPROVAL OF THE TREASURY, THE REMAINDER OF THE PRINCIPAL OF THE 1968 LOAN, AMOUNTING TO £21.248M, WAS WAIVED. THE EUROPEAN COMMISSION ARE BEING NOTIFIED.

AS I SAID ON THE DAY THE CLOSURE WAS ANNOUNCED, THE GOVERNMENT REGARD IT AS A PROFOUND DISASTER FOR THE AREA. WE FULLY UNDERSTAND THE SERIOUS CONSEQUENCES WHICH IT WILL HAVE FOR INVERGORDON, AND THE WIDER MORAY FIRTH AREA, BOTH IN TERMS OF JOBS LOST AND ITS EFFECT ON THE LOCAL ECONOMY.

THE COMPANY HAS UNDERTAKEN TO MAINTAIN THE SMELTER IN A USABLE CONDITION FOR A PERIOD OF 6 MONTHS AND TO CO-OPERATE WITH THE HIGHLANDS AND ISLANDS DEVELOPMENT BOARD IN ITS EFFORTS TO FIND A NEW OPERATOR FOR THE PLANT. WE ARE ALREADY WORKING WITH THE HIGHLANDS AND ISLANDS DEVELOPMENT BOARD AND LOCATE IN SCOTLAND TO ENSURE THAT EVERY EFFORT IS BEING MADE TO FIND A NEW OPERATOR. WE ARE READY TO ASSIST THE NORTH OF SCOTLAND HYDRO-ELECTRIC BOARD AND ANY POTENTIAL NEW OPERATOR IN THEIR NEGOTIATIONS.

IN THE EVENT THAT NO NEW OPERATOR COMES FORWARD, EVERY EFFORT WILL BE MADE TO TRY TO ATTRACT NEW JOBS TO THE AREA. THE GOVERNMENT HAVE AGREED TO PROVIDE A SPECIAL EXTRA ALLOCATION OF FUNDS, AMOUNTING TO UP TO £10M OVER THE NEXT 3 YEARS, TO ENABLE THE HIGHLANDS AND ISLANDS DEVELOPMENT BOARD TO UNDERTAKE SPECIAL MEASURES TO PROVIDE NEW EMPLOYMENT OPPORTUNITIES. MY DEPARTMENT, THE HIGHLANDS AND ISLANDS DEVELOPMENT BOARD AND THE SCOTTISH DEVELOPMENT AGENCY WILL GIVE THE HIGHEST PRIORITY TO FINDING NEW PROJECTS WHICH MAY BE ESTABLISHED IN THE AREA.

SCOTTISH OFFICE

(C/F File:- PM's Meeting with Lord Plowden)
Dec. 81



Highland

Chief Executive
R.H. Stevenson, M.A., LL.B.

Highland Regional Council
Regional Buildings
Glenurquhart Road
Inverness IV3 5NX

Telephone (0463) 34121
Telex No. 75313

Please ask for Mr. Stevenson

Our ref RHS/DJM

Extension No 201

Your ref

Date 15th Jan., '82.

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
House of Commons,
LONDON SW1A 0AA.

Dear Prime Minister,

INVERGORDON - CLOSURE OF BRITISH ALUMINIUM SMELTER

I wish to submit a formal request, on behalf of this Council and Ross and Cromarty District Council, that you receive a joint deputation from the two authorities in connection with the effects of the Invergordon smelter closure and the action which, in the view of the two Councils, must be taken to re-start the smelter.

I would suggest most respectfully that there is no real need to rehearse in this letter the basis for our request that a joint deputation be received. The closure is sheer catastrophe for the Ross and Cromarty District and for the Highland Region as a whole. Its effects will be calamitous not only for the 900 work-force involved but also in the implications for medium and small businesses of all descriptions; for the local authorities; and for other public services. It can be said with complete confidence that never in modern times has one issue so united, in their determination to reverse these tragic events, all sections of the northern community including the work-force, the local authorities, the public agencies, the business community, the voluntary sector and the public at large.

The two Councils, who are pledged to act in concert with one another, are alert and ready to travel to London to meet you at the briefest of notice.

In view of what is at stake, the Councils are confident that they will receive from you a positive response to their request.

I am,
Your most obedient servant,

CHIEF EXECUTIVE.

CONFIDENTIAL

BJ has seen

(1)



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prime Minister

George Younger has asked if
he can come in to talk to
you about Invergordon. We have

fixed Tuesday afternoon for half
15 January 1982

Mike Pattison Esq
Private Secretary
No 10 Downing Street
LONDON SW1

an hour or so. Should not

Dear Mike,

Yes not

Content with this draft statement?

MUS 15/1

INVERGORDON SMELTER

I enclose a draft of the statement which my Secretary of State intends to make to the House on Monday 18 January about the closure of the British Aluminium Company's smelter at Invergordon.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Lord President, Secretaries of State for Industry, Energy, Employment, Wales, the Chief Whip, the Paymaster General and to Bernard Ingham.

Yours sincerely,

John W. S.

JOHN S WILSON
Private Secretary

CONFIDENTIAL

E. B.

DRAFT STATEMENT ON INVERGORDON SMELTER

1. Mr Speaker, with permission I wish to make a statement about the closure of the British Aluminium Company's smelter at Invergordon.
2. Towards the end of last year the Company told the Government that the very large losses it was incurring at Invergordon had reached the point at which the survival of the whole Group was seriously and immediately threatened; it was therefore proposing to close the smelter by the end of 1981. The Government nevertheless decided that our first priority should be to try to keep the smelter in operation, and urgent discussions took place with the Company in search of a basis on which the smelter could continue.
3. To enable it to continue in operation the Company would have required the disputed charges of £47m due to the Board to be written off and electricity charges to be reduced to a level which would have caused the Board to make annual losses on the power contract of around £16m a year, continuing at that level, and possibly increasing, until the year 2000. The Government therefore concluded with great reluctance that such commitments in respect of one company would be an unacceptable burden to the taxpayer and that the closure would have to proceed. The Company then entered into discussions with the Board about the termination of its power contract. Because these discussions were still in progress the Government were not in a position to make any announcement to the House before the beginning of the Recess.
4. Under the terms of the settlement reached between the Company and the Board, the Company's rights under the contract to electricity supplies from Hunterston B to the year 2000 were valued at £79.328m. From this sum the Board deducted £47.049m in settlement of disputed power charges. At the date of termination of the contract the outstanding balance of the Government loans to the Company, including interest due, totalled £33.527m. Because it was the Government's intention that there should be an equitable settlement which would reduce the threat to the Company's other activities caused by the continuing losses at the smelter my Rt Hon Friend the Secretary of State for Industry did not insist, as he was entitled to do, that the whole of the remainder should go towards repayment of the outstanding balances of the Company's loans. Of the remaining £32.279m the Company retained £15.512m and paid £4.488m to the Board in settlement of current debts for electricity supplied and £12.279m to my Rt Hon Friend in part repayment of the loan.

E. R.

5. The payment of £12.279m was sufficient to repay the principal and interest of the 1975 loan in full (£6.547m) and the interest due and part of the principal of the 1968 loan (£5.732m). With the approval of the Treasury, the remainder of the principal of the 1968 loan, amounting to £21.248m, was waived.
6. As I said on the day the closure was announced, the Government regard it as a profound disaster for the area. We fully understand the serious consequences which it will have for Invergordon, and the wider Moray Firth area, both in terms of jobs lost and its effect on the local economy.
7. The Company has undertaken to maintain the smelter in a usable condition for a period of 6 months and to cooperate with the Highlands and Islands Development Board in its efforts to find a new operator for the plant. We are already working with the Highlands and Islands Development Board and Locate in Scotland to ensure that every effort is being made to find a new operator. We are ready to assist the North of Scotland Hydro-Electric Board and any potential new operator in their negotiations.
8. In the event that no new operator comes forward, every effort will be made to try to attract new jobs to the area. The Government have agreed to provide a special extra allocation of funds, amounting to up to £10m over the next 3 years, to enable the Highlands and Islands Development Board to undertake special measures to provide new employment opportunities. My Department, the Highlands and Islands Development Board and the Scottish Development Agency will give the highest priority to finding new projects which may be established in the area.

SCOTTISH OFFICE
15 January 1982

E.R.

175 JAN 1982



✓

BACO

The British Aluminium Company Ltd

7 Baker Street
London
W1M 1AB

Telegrams Britalumin London W1
Telex 22756
Telephone 01-839 8888

Chairman's Office

Prime Minister

To see that BACO

are writing to
Members.

Mr 18/1

TO ALL MEMBERS OF PARLIAMENT

14 January 1982

Dear Member

BRITISH ALUMINIUM'S INVERGORDON SMELTER

It is likely that the House will wish to debate the circumstances of the closure of our Invergordon smelter. There has been considerable press comment, not all of it well-informed, and I think members may find it useful to have a short summary of the origins of the smelter project and of the reasons for the closure decision.

You will see from the enclosed brief:

- original expectations that nuclear power would be competitive with hydro-electric power have been disappointed;
- high power costs and depressed aluminium prices have caused large losses at Invergordon in 1981 which threatened the survival of the British Aluminium Group currently employing 7,200 people elsewhere in the UK;
- it was not possible to negotiate revised terms for power which would make the smelter viable so the company had no alternative but to close the plant or face liquidation;
- the financial settlement on termination of the power contract in no way compensates BACO for the losses it has incurred though it does restore the Group to financial viability.

Also attached is a sheet listing a few basic facts about the Group, including the location of our principal factories. If you would like more information please contact Mr J C Armstrong, Assistant Managing Director, at the above address.

Yours faithfully

R. E. Utiger

R E Utiger
Chairman

14 January 1982

BRIEF ON BRITISH ALUMINIUM'S INVERGORDON SMELTER

- 1 The project was set up in 1968, with the active encouragement of the government of the day, in the belief that power costs from the new AGR nuclear stations would enable aluminium smelters in Britain to be competitive with overseas plants based on hydro-electric power. A special power contract was concluded between the North of Scotland Hydro-Electric Board (NSHEB) and The British Aluminium Company (BACO) under which BACO contributed to the cost of constructing Hunterston 'B' and was entitled to a tranche of power up to 2000 at operating cost plus escalation. With the capital element fixed and cost escalation forecast to be small in real terms, BACO expected to pay a power price which would make the smelter competitive; while the generating boards calculated they would recover all their costs over the life of the contract.
- 2 To finance the £37 million capital cost of the new smelter BACO sold its 54% interest in a Canadian smelter of similar size. BACO received the normal investment grants then available for all capital investment, but nothing additional.
- 3 To finance its share of the Hunterston 'B' AGR BACO was promised a government loan of up to £30 million at 7%, which was slightly below the 8% then being charged to nationalised industries. This loan was repayable in equal annual instalments of principal and interest from 1972 to 1999.
- 4 The smelter was completed in 1971 on time and within budgeted cost.
- 5 By 1973/74 Hunterston 'B' was already several years late; it was clear that cost would exceed budget by at least one-third, and that its performance had to be down-rated to 80% of specification. BACO was required to pay its share of the capital cost overrun, for which the government made a further loan of £7 million at 14½%. The additional operating costs arising initially from delay in completing Hunterston 'B' and subsequently from its lower performance could not, the government recognised, be charged to BACO. The government made arrangements through what has become known as the Smelter Deficit Account to compensate NSHEB for these failures. Since 1976 Parliament has voted a total of £113 million for this purpose; none of this of course has been paid to BACO.
- 6 From 1976 onwards the power charges by then based on Hunterston 'B' costs began to escalate at a rate far in excess of inflation. In addition, there was a dispute between BACO and NSHEB as to whether certain substantial elements were payable under the terms of the contract. Attempts to negotiate a settlement of the dispute failed and in February 1980 BACO was informed that NSHEB would bring a law suit to determine the interpretation of the contract. The problem was discussed at that time between the Secretary of State for Scotland and the Chairman of BACO. The legal proceedings were not initiated until April 1981, a year later.

- 7 By the autumn of 1981 the situation had reached crisis point for BACO. Power charges had increased by a further 33% in 1981, at a time when the aluminium market was worsening steadily and Invergordon looked certain to lose £20 million in the year. Such losses were insupportable for a company the size of BACO, and it was clear that the whole Group would be forced into liquidation within a few months unless the losses could be stopped.
- 8 The company therefore formally approached the Department of Industry pointing out that it was now impossible for the company to await the outcome of the litigation with NSHEB which might drag on in the courts for several years. There appeared to be only three alternatives remaining:
 - a) To improve the power contract substantially so as to make Invergordon competitive internationally.
 - b) To terminate the power contract and close Invergordon.
 - c) To allow the whole Group to go into liquidation despite the fact that, excluding Invergordon, it was financially viable and during the period 1976-80 had the best performance record of any major European aluminium company.
- 9 After thorough examination of the whole financial position of the company, BACO was asked to put forward suggestions for a basis on which it could continue to operate the plant. The company tabled six major issues which would have to be satisfactorily resolved covering inter alia the disputed charges, price, future escalation, and flexibility of power offtake. The government added a seventh issue wishing to insert a three-year break clause. BACO argued that such a right of termination was not appropriate since the smelter could not be viable over such a short period. Negotiations proceeded with all the major issues being discussed in parallel, and both sides modified their positions in an attempt to find a total package which could be submitted to Ministers and to the Board of BACO. At no stage did the government negotiators indicate that they had authority to offer any particular package either short or long term. The package discussed on the last day of negotiations on 17 December 1981 did not include a break clause. On 18 December BACO was informed that the package had been rejected as too costly and that termination was the only possibility.
- 10 BACO had to act urgently. Losses at Invergordon had exceeded half-a-million pounds a week since September, and the financial resources of the company were in danger of fast running out. Government departments and the Scottish generating boards co-operated to complete the necessary arrangements as rapidly as possible so as to limit further damage to the company. Unfortunately, it was not possible in these circumstances to consult with employees and their trade union representatives in advance.
- 11 The financial settlement on termination of the power contract was based on BACO's contractual rights. Having made capital payments in 1968 and later years, BACO had the right to receive 200 MW of power at operating cost until the year 2000. By giving up these rights BACO

was returning a valuable asset to the generating system, and the contract provided that this "residual value" should be paid to BACO. The gross sum of £79.3 million agreed in negotiation enabled BACO to pay the disputed power charges (by then amounting to £47.0 million) and to repay £12.3 million of the government loans; the balance of £21.2 million outstanding has been waived by the government. From the remaining £20.0 million of the residual value was deducted £4.5 million due to NSHEB in the normal course of business, so that BACO received £15.5 million cash.

- 12 Out of this sum BACO has to meet all closure and redundancy costs and it also has to write down its substantial investment in the smelter project. However the payment of the disputed items and the elimination of the Invergordon losses does restore the financial viability of the Group, thus removing the immediate threat to its other operations with 2,700 employees in Scotland and 4,500 elsewhere in the UK.
- 13 This settlement in no way compensates BACO for the heavy losses incurred and the other opportunities foregone, particularly in Canada, by involvement in the Invergordon project. Success of the project depended on both the company and the generating boards fulfilling the estimates made in 1968. The company considers that it has carried out everything that it undertook at that time, but the unexpected evolution of the power cost destroyed the viability of the project.

14 January 1982

BASIC FACTS ABOUT THE BRITISH ALUMINIUM GROUP

BACO is the only British owned company engaged in all aspects of the aluminium industry from bauxite to finished products. In the context of the world aluminium industry it is only a medium sized company, but it is the sixth largest in Europe. BACO is a publicly quoted company, of which Tube Investments Limited owns 58 per cent.

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>Jan-June</u> <u>1981</u>
	-----£ million-----			
Sales	211	269	276	128
Profit before tax	25	21	12	(9) loss

The principal factories of the Group are:

PRIMARY SMELTERS	-	Invergordon, Ross-shire Fort William, Inverness-shire Kinlochleven, Argyll
ROLLING MILLS	-	Falkirk, Stirlingshire Dolgarrog, Gwynedd
EXTRUSION PLANTS	-	Redditch, Worcestershire Warrington (2), Cheshire St Helens, Merseyside Distington, Cumbria
FOIL PLANTS	-	Glasgow Silvertown, London
ALUMINA CHEMICALS	-	Burntisland, Fife
MAGNESIUM AND ZIRCONIUM	-	Clifton Junction, Manchester

The total employees of the Group at the end of 1981 were:

INVERGORDON	-	890
OTHER SCOTTISH PLANTS	-	2,700
ENGLAND AND WALES	-	4,500
OVERSEAS	-	1,450



10 DOWNING STREET

cc: D/N
D/I
D/M
T/CS
SO

LOR

THE PRIME MINISTER

12 January, 1982

Dear Mr. Jenkins,

Thank you for your telegram of 29 December about the closure of the British Aluminium Company's smelter at Invergordon.

BACo's decision to close the Invergordon smelter was taken after extensive discussion with the Government, and after we had explored all possible arrangements which might have enabled it to continue in operation. It became plain to us not only that the losses from the smelter's operation were enormous but that they had reached a stage where the viability of the whole company was seriously threatened. To keep the smelter in operation would have entailed an enormous immediate cost to the taxpayer and a continuing loss on the smelter's electricity supply of around £16 m. per annum at today's prices until the year 2000, which would inevitably have also fallen on the taxpayer. Although as you say we are fortunate as a nation in having abundant supplies of energy, we do not have the large resources of hydro-electric power which enable other countries to supply bulk electricity for aluminium smelting at extremely competitive prices. The price being charged to BACo for its supply was already around half that being charged to other industrial consumers.

We shall use all the powers at our disposal to promote new employment in the area and to assist those whose jobs will be lost as a result of the closure. The company has agreed to maintain the smelter intact for a period of six months while intensive efforts are made to find a purchaser and the termination of the power contract does not affect this. We are providing a special extra allocation of funds, amounting to up to £10 m. over the next three years, to enable the Highlands and Islands Development Board to step up its efforts

/to provide

W

to provide new employment opportunities. Locate in Scotland will also be making intensive efforts to attract new projects to the area.

Alex Fletcher, the Minister for Industry and Education at the Scottish Office, visited the area on 5 January and had discussions with, among others, representatives of the Invergordon workforce. At their request he has had a further meeting with the Chairman of BACo but I am afraid that has confirmed that no basis exists for providing power to the smelter at a price which makes continued operations possible for the company.

Yours sincerely

Raymond Fletcher

D. C. Jenkins, Esq.



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

MA
12 January 1982

Dear Lord,

Thank you for your letter of 29 December about the closure of the British Aluminium smelter at Invergordon.

I do of course understand your concern about this serious and important matter. However I should, I think, make it clear that the decision to close the smelter was taken and announced by the Company, and that the timing of the announcement was not determined by the Government. An earlier announcement, before the Recess, was not possible as urgent discussions with the Company were then still in progress. I fully appreciate the serious effects that the closure of the smelter will have on Easter Ross and the rest of the Scottish economy, but I am afraid that I do not think that a recall of Parliament to discuss the closure would be justified.

*Yours sincerely
Francis*

FRANCIS PYM

Gordon Wilson Esq MP
House of Commons
London SW1A 0AA

bc Mr Maclean, No 12
Mr Pattison, No 10 ✓
Mr Russell, Scottish Office

13 JAN 1982





✓ AD
SV

Government Chief Whip
12 Downing Street, London SW1

11 January 1981

Dear Nick, *MA*

Thank you for your letter of 8 January about the possibility of a debate on the closure of the Invergordon smelter.

Scottish Labour MPs met in Glasgow last Thursday to discuss this and the reports of the meeting which I saw indicated that they would in fact be seeking a debate under Standing Order No.9 when the House returned.

My own view is that we should not volunteer a debate in Government time on this specific issue. The Lord President will recall that the Opposition have a Supply Day on Thursday 21st January which could be used to debate this subject. I think, although I have not yet discussed this with the Chief Whip, that there could be some merit in providing a one or possibly a two day debate on unemployment generally following the announcement of the January figures. If the Lord President were to agree, then clearly this would be a suitable occasion on which to raise the Invergordon issue.

If the unemployment figures do top the three million mark, then I believe that the Opposition will almost certainly table a Censure Motion against the Government, in which case it would be more than likely that the Prime Minister would have to take part in the subsequent debate. If, on the other hand, the Government provide time, with say the Opposition using a Supply Day for the second day, then there would be every justification for Departmental Ministers only taking part.

I am copying this letter to Mike Pattison at No.10 and Muir Russell, Scottish Office.

Yours ever,
M Maclean
(M MACLEAN)

N P M Huxtable Esq
Private Secretary to the Lord President of the Council

191 12 11 1882



Prime Minister



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

8 January 1982

Dear Murdo

The Lord President of the Council has received a letter from Gordon Wilson MP requesting the recall of Parliament to discuss the decision by British Aluminium to close their smelter at Invergordon with the loss of 900 jobs. I attach a copy.

In a separate letter today, we have sought the advice of the Scottish Office as to the most appropriate response to this request. However, the Lord President would be grateful for your advice as to whether it would be possible for an opportunity to be found for the House to debate this question on its return. I imagine that Scottish MPs most intimately concerned will in any case seek an emergency debate under the provisions of Standing Order No 9. Nevertheless if such an application were to fail, I imagine that the Lord President would still be pressed hard to find Government time for a debate.

I am copying this letter to Mike Pattison (No 10) and Muir Russell (Scottish Office).

Just over

N.P.M. Huxtable

N P M HUXTABLE
Private Secretary

Murdo Maclean Esq
Private Secretary to the
Government Chief Whip
12 Downing Street
London SW1



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

8 January 1982

Dear Mr

... The Lord President of the Council has received a letter from Gordon Wilson MP in which the recall of Parliament is urged in order to permit a debate to be held on the decision of British Aluminium to close their smelter at Invergordon with the loss of 900 jobs. I attach a copy. The Lord President would be grateful if you would arrange for your Department to undertake the preparation of advice as to the terms of a reply.

I am copying this letter and enclosure ^{29/12} to Mike Pattison, 10 Downing Street, and Murdo Maclean, Chief Whip's Office

Yours ever
N P M Huxtable

N P M HUXTABLE
Private Secretary

Muir Russell Esq
Private Secretary to the
Secretary of State for Scotland
Dover House
Whitehall
London SW1



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

W F S Rickett Esq
Private Secretary
10 Downing Street
LONDON

8 January 1982

Dear Mr Rickett *M. Tyre*
WMS

I refer to your letter of 30 December and attach a draft reply for the Prime Minister to send to Mr Clive Jenkins. I am sending copies of this letter and the enclosure to John Kerr (HM Treasury), Richard Dykes (Department of Employment), Ian Ellison (Department of Industry) and Julian West (Department of Energy.).

Yours sincerely

M. Stewart (Miss)

for. A M RUSSELL
Private Secretary

DRAFT FOR THE PRIME MINISTER

D C Jenkins Esq
General Secretary
ASTMS
Jamestown Road
LONDON NW1

Thank you for your telegram of 29 December about the closure of the British Aluminium Company's smelter at Invergordon.

BACo's decision to close the Invergordon smelter was taken after extensive discussion with the Government, and after we had explored all possible arrangements which might have enabled it to continue in operation. It became plain to us not only that the losses from the smelter's operation were enormous but that they had reached a stage where the viability of the whole company was seriously threatened. To keep the smelter in operation would have entailed an enormous immediate cost to the taxpayer and a continuing loss on the smelter's electricity supply of around £16m per annum at today's prices until the year 2000, which would inevitably have also fallen on the taxpayer. Although as you say we are fortunate as a nation in having abundant supplies of energy, we do not have the large resources of hydro-electric power which enable other countries to supply bulk electricity for aluminium smelting at extremely competitive prices. The price being charged to BACo for its supply was already around half that being charged to other industrial consumers.

We shall use all the powers at our disposal to promote new employment in the area and to assist those whose jobs will be lost as a result of the closure. The company has agreed to maintain the smelter intact for a period of six months while intensive efforts are made to find a purchaser and the termination of the power contract does not affect this. We are providing a special extra allocation of funds, amounting to up to £10m over the next three years, to enable the Highlands and Islands Development Board to step up its efforts to provide new employment opportunities. Locate in Scotland will also be making intensive efforts to attract new projects to the area.

Alex Fletcher, the Minister for Industry & Education at the Scottish Office, visited the area on 5 January and had discussions with, among others, representatives of the Invergordon workforce. At their request he has had a further meeting with the Chairman of BACo but I am afraid that has confirmed that no basis exists for providing power to the smelter at a price which makes continued operations possible for the company.



59

10 DOWNING STREET

From the Private Secretary

30 December 1981

I enclose a copy of a telegram to the Prime Minister from Clive Jenkins, General Secretary of the ASTMS, about the closure of British Aluminium's Invergordon Smelter.

BK

I should be grateful for a draft reply which the Prime Minister might send to Mr. Jenkins. It would be helpful if this could reach us by Friday 8 January.

I am sending copies of this letter, and its enclosure, to John Kerr (HM Treasury), Richard Dykes (Department of Employment), Ian Ellison (Department of Industry) and Julian West (Department of Energy).

John Kerr
Richard Dykes

Muir Russell, Esq.,
Scottish Office.



JE

10 DOWNING STREET

From the Private Secretary

30 December 1981

Dear Mr Jenkins

I am writing on behalf of the Prime Minister to thank you for your telegram of 29 December about the closure of the Invergordon Smelter. I shall place this before the Prime Minister as soon as possible.

*Yours sincerely
William Rees-Mogg*

Clive Jenkins, Esq.

*107 Dec 81
only with Plowden
with MCC 29/12*



10 DOWNING STREET

✓ Press Office

PRIME MINISTER

Here is the telegram from Clive Jenkins asking you to intervene to prevent the closure of the Invergordon Smelter.

I have asked the Scottish Office to provide you with a draft reply.

WBR

M

30 December 1981

British TELECOM
for enquiries dial the number
shown in your dialling instructions

for enquiries dial the number
shown in your dialling instructions

for enquiries dial the number
shown in your dialling instructions

29 DEC 81 0214



ufo

299992 PO TS G
299992 PO TS G
K148 LONDON T 109 106 29 1950 SW

MRS MARGARET THATCHER
PRIME MINISTER
10 DOWNING STREET
SW1

URGENTLY REQUEST INTERVENE TO PREVENT PERMANENT CLOSURE OF THE
BRITISH ALUMINIUM INVERGORDON SMELTER BY INSURING THAT THE BULK
ELECTRICITY CONTRACT IS CONTINUED BEYOND 2330 HOURS 30TH AS
OTHERWISE PERMANENT DAMAGE CAN BE CAUSED STOP ALSO SUGGEST JOINT
STUDIES BETWEEN MANAGEMENT UNIONS AND GOVERNMENT ON THE PROVISION
OF CHEAP ENERGY WHICH I AM CONVINCED CAN BE PROVIDED IN A NATION
MORE THAN SELF SUFFICIENT IN ALL FORMS OF ENERGY STOP AN INVERGORDON
CLOSURE WOULD BE A DISASTER OF GREAT MAGNITUDE TO SCOTLAND AND EVERY
EFFORT MUST BE MADE BY EVERYONE TO PREVENT THIS
CLIVE JENKINS GENERAL SECRETARY ASTMS

~~COL 10 SW1 2330 30TH~~

299992 PO TS G
299992 PO TS G

T 1291

Telegram
for enquiries dial the number
shown in your dialling instructions

British TELECOM
for enquiries dial the number
shown in your dialling instructions



Scottish National Party

6 North Charlotte Street
Edinburgh EH2 4JH
Tel 031-226 3661

Your ref
Our ref 29 December 1981

LORD PRESIDENT
OF THE COUNCIL
RECEIVED

- 6 JAN 1982

6

Rt Hon Francis Pym,
Leader of the House of Commons,
House of Commons,
London SW1.

Dear Francis,

As you will be aware, the British Aluminium smelter at Invergordon is to close, with the loss of 900 jobs.

This blow will have a devastating effect on the area - its equivalent in the English Midlands would be the closure of British Leyland operations.

Owing to the seriousness of the situation, I therefore urge you to recall Parliament to discuss the issue as a matter of urgency.

I find it incredible that the Government should make such an announcement during the recess, when there is no opportunity to question Ministers. I suggest that the gravity of the situation merits the reopening of Parliament to debate the proposed closure and the future of the area.

Yours sincerely,

Gordon Wilson

MP Gordon Wilson MP
Chairman
Scottish National Party.



11 JAN 1982

TO
FROM
NO 10 PRESS OFFICE.
MS DRUMMOND,
510, GLASGOW

URGENT

SERIAL NO 134

NOT FOR RELEASE BEFORE 10.45 A.M. TUESDAY, 29 DECEMBER 1981

PRO 0900

29 DECEMBER 1981

BRITISH ALUMINIUM'S INVERGORDON SMELTER

BRITISH ALUMINIUM ANNOUNCES WITH GREAT REGRET THE CLOSURE OF ITS INVERGORDON SMELTER. THE LOSSES BEING INCURRED AT THE SMELTER ARE SO LARGE THAT THEY ENDANGER BRITISH ALUMINIUM'S OTHER OPERATIONS, LEAVING THE COMPANY NO ALTERNATIVE BUT TO CLOSE THE PLANT AS RAPIDLY AS POSSIBLE. THE POWER CONTRACT WITH THE NORTH OF SCOTLAND HYDRO-ELECTRIC BOARD (NSHEB) IS BEING TERMINATED AND SMELTING WILL CEASE BY THE END OF THE YEAR. OTHER OPERATIONS AT INVERGORDON WILL BE RUN DOWN OVER THE NEXT FEW WEEKS.

THE INVERGORDON SMELTER, COMPLETED IN 1971, HAS NOT EARNED SATISFACTORY PROFITS IN RECENT YEARS. DURING 1981 VERY LARGE LOSSES HAVE BEEN MADE DUE MAINLY TO HIGH POWER COSTS AND LOW ALUMINIUM PRICES. FOR SEVERAL MONTHS THE COMPANY HAS BEEN ENGAGED IN DISCUSSIONS WITH GOVERNMENT DEPARTMENTS AND THE SCOTTISH ELECTRICITY BOARDS TO SEE IF A NEW BASIS COULD BE ESTABLISHED FOR POWER SUPPLY TO THE SMELTER TO ENABLE IT TO BE COMPETITIVE. UNFORTUNATELY, DESPITE FULL CO-OPERATION FROM EMPLOYEES IN IMPROVING OPERATIONAL EFFICIENCY, THE COMPANY CAN SEE NO PROSPECT OF THE SMELTER BECOMING VIABLE AT THE POWER PRICES AVAILABLE.

BRITISH ALUMINIUM IS DEEPLY CONCERNED OVER THE EFFECT OF THE CLOSURE ON ITS 890 EMPLOYEES AT INVERGORDON. HOWEVER, CONTINUED OPERATION OF THE SMELTER WOULD HAVE SERIOUSLY THREATENED THE WHOLE BRITISH ALUMINIUM GROUP WITH 2,700 OTHER EMPLOYEES IN SCOTLAND AND 4,500 ELSEWHERE IN THE UK. TALKS ON CLOSURE ARRANGEMENTS AND REDUNDANCY TERMS WILL BEGIN IMMEDIATELY WITH REPRESENTATIVES OF THE INVERGORDON EMPLOYEES. BRITISH ALUMINIUM WILL OF COURSE CO-OPERATE IN ANY EFFORTS TO BRING NEW EMPLOYMENT INTO THE AREA BY, FOR EXAMPLE, MAKING LAND AVAILABLE, AND WILL DELAY ANY DISMANTLING OF THE SMELTER FOR AT LEAST SIX MONTHS.

FINANCIAL SETTLEMENT

THE POWER CONTRACT, WHICH GIVES BRITISH ALUMINIUM RIGHTS TO TAKE ELECTRICITY FROM HUNTERSTON 'B' NUCLEAR STATION UNTIL THE YEAR 2000, HAS BEEN TERMINATED BY MUTUAL CONSENT. THE RESIDUAL VALUE OF THESE RIGHTS HAS BEEN AGREED. THE DISPUTED POWER CHARGES (WHICH EXCEEDED £37 MILLION AT MID-YEAR AND WERE THE SUBJECT OF LEGAL PROCEEDINGS BY NSHEB) HAVE BEEN SETTLED AND BALANCES OUTSTANDING ON GOVERNMENT LOANS HAVE BEEN CLEARED. THESE LOANS HELPED BRITISH ALUMINIUM TO FINANCE ITS CONTRIBUTION TO THE COST OF CONSTRUCTING HUNTERSTON 'B'. THE BALANCES OUTSTANDING AT 31 DECEMBER 1980 WERE JUST UNDER £34 MILLION.

AS ALREADY INDICATED IN THE INTERIM STATEMENT, BRITISH ALUMINIUM HAS INCURRED SUBSTANTIAL TRADING LOSSES IN 1981. HOWEVER, IN SUBSEQUENT YEARS THE ELIMINATION OF INVERGORDON LOSSES AND TERMINATION OF THE POWER CONTRACT WILL IMPROVE THE GROUP'S TRADING PROSPECTS AND ITS OVERALL FINANCIAL POSITION. THE GEARING RATIO AT 31 DECEMBER 1981 IS EXPECTED TO REMAIN UNDER 50 PER CENT. THE ACCOUNTS FOR 1981, TO BE PUBLISHED IN MARCH 1982, WILL REFLECT THE SETTLEMENT OUTLINED ABOVE AND THE CLOSURE OF INVERGORDON AND OTHER RATIONALISATION MEASURES CARRIED OUT DURING THE YEAR.

FOR FURTHER INFORMATION CONTACT:

J C ARMSTRONG
ASSISTANT MANAGING DIRECTOR
01 839 8888

FOR INTERVIEWS IN SCOTLAND CONTACT:

L S F CHARLES
MANAGING DIRECTOR
AT CENTRAL HOTEL, GLASGOW
041 221 9180.

Original
3 Dec No. 10
6/6

27582 CABOFF G
727301 NSCOTO G

TELEX NO. 140 29.12.81

PRIORITY

FROM: BEVERIDGE SIO NSAH
TO: LIZ DRUMMOND, PRESS OFFICE, 10 DOWNING STREET VIA CABINET OFFICE

TERMINATION OF POWER CONTRACT

1. WHAT WILL BE THE EFFECTS OF THE TERMINATION OF THE POWER CONTRACT ON -
 - A. EMPLOYMENT IN THE MORAY FIRTH AREA?
 - B. ELECTRICITY SUPPLIES IN THE REST OF SCOTLAND?
 - C. COAL BURNED IN CONVENTIONAL POWER STATIONS?
 - D. EMPLOYMENT IN THE COAL INDUSTRY, AND THE FUTURE OF PITS SUPPLYING COAL TO THE SSEB?
 - E. COMMISSIONING DATE OF TORNESS NUCLEAR POWER STATION?
 - F. ELECTRICITY TARIFFS IN BOTH BOARDS' AREAS?
 - G. OTHER ALUMINIUM SMELTERS IN SCOTLAND, AND THE UNITED KINGDOM?
 - H. INDUSTRIAL CONSUMERS OF ELECTRICITY?

DETAILS OF THE SETTLEMENT

1. WHAT IS 'RESIDUAL VALUE' OF THE CONTRACT?
2. WAS THIS SUM NEGOTIATED BY THE GOVERNMENT?
3. WHO WILL PAY BACO THIS AMOUNT, AND HOW WILL IT BE FINANCED?
4. HOW MUCH DO BACO OWE NSHEB?
5. WHAT WILL HAPPEN TO THE COURT OF SESSION ACTION?
6. IF SETTLED OUT OF COURT WAS THE GOVERNMENT A PARTY?
7. HOW MUCH DO BACO OWE THE GOVERNMENT IN OUTSTANDING LOANS FOR BOTH HUNTERSTON AND THE SMELTER?
8. WHY HAS THE GOVERNMENT AGREED TO WAIVE ITS RIGHTS TO THESE SUMS?
9. WHY HAS THE GOVERNMENT ALSO WAIVED ITS RIGHTS TO RECOVERING SUMS DUE ON THE SMELTER DEFICIT ACCOUNT?
10. WHY WAS IT NECESSARY TO ENSURE THAT BACO CAME OUT OF THE SETTLEMENT WITH CASH IN HAND?
11. HAS THE GOVERNMENT MADE ANY CONTRIBUTION TO ENHANCE THE REDUNDANCY PAYMENTS?
12. WILL BACO STILL OWN THE SMELTER AND ITS ASSOCIATED MACHINERY? IF SO, DOES IT HAVE THE RIGHT TO DISPOSE OF THESE ASSETS AND RETAIN THE MONEY?
13. WILL BACO'S CONTRIBUTION TO THE REPAIR COSTS AT HUNTERSTON BE WRITTEN OFF?
14. WHAT WOULD IT HAVE COST FOR GOVERNMENT TO KEEP INVERGORDON GOING?
15. WHY WAS ACTION NOT TAKEN LONG AGO TO RESOLVE THE PROBLEM OF ELECTRICITY PRICES WHICH THE COMPANY BLAME FOR THEIR DECISION?
16. IF THE SMELTER IS TO BE KEPT GOING FOR A LIMITED PERIOD WILL THE ELECTRICITY IT USES BE SUBJECT TO A NEW CONTRACT?
17. IS THE GOVERNMENT FINANCING ANY OF THE BACO REORGANISATION MEASURES AS PART OF THE SETTLEMENT?

SCOTTISH OFFICE INVOLVEMENT

1. WAS THE COMPANY'S DECISION DISCUSSED IN CABINET?
2. DID SECRETARY OF STATE TRY TO RETAIN THE SMELTER AS A GOING CONCERN?
3. WHAT WOULD HAVE BEEN THE COST OF DOING SO?
4. WHAT ACTION DOES HE NOW PROPOSE TO COUNTER THE EFFECTS OF THE BACO DECISION ON SCOTLAND?
5. WILL THE HADB SET UP A TASK FORCE FOR THE AREA?
6. WILL THE HADB BE GIVEN ADDITIONAL FUNDS?
7. HOW MUCH GOVERNMENT MONEY HAS BEEN INVESTED IN THE INFRASTRUCTURE OF THE AREA - HOUSES, ROADS, SCHOOLS TO SUPPORT THE PROJECT?
8. WILL THE SECRETARY OF STATE BE COMPENSATING THE LOCAL AUTHORITIES FOR LOSS OF RATE INCOME?
9. HAS THE SECRETARY OF STATE OR MR FLETCHER MET THE COMPANY'S CHAIRMAN TO DISCUSS THE DECISION?
10. WHAT OTHER GOVERNMENT DEPARTMENTS HAVE BEEN INVOLVED WITH THE SCOTTISH OFFICE, AND WHAT IS THEIR INTEREST?
11. HAS THE SECRETARY OF STATE BEEN IN DISCUSSION WITH THE TWO SCOTTISH GENERATING BOARDS?
12. DOES THE SECRETARY OF STATE CONSIDER THAT THE BACO OPERATION HAS BEEN BADLY MANAGED?
13. IN RETROSPECT WAS THE DECISION TO SITE THE SMELTER AT INVERGORDON A HISTORICALLY BAD DECISION BY THE SCOTTISH OFFICE?
14. WILL THE SECRETARY OF STATE AND MR FLETCHER VISIT INVERGORDON?
15. DOES THE SECRETARY OF STATE FEEL THAT THE COLLAPSE OF THIS PROJECT FOLLOWING SO QUICKLY ON THE DEMISE OF OTHER MAJOR SCOTTISH INDUSTRIAL ENTERPRISES MEAN THAT THE GOVERNMENT'S INDUSTRIAL STRATEGY IS NO LONGER VALID?
16. IF THE SECRETARY OF STATE TRIED TO KEEP THE SMELTER GOING NOT A U-TURN IN GOVERNMENT POLICY?
17. DOES THE RESCUE OF BACO MEAN THAT THE GOVERNMENT HAD ABANDONED ITS NON-INTERVENTIONIST POLICY IN RELATION TO INDUSTRY?
18. WILL THE SECRETARY OF STATE ATTEMPT TO PERSUADE BACO TO HELP THE ESTABLISHMENT OF ALTERNATIVE JOBS BY DONATING MACHINERY, AND MANAGEMENT ADVICE, TO FLEDGLING COMPANIES?
19. IS THERE ANY REAL PROSPECT OF ANOTHER BUYER FOR THE SMELTER? ISN'T THIS SIMPLY A COSMETIC APPROACH BY THE COMPANY TO SOFTEN ADVERSE COMMENT?
20. HAVE THE SCOTTISH OFFICE ASKED BACO TO PUT UP FUNDS TOWARDS NEW JOB CREATION PROJECTS?
21. WILL LIS BE INSTRUCTED BY THE SECRETARY OF STATE TO DRAW THE MORAY FIRTH AREA TO THE ATTENTION OF POTENTIAL INWARD INVESTORS?
22. WILL THE SECRETARY OF STATE NOW MAKE EFFORTS TO ENSURE THERE ARE PETROCHEMICAL DEVELOPMENTS IN THE MORAY FIRTH?

TERMINATION OF POWER CONTRACT

1. (A) SEE QUESTION 3)
(B)-(F) SEE QUESTION 4) REFERS TO SEPARATE SHEET
(G) SEE QUESTION 6)
(H) NONE. ANY APPROACH BY A POTENTIAL PURCHASER OF THE SMELTER SEEKING NEW POWER CONTRACT WOULD OBVIOUSLY BE CONSIDERED BY THE BOARD AND THE GOVERNMENT. BUT NO COMMITMENT CAN BE OFFERED AT THIS STAGE CONCERNING THE PRICE WHICH THE BOARD WOULD CHARGE.

DETAILS OF THE SETTLEMENT

1. SINCE BACO PAID FOR THE CONSTRUCTION OF ABOUT 20% OF HUNTERSTON B THE CONTRACT PROVIDES FOR THE COMPANY TO RECEIVE A COMPENSATING PAYMENT IN THE EVENT OF TERMINATION REFLECTING THE VALUE OF THE RIGHTS TO POWER FROM THAT PORTION OF THE STATION WHICH IT IS SURRENDERING. THE DETAILS OF THE TERMINAL SETTLEMENT ARE CONFIDENTIAL TO THE PARTIES.
2. NO: THE GOVERNMENT ARE NOT A PARTY TO THE 1968 CONTRACT.
3. NSHEB. THE BOARD IN TURN RECEIVE A CORRESPONDING PAYMENT FROM SEEB, WHICH ACQUIRE THE USE OF THE RELEVANT PORTION OF HUNTERSTON B. SEEB WILL HAVE TO BORROW FROM THE NATIONAL LOANS FUND TO FINANCE THE PURCHASE.
4. ABOUT £47M OF CHARGES HAVE BEEN WITHHELD BY BACO BETWEEN 1976 AND 1981.
5. THE BOARD WILL DROP IT BECAUSE THE CHARGES HAVE BEEN COVERED UNDER THE SETTLEMENT.
6. NO.
7. NO LOANS ARE OUTSTANDING FOR THE SMELTER. BACO RECEIVED £12.5M IN INVESTMENT GRANTS AND LOCAL EMPLOYMENT ACT BUILDING GRANTS FOR THE SMELTER. SOME £33M IN LOANS TOWARDS THE COST OF THE COMPANY'S SHARE OF THE COST OF HUNTERSTON B IS OUTSTANDING. THE GRANTS AND LOANS ARE THE RESPONSIBILITY OF THE DEPARTMENT OF INDUSTRY. AS IS NORMAL WHEN A PLANT HAS BEEN ESTABLISHED FOR THIS LENGTH OF TIME THE GRANTS ARE NOT REPAYABLE. DETAILED ARRANGEMENTS FOR THE REPAYMENT OF THE LOANS ARE THE RESPONSIBILITY OF THE DEPARTMENT OF INDUSTRY.
8. THE AMOUNT RECOVERABLE BY THE GOVERNMENT WAS DEPENDEDENT ON THE NET AMOUNT PAYABLE TO THE COMPANY UNDER THE TERMINAL SETTLEMENT.
9. THEY HAVEN'T.
10. THE SETTLEMENT WAS NEGOTIATED BY THE COMPANY AND THE BOARD UNDER THE PROVISIONS OF THE 1968 CONTRACT.
11. NO BUT THE COMPANY HAS ASSURED THE SECRETARY OF STATE THAT IT WILL NEGOTIATE ENHANCED TERMS ABOVE THE STATUTORY REQUIREMENTS.
12. YES
13. NO: THIS IS ONE OF THE CHARGES HITHERTO WITHHELD WHICH THE COMPANY HAS NOW PAID.
14. ROUGHLY £16M PER ANNUM AT TODAY'S PRICES UNTIL THE YEAR 2000.
15. THE CHARGES TO THE COMPANY WERE DETERMINED BY ITS CONTRACT WITH NSHEB, NOT FIXED BY THE GOVERNMENT. THE SMELTER'S POSITION HAS DETERIORATED VERY QUICKLY BECAUSE OF THE EXTREME WEAKNESS OF THE ALUMINIUM MARKET. THE 'PROBLEM' COULD ONLY BE SOLVED BY A MUCH HIGHER GOVERNMENT SUBSIDY TO NSHEB.
16. THE COMPANY PLANS TO CEASE SMELTING IMMEDIATELY.
17. THE COMPANY HAS NOT ANNOUNCED ANY SUCH MEASURES.

SCOTTISH OFFICE INVOLVEMENT

1. THE THREATENED CLOSURE AND THE POSSIBILITY OF MEASURES TO PREVENT IT WERE DISCUSSED BY THE SECRETARY OF STATE WITH OTHER SENIOR MINISTERS.
2. YES
3. SEE 14 ABOVE.
4. THERE ARE NO IMPLICATIONS FOR THE COMPANY' OTHER SCOTTISH PLANTS. SEE 5 OF S'S STATEMENT.
5. MATTER FOR HIOB.
6. SEE STATEMENT
7. IMPOSSIBLE TO SAY.
8. NO
9. YES
10. THE DEPARTMENT OF INDUSTRY IS THE OTHER DEPARTMENT MOST CLOSELY CONCERNED
11. YES
12. NO. THE ECONOMICS OF ALUMINIUM SMELTING ARE VERY DEPENDENT ON THE SELLING PRICE OF METAL AND ON ELECTRICITY PRICES. METAL PRICES ARE AT VERY LOW LEVELS AND EVEN WITH THE SPECIAL ARRANGEMENTS UNDER THE 1968 CONTRACT THE COMPANY CONSIDERS ITS TERMS FOR ELECTRICITY WERE NOT COMPETITIVE WITH THOSE AVAILABLE OVERSEAS.
13. THE SITE WAS CHOSEN BY BACO AND THE DEVELOPMENT WAS WELCOMED BY ALL PARTIES AT THE TIME. BECAUSE OF A COMBINATION OF CIRCUMSTANCES THE DEMAND FOR ALUMINIUM AND THE PRICE OF POWER HAVE NOT TURNED OUT AS EXPECTED, AND THE OPERATION WAS CRUCIALLY DEPENDENT ON THESE TWO FACTORS.
14. MR FLETCHER WILL VISIT THE AREA ON 5 JANUARY.
15. NO: SPECIAL FACTORS WERE AT WORK - SEE 13.
16. NO. THE GOVERNMENT OF THE DAY PLAYED AN IMPORTANT PART IN SETTING UP THE SMELTER AND IT WAS OF GREAT IMPORTANCE TO THE LOCAL ECONOMY. IT WOULD HAVE BEEN WRONG FOR THE GOVERNMENT NOT TO HAVE EXPLORED FULLY THE POSSIBILITY OF CONTINUATION.
17. THIS IS NOT A RESCUE, BUT A NEGOTIATED SETTLEMENT UNDER A CONTRACT BETWEEN THE COMPANY AND THE BOARD.
18. THE COMPANY HAS PROMISED TO CO-OPERATE WITH THE TASK OF ATTRACTING ALTERNATIVE EMPLOYMENT AND TO MAKE LAND AVAILABLE FOR FACTORY BUILDING. ITS MACHINERY IS HIGHLY SPECIALISED BUT THE SECRETARY OF STATE IS CONFIDENT THE COMPANY WILL CONSIDER ANY REASONABLE PROPOSALS.
19. IT REMAINS TO BE SEEN - SEE 1(H) ABOVE.
20. SEE 18.
21. YES.
22. THE SECRETARY OF STATE WILL GIVE EVERY ENCOURAGEMENT TO ANY PETROCHEMICAL COMPANY SHOWING AN INTEREST IN THE AREA.

++++
MSG ENDS
TAPED BT/RMC
SENT AUTO.....1339 BT
+++
727301 NSCOTO G
27582 CABOFF G

JUST ONE WEE CORRECTION IF YOU COULD DO IT FOR ME
UNDER DETAILS OF THE SETTLEMENT

(TTS NEAR THE BEGINNING)

IN 17 THE LAST WORD OF THE FIRST LINE SHOULD READ
RATIONALISATION REPEAT RATIONALISATION
THKS FRIENDS BIEE FOR NOW

727301 NSCOTO G
27582 CABOFF G

original to Press Office
3 Dec No. 10
File

✓
MAD

V
27582 CABOFF G
777883 SEPDGW G

URGENT
=====

TO NO 10 PRESS OFFICE.
FOR MS DRUMMOND.
FROM SIO AH GLASGOW

SERIAL NO 137

1. WHY IS THE SMELTER CLOSING?

THE COMPANY HAS SAID IN ITS STATEMENT THAT ITS LOSSES AT INVERGORDON HAVE REACHED SUCH A LEVEL THAT THEY ARE ENDANGERING THE VIABILITY OF THE COMPANY AS A WHOLE. THE SELLING PRICE OF ALUMINIUM HAS FALLEN SUBSTANTIALLY OVER THE LAST YEAR AND THE COMPANY'S COSTS, OF WHICH ELECTRICITY IS A VERY IMPORTANT PART, HAVE CONTINUED TO RISE. THE SMELTER HAS MADE SUBSTANTIAL LOSSES OVER THE PERIOD SINCE IT OPENED AND THE COMPANY SEES NO PROSPECT OF RETURNING TO PROFITABILITY.

2. WHAT ARE THE TERMS OF THE SETTLEMENT?

THE COMPANY HAS TERMINATED ITS 1968 POWER CONTRACT WITH NSHEB. THE GOVERNMENT ARE NOT A PARTY TO THE CONTRACT AND THE COMPANY HAS HAD TO NEGOTIATE A TERMINAL SETTLEMENT WITH THE BOARD UNDER THE PROVISIONS OF THE CONTRACT. THE AGREEMENT REACHED BETWEEN THE BOARD AND THE COMPANY PROVIDES FOR THE COMPANY TO MAKE A PAYMENT IN RESPECT OF THE POWER CHARGES IT HAS BEEN WITHHOLDING BECAUSE OF ITS DISPUTE WITH THE BOARD, AND FOR THE COMPANY TO RECEIVE A PAYMENT REFLECTING THE RIGHTS TO POWER FROM HUNTERSTON B WHICH IT IS SURRENDERING - THE SO-CALLED 'RESIDUAL VALUE'. THE DISPUTED CHARGES CURRENTLY TOTAL ABOUT £4.7M. THE DETAILS OF THE SETTLEMENT BETWEEN THE BOARD AND THE COMPANY ARE CONFIDENTIAL TO THE PARTIES. HAVING RECEIVED PAYMENT FOR THE DISPUTED CHARGES THE BOARD WILLR OBVIOUSLY DROP ITS ACTION IN THE COURT OF SESSION.

3. WHAT WILL BE THE EFFECT ON INVERGORDON?

890 JOBS WILL EVENTUALLY BE LOST AT THE SMELTER. THE SCOTTISH OFFICE HAS NOT MADE A PRECISE ESTIMATE OF THE INDIRECT EMPLOYMENT IN THE AREA WHICH MAY BE DEPENDENT ON THE SMELTER. THE COMPANY HAS UNDERTAKEN TO MAINTAIN THE BUILDINGS AND THE PLANT INTACT FOR AT LEAST 6 MONTHS IN CASE PROSPECTIVE PURCHASERS SHOW INTEREST IN ACQUIRING THEM AS A UNIT, AND IT INTENDS TO RETAIN OWNERSHIP OF THE MAIN SITE FOR THE FORESEEABLE FUTURE. IT HAS HOWEVER UNDERTAKEN TO MAKE PARTS OF THE SITE AWAY FROM THE MAIN BUILDING AVAILABLE TO THE HIDS FOR FACTORY BUILDING IF REQUIRED. THE GOVERNMENT HAS AGREED TO MAKE ADDITIONAL FUNDS AVAILABLE TO THE HIDS TO ENABLE THE BOARD TO PROMOTE THE CREATION OF ALTERNATIVE EMPLOYMENT, AND THE COMPANY HAS UNDERTAKEN TO CO-OPERATE WITH THE BOARD AND LOCATE IN SCOTLAND IN THIS TASK. THE COMPANY HAS NO PLANDS TO CLOSE EITHER OF ITS OTHER SMELTERS IN THE HIGHLANDS, OR ANY OF ITS OTHER PLANTS IN SCOTLAND.

5. WHY DID THE GOVERNMENT NOT INTERVENE TO KEEP THE SMELTER GOING?

BECAUSE OF THE COST. THE NDHEB HAS ALREADY BEEN LOSING MILLION OF POUNDS A YEAR ON THE SUPPLY TO THE SMELTER UNDER THE 1968 CONTRACT WITH BACO. BACO MADE IT CLEAR THAT A PRICE SUBSTANTIALLY LOWER THAN THAT CURRENTLY BEING CHARGED WOULD BE NECESSARY FOR THE REMAINDER OF THE CONTRACT UNTIL THE YEAR 2000 IF THE SMELTER WAS TO BE KEPT OPEN. THIS WOULD HAVE PUSHED UP THE BOARD'S ANNUAL LOSS BY A LARGE AMOUNT AND INCREASED THE REIMBURSEMENT PAYMENTS WHICH THE GOVERNMENT HAD BEEN MAKING ANNUALLY UNDER THE 1976 ACT. THESE WERE ALREADY FORECAST AT AROUND £8M PER ANNUM AT TODAY'S PRICES AND WOULD HAVE HAD TO RISE CONSIDERABLY TO APPROXIMATELY £16M PER ANNUM.

6. WHAT ABOUT THE OTHER SMELTERS ALSO ANNOUNCED IN 1968?

THE ANGLESEY ALUMINIUM SMELTER HAS AN ELECTRICITY SUPPLY CONTRACT WITH CBGB, WHILE THE ALCAN SMELTER AT LYNEMOUTH HAS A COAL SUPPLY CONTRACT WITH NCB. THE GOVERNMENT ARE NOT A PARTY TO EITHER OF THESE CONTRACTS AND ARE NOT AWARE OF ANY PAINS BY THE COMPANIES TO TERMINATE THEM.

7. SINCE MANY SMELTERS OVERSEAS HAVE CHEAP HYDRO POWER,

WHY NOT ALLOCATE A HYDRO SCHEME TO INVERGORDON?

THE SMELTER USES MASSIVE QUANTITIES OF ELECTRICITY, EQUIVALENT TO OVER HALF THE TOTAL OUTPUT OF SCOTLAND'S HYDRO SCHEMES. WE DO NOT HAVE THE HYDRO RESOURCES OF NORWAY OR BRAZIL. TO SET ASIDE OUR HYDRO SCHEMES OF THE SMELTER WOULD PUSH UP THE COST OF ELECTRICITY FOR EVERYONE ELSE.

8. WHAT IS THE COMPANY LOSING AT IVERGORDON?

THIS IS A MATTER FOR BACO. THE GOVERNMENT ACCEPTED THE COMPANY'S JUDGEMENT THAT IF THESE LOSSES CONTINUED THEY WOULD THREATEN THE VIABILITY OF THE COMPANY AS A WHOLE, AND COULD LEAD TO THE LOSS OF HUNDREDS MORE JOBS IN SCOTLAND.

9. WHAT WILL HIBD DO WITH THE £10M?

I KNOW THAT THE BOARD WILL BE STUDYING THE POTENTIAL OF THE SITE AND WILL BE THINKING OF IDEAS FOR ITS USE AND SUBSEQUENTLY SUBMITTING PROPOSALS. THEY ALREADY HAVE EXTENSIVE STATUTORY POWERS TO ENCOURAGE EMPLOYMENT IN THEIR AREA. WHAT THEY WILL NEED IS ADDITIONAL FINANCE AND THAT IS WHY I AM PERMITTING THEM TO SPEND AN EXTRA £10M OVER THREE YEARS ON WORTHWHILE PROJECTS TO BE AGREED WITH GOVERNMENT.

10. WHY HAS MORE WARNING NOT GIVEN TO THE WORKFORCE?

THE COMPANY CONSIDERED THAT IT NEEDED TO ACT QUICKLY TO REMOVE THE THREAT TO ITS OTHER OPERATIONS. THE GOVERNMENT, AND THE SECRETARY OF STATE IN PARTICULAR, OBVIOUSLY WISHED TO EXPLORE THOROUGHLY WHAT COULD BE DONE TO KEEP THE SMELTER OPEN BEFORE THE COMPANY TOOK A FINAL DECISION. THE COMPANY HAS ALSO HAD TO NEGOTIATE A TERMINAL SETTLEMENT WITH THE BOARD.

11. WAS BACO PAYING MORE FOR ITS ELECTRICITY THEN THE OTHER

UK SMELTERS?

THE PRICES CHARGEED TO THE OTHER SMELTERS FOR THE ELECTRICITY (IN THE CASE OF ANGLESEY) AND COAL (IN THE OF LYNEMOUTH) UNDER THEIR RESPECTIVE CONTRACTS ARE CONFIDENTIAL TO THE PARTIES INVOLVED. THE GOVERNMENT ARE NOT A PARTY TO ANY OF THE CONTRACTS AND I CANNOT COMMENT ON THE RELATIVE PRICES INVOLVED.

12. DO THE OTHER SMELTERS BENEFIT FROM SUBSIDIES?

THE GOVERNMENT HAVE NO ARRANGEMENT TO REIMBURSE CEGB AND NCB FOR LOSSES IN THE WAY THEY HAVE BEEN REIMBURSING NSHEB. THE LOSSES ARE BORNE BY THE GENERAL REVENUE ACCOUNTS OF THE CEGB AND NCB. THE SIZE OF THE LOSSES IS A MATTER FOR THE RESPECTIVE BOARDS.

13. DOES THIS CASE NOT SHOW THAT UK INDUSTRIAL ELECTRICITY

PRICES ARE TOO HIGH?

IT DOMONSTRATES THAT WHERE OVERSEAS COUNTRIES HAVE NATURAL
ADVANTAGES WHICH ENABLE THEM TO SUPPLY LARGE QUANTITIES OF
ELECTRICITY CHEAPLY IT IS VERY DIFFICULT FOR THE UK TO COMPETE
WITHOUT OFFERING VERY LARGE SUBSIDIES.

14. WHAT ARE THE PROSPECTS OF ANOTHER COMPANY TAKING OVER THE

SMELTER?

THIS WOULD DEPEND UPON THE COMMERCIAL JUDGEMENT OF ANY POTENTIAL
PURCHASERS AND WOULD LARGELY BE DEPENDENT UPON THE TERMS OF ANY
POWER CONTRACT WHICH COULD BE NEGOTIATED WITH THE ELECTRICITY
BOARDS. THE GOVERNMENT WOULD OBVIOUSLY WANT TO DISCUSS ANY
PROPOSALS WITH THE BOARDS AND ALTHOUGH I CANNOT OFFER ANY
COMMITMENTS IN ADVANCE WE SHOULD CONSIDER VERY CAREFULLY ANY
PROPOSALS WHICH COME FORWARD. THE COMPANY HAS UNDERTAKEN TO
MAINTAIN THE BUILDINGS AND THE PLANT INTACT FOR ATE LEAST
6 MONTHS IN CASE PROSPECTIVE PURCHASERS SHOW INTEREST IN
ACQUIRING THEM AS A UNIT, AND IT INTENDS TO RETAIN OWNERSHIP
OF THE MAIN SITE FOR THE FORESEEABLE FUTURE. THE HADB HAS
ALSO BEEN ASSESSING THE ALUMINIUM INDUSTRY PROSE PROSPECTS AND
THE POSITION OF THE INVERGORDON SMELTER AND WILL SHORTLY BE
CONSIDERING THIS ASSESSMENT.

15. ARE THERE ANY LOANS OUTSTANDING ON THE SMELTER?

NO LOANS ARE OUTSTANDING FOR THE SMELTER. BACO RECEIVED
£12.5M IN INVESTMENT GRANTS AND LOCAL EMPLOYMENT ACT BUILDING
GRANTS FOR THE SMELTER. SOME £33M IN LOANS TOWARDS THE COST
OF THE COMPANY'S SHARE OF THE COST OF HUNTERSTON B IS
OUTSTANDING. THESE GRANTS AND LOANS ARE THE RESPONSIBILITY
OF THE DEPARTMENT OF INDUSTRY. AS IS NORMAL WHEN A PLANT
HAS BEEN ESTABLISHED FOR THIS LENGTH OF TIME THE GRANTS ARE NOT
REPAYABLE. DETAILED ARRANGEMENTS FOR THE REPAYMENT OF THE
LOANS ARE THE RESPONSIBILITY OF THE DEPARTMENT OF INDUSTRY.

16. WHAT ASSISTANCE WILL BE PROVIDED TO THOSE MADE REDUNDANT

AND THEIR FAMILIES?

THE DEPARTMENT OF EMPLOYMENT AND THE MANPOWER SERVICES COMMISSION
WILL CO-ORDINATE THEIR ACTIVITIES SO AS TO ENSURE THAT THE
FULL RANGE OF THEIR SERVICES IS MADE AVAILABLE TO HELP PEOPLE IN
WHAT MUST INEVITABLY BE DIFFICULT CIRCUMSTANCES AND IF EXTRA
RESOURCES ARE NEEDED THESE WILL BE MADE AVAILABLE.

+++++

TOD 1205 291281 JD

27582 CABOFF G
777883 SEPDGW G

T
27582 CABOFF G
727301 NSCOTO G

SEC

RCVD OK TK SM



CONFIDENTIAL

SCOTTISH OFFICE *PM*
WHITEHALL, LONDON SW1A 2AU
TELEPHONE: 01-233 3000

Michael Scholar Esq
Private Secretary to the
Prime Minister
No 10 Downing Street
LONDON

P. ✓ *P.A.*
24 December 1981

Dear Mr Scholar

BRITISH ALUMINIUM

Arrangements have now been made for the Secretary of State to make a statement in Glasgow on Tuesday 29 December, very shortly after the Company issue their own statement.

I attach the text of the Secretary of State's statement, which has been prepared in consultation with the Company.

I am copying this to Ian Ellison (Industry), Terry Mathews (Treasury) and to Mr Ibbs (Cabinet Office).

Yours sincerely
Maraght Stewart

MISS M STEWART
for Private Secretary

Mr George Younger MP, Secretary of State for Scotland, commenting today on the announcement that British Aluminium is to cease production at its Invergordon smelter, said;

"This is a profound disaster for the area, and one which I, and my colleagues in Government have worked extremely hard to prevent. I am fully aware of the serious consequences which it will have for Invergordon, and the wider Moray Firth area, both in terms of jobs lost and in its effect on the local economy.

The company have been in close discussion with Government and it became plain to us not only that the losses from the smelter's operation were enormous but that they had reached a stage where the viability of the whole group was seriously threatened if action was not taken very quickly. Because of the danger to the Group as a whole including the threat this would have meant for jobs elsewhere in Scotland the company have indicated with great regret that they have no alternative but to stop production as quickly as possible. We have explored exhaustively possible arrangements which might have permitted the smelter to continue in operation, but after the most careful examination of these issues the Government has reluctantly concluded that continued operation is not possible without an enormous immediate cost to the taxpayer, and thereafter a continuing heavy burden at present estimated at approximately £16m per annum and likely to increase over the whole period of the power contract to the end of the century.

I have asked that vigorous efforts be made to try and attract new jobs to the area. The company will maintain the smelter intact for a period of six months while the most intensive efforts are made to see whether there is any basis on which another company might take over its operation. Redundancy terms are a matter which will be discussed immediately between the company and its employees. The company have assured me that they will offer payments which are better than the statutory requirements.

For my part I shall be providing a special extra allocation of funds amounting to up to £10m over the next three years to enable the Highlands and Islands Development Board to undertake special measures to provide new employment opportunities. Localities in Scotland will also be making intensive efforts to find projects which might be attracted to the area.

I am quite determined that the Government will use all the powers at its disposal to promote new employment and to assist those whose jobs will be lost as a result of this closure.

As a first step I am asking Mr Alex Fletcher the Minister for Industry and Education to visit the area very early in the new year to have talks with those concerned."



RM

Ble A. Duguid

10 DOWNING STREET

From the Private Secretary

22 December, 1981

I attach a copy of a note of a meeting held here on Friday, 18 December at 0900 hrs to discuss the note by officials on the British Aluminium Company, attached to Mr Ibbs' minute of 17 December.

I am copying this letter to Peter Jenkins (HM Treasury), John Craig (Welsh Office), Terry Mathews (Chief Secretary's Office), Anthony Willis (Department of Industry), Ian Ellison (Department of Industry), Julian West (Department of Energy), Gerry Spence (CPRS) and David Wright (Cabinet Office)

M. C. SCHOLAR

A M Russell, Esq
Scottish Office

RM

SUBJECT.

NOTE OF A MEETING HELD AT 10 DOWNING STREET ON FRIDAY 18 DECEMBER 1981
AT 9.00 am TO DISCUSS THE BRITISH ALUMINIUM COMPANY (BACo)

Present

The Prime Minister

Chancellor of the Exchequer	Secretary of State for Scotland
Secretary of State for Wales	Secretary of State for Industry
Chief Secretary, Treasury	Secretary of State for Energy
Parliamentary Under Secretary of State, Department of Industry (Mr MacGregor)	Mr J R Ibbs (Central Policy Review Staff)

Sir Robert Armstrong

Mr D J Bostock

The meeting considered the [redacted] note by officials on the British Aluminium Company's smelter at Invergordon attached to Mr Ibbs's minute of 17 December to the Prime Minister's Private Secretary.

Mr Ibbs said that, as the Ministerial Committee on Economic Strategy had asked (E(81)39th Meeting, Item 1), a group of officials under his chairmanship had considered the comparative costs of closing the smelter and keeping it open. Taking into account the loss of interest and capital repayments on the Department of Industry's loan, the extra expenditure which the Secretary of State for Scotland had proposed for the Highlands and Islands Development Board, unemployment pay, loss of tax revenue and the effects of closure on the finances of the National Coal Board and the Scottish Electricity Boards, the cost of closure to the PSBR was likely to be £2 million in 1981-82, £11½ million in 1982-83, £6½ million in 1983-84 and £2½ million in 1984-85, ie a cumulative cost of £22½ million up to the end of 1984-85. Thereafter there should be a net gain to the PSBR, reflecting the fact that the Scottish Boards would no longer have to supply electricity to Invergordon at a non-commercial rate. These calculations assumed that BACo's contract with the North of Scotland Hydro Electric Board (NSHEB) would be ended on terms which involved no cash payment

from the Board to the company. Any such payment would increase the cost of closure by the same amount. Officials had discussed with BACo the terms on which the smelter could be kept open. The company had assumed that the smelter would have to close. The least generous terms which it was likely to accept for keeping Invergordon open would involve the Government's and the Scottish Electricity Boards' effectively cancelling all claims on the company (in return for BACo's dropping its own claims on the North of Scotland Hydro Electric Board); an electricity price of 1.0p per unit, as compared with about 2.5p for other large industrial users and the present price of about 1.4p at Invergordon, this price to increase from 1 April 1982 in line with costs at Hunterston but with an upper limit set in any year by the rate of increase of published electricity tariffs for industrial customers in Great Britain; and an agreement that BACo would not be liable for any charges arising from a major accident at Hunterston B. BACo would not agree to a break clause and a review after three years on the grounds that it could again put the/^{company} in a position where the smelter ceased to be viable; would make it impossible for the company to authorise the investment necessary to improve the smelter's use of energy or to make definite provision for raw material; would require the company to depreciate the smelter more rapidly, worsening its profit and loss account; and would damage the company's effective borrowing power. As a substitute for a review clause BACo would undertake that if it made very high profits in future years it should contribute towards the subsidy on its electricity prices. A formula [redacted] would be agreed whereby BACo and the NSHEB shared equally the excess of pre tax profits above an agreed ceiling representing a fair rate of return on assets employed. These arrangements would be embodied in a revision of BACo's contract with the NSHEB and, like it, would run until the year 2000. The costs to the PSBR would be about £16 million a year and would increase if actual costs relating to Hunterston in any year increased faster than electricity prices generally; but [redacted] would be less if Hunterston B's availability or costs were better than expected. These arrangements would have to be explained to Parliament and defended in terms of the legal and moral obligations arising from the existing arrangements between BACo, the Scottish Electricity Boards and the Government. The presentation would have to be carefully judged to minimise problems with the European Commission. Whether the smelter closed or continued in operation, BACo would be in a weak financial position and could collapse. In either case, therefore, Ministers would need to consider whether BACo should



receive a net payment from the NSHEB as part of the settlement of the matters in dispute between them. A payment of £30 million, which the company had proposed, would probably be unnecessarily generous and would leave the company with a favourable capital gearing ratio of about 20 per cent. A payment of about £15 million might be more appropriate.

The Prime Minister, summing up the discussion, said that the meeting agreed that the Government should not accept BACo's terms for keeping Invergordon open, involving as they did a commitment to pay a subsidy of at least £16 million per annum until the end of the century to a company whose own preference was to close the smelter. If a subsidy were paid to keep open Invergordon it would be very difficult to avoid giving similar support to Alcan and Anglesey Aluminium, both of whose fuel costs were likely to rise sharply within the next year or two. Subsidising BACo's electricity would also make it much more difficult for the Government to resist demands from /^{other} industries for compensation for allegedly high United Kingdom energy prices. The Invergordon smelter should therefore be allowed to close. The Government must however try to ensure that BACo neither went into liquidation, with the loss of its other operations in Scotland and elsewhere in the United Kingdom, nor closed its rolling mills at Falkirk to try and avoid liquidation. The Government ought also to do its best to ensure that BACo generously compensated its ex employees at Invergordon, who would have little prospect of alternative employment. The company would not be able to bind itself to keep open Falkirk or any other particular plant; they might become unviable. But the company could be told that the Government would agree to its receiving a net cash payment from the NSHEB, in final settlement of the matters in dispute between them, to enable the company to re-establish a sound balance sheet on the basis of the continuation of all its existing activities other than Invergordon; and to enable BACo to make reasonable redundancy payments to its employees at Invergordon. The size of the net payment would have to be worked out in negotiations with BACo. £30 million seemed excessive; the Government should aim for a payment of nearer £15 million. The Secretary of State for Scotland should announce that, to help in mitigating the grave effects on the Highlands of Invergordon's closure, the Highlands and Islands Development Board would be permitted to spend an extra £10 million over three years in ways to be agreed with the Government: it would be necessary to see that the extra money was spent on worthwhile projects. In defending the decision to let

Invergordon close, Ministers should emphasise that it could only have been kept open at an unacceptable cost; and that its closure resulted in part from BACo's weak financial position. If unfavourable comparisons were drawn with Anglesey Aluminium, which paid only 0.5p per unit for electricity until Dungeness B power station came on stream, the defence must be that Anglesey was paying according to its contract with the Central Electricity Generating Board. The Secretary of State for Energy would consider and discuss with the Chief Secretary, Treasury, the effects on the finances of the National Coal Board of closing Invergordon. Officials would need to agree urgently on the handling of the closure vis-a-vis the European Community: the settlement between BACo and the NSHEB would involve writing off a Department of Industry loan; on the other hand since the smelter was being closed there ought not to be any serious difficulty with the Community.

The Meeting -

1. Agreed that the Government should not attempt to prevent the British Aluminium Company from closing its smelter at Invergordon.
2. Agreed that the company's contract with the North of Scotland Hydro Electric Board should be ended on terms which included a payment to BACo of not more than £30 million.
3. Invited the Secretary of State for Scotland to arrange for his officials, in consultation as necessary with those of other Departments and with the Central Policy Review Staff, to negotiate with the company and, as necessary, the Scottish Electricity Boards, a payment as far below £30 million as necessary, taking account of the points made in the Prime Minister's summing up.
4. Agreed that the Secretary of State for Scotland should announce that the Highlands and Islands Development Board would be permitted to spend an extra £10 million over three years in ways to be agreed with the Government; and invited him to agree the precise terms of the extra expenditure and of his announcement with the Chief Secretary, Treasury.



5. Invited the Secretary of State for Scotland to arrange for his officials to agree with those of the Foreign and Commonwealth Office and as necessary other Departments how the terms of the settlement between BACo and the NSHEB and the writing off of the Department of Industry's loan to the company should be handled vis-a-vis the European Community.

CONQUEROR

18 December 1981



CONFIDENTIAL

P.M.

Qa 05753

17 December 1981

To: MR SCHOLAR

From: J R IBBS

BACO

1. I attach the paper asked for by E Committee on 15 December, on which a meeting has been arranged at 9 a.m. tomorrow.
2. Discussions with the company have shown that they had set their minds clearly on closure. It has therefore proved impossible to get them to accept any settlement more favourable from the Government's point of view than that set out in paragraph 6 of the note. The company's attitude provides further information that there is no good economic case for keeping the smelter open. Ministers will therefore have to view this option primarily in political terms.
3. The discussions with the company have re-emphasised that the company needs a decision by the end of this week. If discussions run on beyond the weekend, the Government will risk being effectively committed to continuation; the alternative being collapse of the company.
4. I am sending a copy of this minute and the attachment to the Chief Secretary, the Secretaries of State for Scotland, Wales, Industry and Energy, the Parliamentary Under Secretary of State for Industry (Mr MacGregor), and also to Sir Robert Armstrong.

JR

CONFIDENTIAL

CONFIDENTIAL

BRITISH ALUMINIUM COMPANY LIMITED (BACO)

Note by Officials

1. Following E Committee's consideration of the problems of the British Aluminium Co Ltd on 15 December, the Prime Minister arranged for a group of officials, led by the Head of the Central Policy Review Staff, to explore urgently whether an acceptable and defensible basis could be found for keeping the Invergordon smelter in operation, and to report before the end of the week. This report describes the costs and repercussions of closure; it then outlines a possible basis for continued operation, and assesses its cost and repercussions compared with those of closure.

Closure of Invergordon Smelter

2. BACO is in a dangerous financial position. If no settlement on the smelter is agreed with it immediately it may choose to go into liquidation before the end of December. BACO has hitherto assumed that the Invergordon smelter must close, and put forward proposals based on this.

3. We have taken as the closure "base case", for comparison with continuation, a proposal which does not involve any net cash settlement. After closure and cancellation of outstanding liabilities, this would leave BACO with a capital gearing of 60% and interest cover of 1.4. They would be in a tight situation, in which they might decide they had to close further downstream activities especially the Falkirk rolling mills. Indeed there is a chance that the Board might still decide that, in their shareholders' interests, they should instead go into immediate liquidation.

CONFIDENTIAL

4. The cash costs of this option to the PSBR are estimated as (£mn.):—

	1981/82 Jan-March	1982/83	1983/84	1984/85	1985/86 onwards
(i) Loan receipts foregone	Nil	3½	3½	3½	3½
(ii) Proposed extra expenditure by HADB*	1	5	5	5	Nil
(iii) (Unemployment Pay) (Loss of tax revenue)	1	3 2	2 1	1 1	(say) Nil (say) Nil
(iv) Loss to NCB of coal sales displaced by Hunterston	2	8	5	2	(say) Nil
<u>LESS</u>					
(v) Lower costs of Scottish Boards	(2)	(10)	(10)	(10)	(10)
	<u>2</u>	<u>11½</u>	<u>6½</u>	<u>2½</u>	<u>(6½)</u>

The cumulative cost of these items up to the end of 1984/85 is £22½m, with a net gain thereafter which reflects the fact that the Scottish Boards no longer have to supply this electricity at a non-commercial rate.

5. Closure would have significant repercussions in Scotland:—

(i) The NCB would have 10% of its market of coal displaced (¾m tonnes), as reflected in 4(iv) above, which would be particularly difficult coming on top of the 30% loss of market arising from Peterhead power station coming onstream.

(ii) The major loss of demand for electricity would increase current Scottish over-capacity, and assist the anti-nuclear opposition's case against the construction of Torness.

(iii) 900 jobs would be lost directly, and 500-600 indirectly, at Invergordon, with serious implications for the local economy.

* Assuming Ministers agree to the proposal by the Secretary of State for Scotland

CONFIDENTIAL

Continuation of Invergordon Smelter

6. Officials have discussed with BACO a basis for continuation of the smelter. In the light of the discussion we believe the following proposals are the least generous likely to be acceptable to BACO:-

(i) Claims both ways would be cancelled as in the closure option (the exact arrangements for achieving this remain to be resolved).

(ii) The price per unit levied on BACO would be reduced to 1.0p (as compared with about 2.5p for other large industrial users) by excluding reprocessing charges for spent fuel and decommissioning charges. The cost to the PSBR of the annual payments would be about £16m.

(iii) The price of units to BACO would increase as from 1 April 1982 in line with costs at Hunterston but with an upper limit in any year set by the rate of increase of published electricity tariffs for industrial customers in Great Britain.

(iv) BACO would not be liable for any charges arising from a major accident at Hunterston B, such as the sea-water ingress in 1977.

(v) It would be agreed that if BACO made very high profits in future years it should contribute towards the extra subsidy implicit in these provisions. A formula for profit-sharing would be agreed based on an equal sharing between BACO and NSHEB of profits before tax after such profits had exceeded an agreed ceiling representing a fair rate of return on assets employed.

7. These arrangements would be embodied in a revision of the contract. They would need to be explained to Parliament, and defended in terms of the legal and moral obligations arising from the existing arrangements between BACO, the Boards and the Government (including the letter of comfort from the Minister of State for Trade in 1968). The presentation would have to be carefully judged in order to minimise problems with the EC Commission.

CONFIDENTIAL

8. In order to avoid an open-ended commitment, officials put to BACO a proposal for a review after three years. However, BACO made it clear that no "break clause" would be acceptable because it could again put them in a position where the smelter ceased to be viable. It would raise the following difficulties:-

- there would be insufficient basis to authorise the considerable investment now required to improve the smelter's energy usage;
- BACO would be unable to make definite provision for raw material to secure its downstream businesses;
- depreciation of the smelter would have to be accelerated, with adverse effects on BACO's Profit and Loss Account;
- BACO's effective borrowing power would be seriously damaged.

9. The transactions in paragraph 6, although helpful to immediate confidence in BACO, would leave BACO with a capital gearing of 50% and, at least during 1982, its income cover for its interest payments would be 1.2 - even less than under the closure option. Its weaker activities would remain at risk of closure.

The cash cost of this continuation option to the PSBR is about £16m. a year. The cumulative cost up to the end of 1984/85 is £52m if the smelter runs at full output. In practice it is likely to run at a lower level in 1982, resulting in a somewhat lesser payment.

10. The Government's liability for providing a subsidy of £16m a year would continue until the end of the contract in the year 2000. This would rise further if actual costs relating to Hunterston in any year increased faster than electricity prices generally, for example if -

- (i) Hunterston B's availability did not reach the projected 62% in 1982/83 and later years (previous highest level 53%);
- (ii) Hunterston B operating costs rose excessively;
- (iii) Hunterston B faced major new capital charges, whether due to unforeseen operating problems or new requirements of the nuclear inspectorate;

CONFIDENTIAL

(iv) the costs of reprocessing fuel escalated faster than now provided for by the Scottish Boards.

On the other hand, the subsidy payments would be less if either availability or costs (including reprocessing costs) moved more favourably than expected.

11. The continuation proposal could also have further repercussions for public expenditure:-

(i) The Kaiser/RTZ smelter at Anglesey has a similar contract with CEGB and will become liable to higher fuel charges as soon as Dungeness B comes on stream (now forecast for 1982). This smelter employs 1,146 people directly, and closure might be expected to raise the area's current unemployment rate from 21.5% to 30% or so. The owners are likely to press for a subsidy that puts them in a position similar to that of BACO.

(ii) The Alcan smelter at Lynemouth, Northumberland, has contracts with NCB with break clauses at 1 January 1984 and 1 January 1987. Although this smelter was built at the same time as the two other smelters its contractual arrangements are sufficiently different from them as to weaken its case for parallel assistance. None the less Alcan is a major competitor of BACO, and if Alcan established a case to be put on a par with Invergordon it could cost, in additional subsidy to the NCB, about £3-£4m pa from January 1984 and £6-£8m pa from January 1987.

(iii) The announcement of the proposal might intensify pressure from other energy-intensive industries such as steel, chemicals, cement, etc, for special treatment.

Discussion

12. The first question Ministers will have to decide is whether the continuation proposals/^{are}likely to be acceptable to the Government. The cash cost is put at £16m a year, rising with electricity prices until the year 2000; the cost

CONFIDENTIAL

would be higher if costs rose disproportionately at Hunterston. The gain would be preservation at Invergordon of 900 jobs directly and some 500-600 indirectly. The deal would involve writing off past liabilities of £59m. Care would be needed to avoid difficulties with the EEC. It would be difficult to resist a similar claim from the Anglesey smelter, and a request for some assistance in respect of Lynemouth. Pressures from other major industrial energy users will be intensified.

13. The PSBR costs of continuation and closure are approximately as follows:-

	1981/82 June-March	1982/83	1983/84	1984/85	1985/86 Onwards
A. Continuation	4	16	16	16	16
B. Closure	2	11½	6½	2½	(6½)

14. Either continuation or closure would leave BACO in a weak financial position. Unless aluminium demand improved, BACO might still decide to go into liquidation before long. Under either option, Ministers might therefore wish to take further steps to strengthen the company's financial situation:-

(i) One means, which would avoid EEC problems, would be to allow £5m of outstanding claims to be settled in the company's favour as part of the overall settlement;

(ii) Under the closure option, some Ministers have proposed a net payment of up to £30m, though this would be likely to cause further problems with the Commission. Even then continuation of all BACO's activities could not be guaranteed, although the chance would obviously be better the larger the assistance provided. An alternative to (i) and (ii), if the company needed further help next year, would be to judge this separately on its merits as a rescue case under Section 8 of the Industry Act.

CONFIDENTIAL

CONFIDENTIAL

Conclusions

15. Ministers are invited to decide:-

- (a) whether a settlement on the terms in paragraph 6 should be offered to BACO in order to avoid closure of the Invergordon smelter;
- (b) if (a), whether the settlement should include the additional £5m of outstanding claims in the company's favour (paragraph 14);
- (c) if not (a), whether a settlement involving closure of the smelter, on the lines considered by E(EA) as in the minute of 10 December by the Secretary of State for Industry, should be offered;
- (d) if (c), whether a closure settlement should be on a no cash basis, or should include a payment to the company of up to £30m.

MR. SCHOLAR

cc Mr. Whitmore

I have set up the meeting for Friday at
9 a.m. to discuss British Aluminium. The
following will be present:

Secretary of State for Scotland
Secretary of State for Wales
Chief Secretary
Secretary of State for Industry
Secretary of State for Energy
Robin Ibbs

es.

16 December 1981



P.0616

PRIME MINISTERBritish Aluminium Company Ltd

(Secretary of State for Industry's minute of 10 December; E(EA)(81)43 & 45)

BACKGROUND

You already know some of the background from Lord Plowden's letter to you of 7 December. The main points are as follows:

- a. The British Aluminium Company Ltd (BACo), 58 per cent of whose shares are owned by Tube Investments Ltd, set up an aluminium smelter at Invergordon in 1968 with the help of a loan from the then Board of Trade and a special contract for electricity with the North of Scotland Hydro Electric Board (NSHEB).
- b. Around the same time two other smelters were set up: one by Anglesey Aluminium (jointly owned by Kaiser Aluminium and RTZ) at Holyhead with a special contract with the CEGB, and by Alcan at Lynemouth, Northumberland; in the latter case the company built its own power station and there was no special Board of Trade loan, but there was a special contract for cheap coal from the NCB.
- c. The Invergordon smelter has made an operating loss in 1981 estimated at £20 million; as a result BACo is likely to make a loss of some £30 million this year and wants to close the smelter.
- d. When the Invergordon smelter is closed the electricity contract will have to be terminated; BACo paid 20 per cent of the capital cost of Hunterston B nuclear power station in return for the right to the same proportion of its planned output; BACo is therefore entitled to a "residual value" in return for relinquishing this right, but certain payments due to NSHEB will have to be set against this to give a "net residual value".



e. A settlement has to be negotiated by 31 December 1981, the end of BACo's financial year; settlement in 1982 rather than in 1981 may expose BACo to an insupportable tax liability; in any case BACo may not be able to continue trading beyond the end of the year if the claims against it by the Scottish Electricity Boards remain outstanding.

2. In E(EA)(81)43 the Parliamentary Under Secretary of State for Industry (Mr MacGregor) proposed that the closure of the Invergordon smelter should go ahead. He discussed various options for terminating the contract. Although the Treasury would have been content with a settlement under which no cash passed in either direction, he proposed a net cash payment of £30 million on the grounds that this was desirable to avoid putting in jeopardy other BACo plants with a low rate of return, and prejudicing BACo's future investment plans.

3. In E(EA)(81)45 the Secretary of State for Scotland explained the serious consequences of closing the smelter but accepted its inevitability. He supported the proposal for a settlement on the basis of a net cash payment of £30 million. He also proposed assistance to mitigate the effects of the closure.

4. In his minute of 10 December the Secretary of State for Industry reported on the discussion the previous day in the Ministerial Sub-Committee on Economic Affairs (E(EA)(81)16th). Most E(EA) members were in favour of closure but the Secretary of State for Scotland was worried about the political and economic consequences. On the terms of a settlement no decision was reached but officials were instructed to work out the mechanics of both the "no cash" and "£30 million net payment" options. On support to mitigate the effects of closure, there was agreement that some assistance would need to be available, but the Chief Secretary argued that this would need to be found from within existing expenditure totals and that a clearer idea was needed on how the money might be used.

5. Over the past week the Secretary of State for Scotland's anxieties about the consequences of closure have increased. He had a meeting this morning with Lord Plowden and Mr Utiger (Managing Director of BACo). Mr MacGregor, Parliamentary Under Secretary for State for Industry and officials from the Treasury, DoI and Scottish Office were also present. The main purpose of the meeting was to explore the conditions under which BACo would be willing to keep the smelter open. In the light of the meeting, Mr Younger will be circulating a minute this evening comparing the costs of continuation with the costs of closure.



MAIN ISSUES

6. The main issues are:

- a. whether the closure of the Invergordon smelter should go ahead; and, if so,
- b. whether the settlement should be on the basis of "no cash", or a net payment to BACo of £30 million, or some other basis;
- c. what special measures should be taken to alleviate the impact of the closure on the Invergordon area.

Should Invergordon be closed?

7. The closure of the Invergordon smelter would undoubtedly have serious consequences - the loss of 900 jobs directly and 500-600 indirectly, increasing the unemployment rate in the area to 25 per cent. Electricity demand in Scotland would be reduced by 7 per cent, with a possible loss of several hundred jobs in the power stations, and Scottish coal demand reduced by 15 per cent, leading either to further pit closures or an increase in the NCB's deficit. As the Secretary of State for Scotland has pointed out, some would argue that closing the smelter is itself costly because of the settlement with BACo, the need for extra help for the Invergordon area and unemployment costs. They might say that the money would be better spent on a continuing subsidy for the smelter, especially as the Anglesey Aluminium smelter is able to stay in operation by virtue of a more favourable contract with the CEGB than BACo's contract with NSHEB.

8. There are however very strong objections to keeping the smelter in operation. All evidence suggests that it is fundamentally uneconomic. Although the aluminium market is particularly depressed at the moment and this no doubt accounts for the very large operating loss (some £20 million) in 1981, Annex A of E(EA)(81)43 shows that, except in one year (1977), the operating profits have always been either meagre or negative and there has been a cumulative loss to the end of 1980 of some £13 million after taking account of central expenses and finance cost. This is in spite of the fact that, under the present contract, electricity costs for the smelter are subsidised at a rate of £8 million a year, compared with normal electricity costs for this type of user. In order to keep the smelter in operation BACo would require this subsidy to be increased to £14 million a year, at a cost per job for those employed at the smelter of some £16,000 a year. Unless this subsidy continues indefinitely, the once for all costs associated with closure will have to be incurred sooner or later.



9. There are also some broader considerations. The other two smelters will have the benefit of their present more favourable energy prices for only another year or two. It seems probable that the Alcan smelter at least will then become unviable. The position of the Anglesey smelter is less clear since, even when the energy prices under Anglesey Aluminium's contract with the CEGB have been doubled, they will still be less than those paid by BACo. But a subsidy for the Invergordon smelter is very likely to lead to a commitment sooner or later to do whatever is necessary to keep the other two smelters in operation. The Government would also find it difficult to explain why such large subsidies are available for the energy costs of aluminium smelting but not for many other industries whose competitive position would have been radically improved with much more limited help.

10. The Secretary of State for Scotland will draw attention to the political problems associated with closing Invergordon. He may be supported by the Secretary of State for Wales who is keen to see Anglesey Aluminium continue in operation. Most Ministers are however likely to take the view that the economic arguments are strongly in favour of closure and that the right course is both to negotiate a settlement with BACo which gives a reasonable chance of preserving most of its other operations and to provide some assistance to attract new employment to the Invergordon area.

Terms of settlement

11. The deadline of 31 December means in effect that a settlement has to be negotiated before Christmas and that the Government has to decide on the terms it is prepared to offer within the next day or so. Efforts have been made to see whether the deadline can be relaxed, and there have been discussions with the Inland Revenue. At present it seems inevitable that, unless the residual value of the electricity contract is settled before 31 December, BACo's tax liability will fall in 1982. Since the provisional view is that the residual value is likely to be treated as a capital gain, liability in 1982 would mean that the tax charge on BACo would be between £23 million and £29 million greater, depending on whether the settlement was on a "no cash" basis or a £30 million net payment basis. There is also the problem that delaying the settlement beyond 31 December could make it difficult or even impossible for BACo to continue trading.

12. The terms the Government is prepared to offer depend in part on the legal position. Departments are agreed that it would be undesirable to enter into litigation. It is also agreed however that the assurances given in the letter written by Edmund Dell as President of the Board of Trade on 23 July 1968 (copy



attached to Lord Plowden's letter to you and at Annex E of E(EA)(81)43) are not legally binding, and were deliberately intended not to be legally binding. There remains the question of the Government's good faith but it is doubtful whether this would justify a net payment of £30 million rather than a "no cash" settlement. It is also common ground that there is no firm commercial basis for estimating the residual value of the electricity contract since this depends on a large number of arbitrary assumptions about future electricity costs.

13. The main consideration affecting the terms of the settlement is therefore the consequences for BACo's other activities. The Department of Industry is concerned about other operations with a low rate of return at Falkirk, Warrington, Redditch and St Helens, involving over 2,000 jobs, as well as about BACo's future investment plans. An assessment was prepared for the Treasury by the Bank of England last week. The conclusion was that, although BACo might be able to survive, following a "no cash" settlement, it would be in a feeble state of health. The combination of high capital gearing and poor profits performance would put BACo in the bracket of other very weak companies of its size (such as Stone-Platt, Weir, Dupont, Chloride and Carrington Viyella). It would therefore be very vulnerable to any downside movements in the outlook for aluminium products. When Lord Plowden saw the Secretary of State for Scotland earlier today he said that a "no cash" settlement would almost certainly mean that BACo would have to close its operation at Falkirk with a loss of 1,100 jobs.

14. A net cash payment of £30 million is expected to improve the gearing from around 60 per cent to some 20 per cent and would undoubtedly put the company in a much sounder position. The justification for the figure is that it would reimburse BACo for the cost of redundancy payments at Invergordon amounting to £5 million; it would also make it possible to write off completely the cost of the smelter in BACo's balance sheet where it is valued at about £25 million. Even then the company might not be prepared to guarantee the continuance of the more vulnerable operations. Against this, the Chief Secretary is likely to argue that the first priority for additional public expenditure should not be to ease the problems of BACo but should be support for the Invergordon area. There may also be political and presentational difficulties in closing the smelter on a basis which leaves BACo in a position which appears too comfortable.



15. The best course might be to aim at a net cash payment rather less than the £30 million which BACo is seeking. It is thought that a net cash payment of say £15 million would improve BACo's gearing to some 37 per cent; this would not compare too badly with the average of 34 per cent for all companies with turnover, like BACo's, in excess of £150 million. The Chief Secretary may be unwilling to go as far as this but we believe that he would be prepared to offer a net cash payment of £5 million to reimburse BACo for the redundancy costs at Invergordon.

16. If the Committee is able to settle the level of net cash payment, if any, there will remain several detailed issues which need to be resolved by the Departments principally concerned - for example the gross residual value, which affects the Exchequer proceeds from the transaction although not the amount of public expenditure, and the need to ensure that the arrangements are proof against challenge within the European Community.

Support to mitigate the effects of closure

17. In E(EA)(81)45 the Secretary of State for Scotland originally made three proposals designed to mitigate the effects of closing Invergordon. One idea was to compensate BACo for phasing the closure over a period of six months or so in the hope that this would provide more time for a prospective purchaser of the plant. It is however now recognised that it is unlikely that a purchaser will be found for the smelter which is a highly specialised plant. Another idea was to set up an Enterprise Zone in the Invergordon area. It was however agreed by E(EA) that this proposal should not be pursued; partly because it went against the decision of E Committee (E(81)4th Meeting) that no further Enterprise Zones would be designated until the Government could assess the effectiveness of the existing ones and partly because Invergordon did not in any event appear particularly suitable for this kind of treatment.

18. The remaining proposal, subject to further clarification by the Secretary of State for Scotland, is that there should be assistance of some £5 million to attract new jobs to the Invergordon area, possibly in the form of an additional grant-in-aid to the Highland and Islands Development Board (HIDB). The Chief Secretary is sympathetic to this proposal subject to being satisfied in general terms about how the money might be used; this is under discussion between Scottish Office and Treasury officials. The Chief Secretary has also argued that this assistance should be found from within existing public expenditure totals but he is unlikely to make



that a sticking point, especially if the settlement with BACo is on a "no cash" basis or a basis involving only a small net cash payment.

HANDLING

19. You might ask the Secretary of State for Industry to open the discussion and then invite contributions from the Secretary of State for Scotland and the Chief Secretary, Treasury. The Lord Advocate will be able to advise on the legal position. The Secretary of State for Wales may wish to comment on the implications for Anglesey Aluminium, and the Secretary of State for Energy on the implications for energy policy generally. You may want to ask Mr Ibbs to give his assessment of the balance of advantage for the national economy in relation to the various issues.

CONCLUSIONS

20. You will wish to reach conclusions on the following points:

- i. whether the closure of the Invergordon smelter should be allowed to go ahead; and, if not, what subsidy should be provided;
- ii. if the closure is to go ahead,
 - a. what the terms of the settlement should be;
("no cash", a net payment of £30 million, or some smaller net payment)
 - b. what support should be made available to mitigate the effects of closure on the Invergordon area;
- iii. how and when these decisions should be made known publicly and in Parliament.

PLG

P L GREGSON

14 December 1981



RW

B/c: Mr Ingham
Mr Duguid

10 DOWNING STREET

From the Private Secretary

14 December, 1981

British Aluminium Co Ltd: Invergordon Smelter

The Prime Minister has grateful for your Secretary of State's minute of 10 December, whose contents she has carefully noted.

As she mentioned briefly to the Secretary of State for Scotland, her immediate reaction to Lord Plowden's recent letter to her on the subject was that she does not think that it will be possible to close the Invergordon Smelter at present.

I am sending copies of this letter to the Private Secretaries to members of E and E(EA); Muir Russell (Scottish Office), John Craig (Welsh Office), Christine Duncan (Lord Advocate's Office), Anthony Willis (Department of Industry) and David Wright (Cabinet Office).

M. C. SCHOLAR

I K C Ellison, Esq
Department of Industry

CONFIDENTIAL

58



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

11 December 1981

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Michael

BRITISH ALUMINIUM COMPANY LIMITED

My Secretary of State has minuted to the Prime Minister about the serious problems facing BACO as a result of heavy losses at its Invergordon aluminium smelter, which will have to close. This letter is in reply to yours of 7 December enclosing one to the Prime Minister from Lord Plowden asking for a meeting to discuss these problems.

A meeting of E Committee has been arranged for Tuesday 15 December to discuss the matter and my Secretary of State thinks it important that E should reach a decision as early as possible.

Although Lord Plowden's letter does not contain any new information, the Scottish Secretary has asked to see him with my Secretary of State on 14 December. In view of the serious danger to the company and the Government's close involvement with the arrangements for Invergordon, my Secretary of State thinks that, ideally, it would be desirable for the Prime Minister to give Lord Plowden a chance of putting the company's case to her direct. But he realises that this is impracticable before E Committee takes place and the main need is to reach an early decision.

Copies of this letter go to the recipients of yours.

Yours ever

Ian

I K C ELLISON
Private Secretary



Prime Minister

George Younger and

I spoke about this last week.

MW 10/12

PRIME MINISTER

I do not think we can close the Invergordon smelter at present. [N.B. - the letter for Donald Stewart & Gordon

BRITISH ALUMINIUM CO LTD: INVERGORDON SMELTER

Wilson does not see the need for jobs in Scotland]. I happened to see

Background

Brian Kellie NTI on Friday and asked him about the cost of keeping it open.

We need to take a decision urgently about the future of the aluminium smelter at Invergordon which the British Aluminium Co Ltd (BACo) set up in 1968 with the help of a loan from the then Board of Trade and a special contract for electricity with the North of Scotland Hydroelectric Board (NSHEB). Unless it receives a subsidy BACo will close the smelter, which is likely to make an operating loss of £20 million this year, and terminate the electricity contract. Moreover, the terms in which the contract is terminated may be crucial to the viability of BACo as a whole. We have to decide what terms would be acceptable to the Government as quickly as possible, in order to permit a final settlement to be negotiated by 31 December 1981, the end of BACo's Financial Year. Settlement in 1982 rather than in 1981 may well expose BACo to an insupportable tax liability; in any case the company may be unable to continue trading beyond the end of the year unless the outstanding claims against it by the Scottish Electricity Boards can be resolved.



discussed this matter of 9 December on the basis of memoranda by the Parliamentary Under Secretary of State for Industry (E(EA)(81)43) and by the Secretary of State for Scotland (E(EA)(81)45). Although we had a useful preliminary discussion, we took the view that you would wish to reserve final decisions on a matter of such importance to the Ministerial Committee on Economic Strategy.

Main issues

3 The background is fully set out in E(EA)(81)43 and 45. The issues which we have to consider are:

- (i) whether the closure of the Invergordon smelter should go ahead; and, if so
- (ii) whether the settlement should be on the basis of no cash passing in either direction, or on the basis of a net cash payment to BACo of £30 million;
- (iii) what special measures should be taken to alleviate the impact of the closure on the Invergordon area.

Closure or continuing subsidy

4 On the question of closing the smelter, the Sub-Committee



acknowledged the serious social and political consequences, including a direct loss of 900 jobs at the smelter and 500-600 other jobs locally. The Secretary of State for Scotland has pointed out that the Government will need to defend the decision to close the smelter at very considerable cost in preference to providing a subsidy to keep it open. Most members of the Sub-Committee nevertheless accept that, in view of present energy costs and foreseeable prospects for the aluminium market, there is no economic future for the smelter.

Terms of settlement

5 The Parliamentary Under Secretary of State for Industry and the Secretary of State for Scotland favour a settlement which would provide BACo with a net cash payment of £30 million. The main argument in favour of this option is that it would improve BACo's debt/equity ratio from about 60 per cent to something of the order of 20-30 per cent. It is argued that, if this were not done, the company which is owned as to 58 per cent by Tube Investments, would be in a precarious financial position; this could call into question the continuation of operations with a low rate of return at Falkirk, Warrington, Redditch and St Helens (with over 2,000 jobs at stake) and prejudice BACo's future investment plans.

6 The Chief Secretary has argued that it might be possible to



reach a settlement with BACo on a "no cash" basis and that BACo might be able, in the light of such a settlement, to maintain its other activities until there is an upturn in the world market for aluminium products.

7 Pending a final decision, officials have been instructed to work out the detailed mechanics of arriving at a settlement on either of these two bases. It would be necessary to present any settlement in such a way as to avoid the suggestion that the Government would be prepared to provide support for Alcan or Anglesey Aluminium, the prospects for both of whose smelters are not encouraging.

Support for the Invergordon area

8 The Secretary of State for Scotland proposes that the Government should take special measures to try and alleviate the economic and political impact of closing Invergordon. In particular, he proposes that the Highlands and Islands Development Board's (HIDB) grant in aid should be increased to permit it to create new jobs, and has suggested that an enterprise zone might be set up in the Invergordon area.

9 Most members of the Sub-Committee thought that an enterprise zone would not be appropriate in an area like Invergordon; and that it would not be right to try to re-open E's decision in



January this year that no further enterprise zones would be designated until the Government could assess the effectiveness of the existing ones (E(81)4th Meeting, Item 1). There was, however, provisional agreement that some financial assistance would need to be made available to the Invergordon area, possibly through the HIDB. The Chief Secretary has argued that any such assistance should be found from within existing expenditure totals; that a clearer idea is needed about how in general the money might be used and that a final decision cannot be taken on support for the Invergordon area in isolation from a decision on any net cash payment for BACo.

10 In view of the extreme urgency, I hope that it may be possible to discuss and settle these issues early next week.

11 I am sending copies of this minute to the members of E and E(EA); the Secretaries of State for Scotland and Wales, the Lord Advocate, the Parliamentary Under Secretary of State, Department of Industry and Sir Robert Armstrong.

PJ

P J

10 December 1981

Department of Industry

BACO

Prime Minister

(2)

The British Aluminium Company Ltd

7 Baker Street
London
W1M 1AB

Telegrams Britalumin London W1 for advice and
Telex 22756
Telephone 01-839 8888

I'm not sure if you saw this
in last night's box. I have asked

said that you are

FROM THE LORD PLOWDEN KCB, KBE

*A need
not*

ready to see Lord Plowden.

E(CA) is discussing

tomorrow; then you will

be consulted. See, too, Mr Younger's

MCS 8/12 paper.

Date

7 December 1981

The Rt Hon Margaret Thatcher MP
10 Downing Street
LONDON SW1

Your ref

Our ref

Ivan Prime Minister

cc Mr D Wright (Co)

THE BRITISH ALUMINIUM COMPANY, LTD

I am writing to you in my capacity as a past Chairman of The British Aluminium Company and of the parent company, Tube Investments Ltd (of which I am now President,) and as one who was personally involved in the negotiations between BA and the Government concerning the building of the Invergordon smelter. I hesitate to trouble you when you have so many preoccupations, but the decisions which are about to be taken are of the greatest possible significance for the future of BA. Moreover they do, I believe, raise important points of principle about relations between government and industry.

As you may know, BA's Invergordon smelter is in severe financial difficulty. Because of disproportionate escalation in power prices the plant has become totally uneconomic, and losses have reached a level where they threaten to destroy the whole BA Group. BA has been discussing the problem with the Department of Industry and the other departments principally concerned. Because BA is locked into the Invergordon project by the nature of its agreements with the Government and its agencies, it can only resolve its difficulties with their consent and co-operation.

BA would not be involved in Invergordon but for the enthusiasm of the Government of the day for setting up a primary aluminium industry in the UK. The company proceeded with the project on the basis of advice and assurances of the Government and its agencies, principally with regard to power costs. I can categorically state I would not have allowed BA to proceed with the proposal without Edmund Dell's formal letter of 23 July 1968, written when he was Minister of State at the Board of Trade (the key sections are marked on the second page of the copy attached.)

BA has fulfilled all its undertakings. Invergordon has become totally uneconomic because the assurances given to BA have not been fulfilled.

- 1 BA built Invergordon on schedule and within 1968 budget costs.
- 2 Power costs from Hunterston B were expected to keep Invergordon competitive with smelters based on hydro-electric power. Hunterston B was four years late, cost 40% more than the 1968

estimate, and capacity is now only 80% of design. In 1981 Hunterston B operating costs charged to Invergordon are nearly 13 times the 1968 estimate, compared with approximately 4½ times for the smelter's other production costs and for general inflation.

The company's financial problems have been further compounded by the uncertainties of a £44 million court case directly related to power charges. BA's legal advisers believe that the company is not liable for the disputed items, some of which relate to estimated costs which have not yet been incurred, but BA does not have the financial resources to await the outcome of legal process to prove its case.

In 1981 the Invergordon smelter will lose £20 million. BA cannot sustain such a rate of loss or the uncertainties arising from the dispute with the Electricity Board. In the absence of a reasonable and speedy settlement, the Board of BA is faced with the immediate prospect of putting the whole Group into liquidation.

Against this background, BA has decided that it has no choice other than to close the smelter and to seek cancellation of the agreements and the termination of the financial arrangements on which the whole undertaking was based. The basis of termination will decide the future of the rest of the Group.

Although the electricity charges currently made to Invergordon have turned out to be uneconomic for aluminium smelting, they are still a good deal lower than the cheapest tariff available to other industrial consumers. Consequently, the electricity released to the system by the closure of Invergordon will mean major financial benefits for the Electricity Boards.

Under the 1968 power contract which runs to the year 2000, BA is entitled to a payment equivalent to those benefits - or in the language of the contract - the "residual value." If BA were to take the matter to court it could well obtain a very substantial sum for its shareholders, amounting to several hundreds of millions of pounds. Unfortunately, from BA's point of view the time required for litigation does not make this a practical possibility because of BA's financial position. However there is no doubt that if BA were forced into liquidation the liquidator would be obliged to pursue the matter in the courts.

I believe that a fair settlement of this most difficult problem should take account of the "residual value" of the power contract and of the assurances given to BA in 1968. I understand that there is broad agreement between departments that a settlement arising from the "residual value" clause should encompass writing off the loan from the Board of Trade which enabled BA to contribute to the capital cost of Hunterston B, and the cancellation of the disputed charges mentioned above. A settlement which went no further than this would leave BA in a dangerously weak financial position and would force the company to close down other UK plants which it believes are capable of being competitive when current efficiency improvements have been completed.

Although I am all too conscious of the public expenditure constraints, I feel that a fair settlement really has to include a measure of cash. BA would regard a net payment of £30 million as at least enabling it to stand the Invergordon closure costs and the write-off of fixed assets without irretrievably damaging the rest of the business. Such a figure is still encompassed well within the claim BA would have under the "residual value" clause and would in no way compensate BA for the losses incurred as a result of its involvement in the project. As it is, Invergordon has resulted in direct losses for BA of £63 million and indirect losses substantially in excess of this figure, including, for example, giving up a major asset in Canada to finance the building of the Invergordon smelter.

It is perhaps relevant to point out in this context that the position of the Anglesey smelter has been quite different. Although I was given an assurance that the arrangements with Anglesey were in all essential respects the same as those for BA, it is known that Anglesey has in fact been getting its power substantially cheaper than BA, and I understand that they have been making reasonable profits.

BA is not a lame duck. Even with the burden of Invergordon, its track record compares favourably with its UK and European competitors. Without Invergordon it will be a viable company - provided that its short-term policies are not distorted by the pressures of high gearing caused by the damage inflicted by Invergordon and too parsimonious a settlement.

The time-scale is short. At present the company is unable to produce a balance sheet as a going concern, and the year end will demand a full exposure of its problems. In these circumstances, I should be most grateful if I might come to see you accompanied by Mr Ronny Utiger, the Chairman of BA, before any final decisions are taken.

Yours sincerely

Edwin, Rowles.



From the
Minister of State

BOARD OF TRADE
1 VICTORIA STREET
LONDON S.W.1
ABBEY 7677

23 July, 1968

Dear Mr. Willm.

I am writing with reference to various matters we have discussed in connection with British Aluminium's projected reduction plant at Invergordon.

Power Contract

You have shown me the Heads of Agreement for the project signed between the North of Scotland Hydro Electric Board and the British Aluminium Company Limited, dated 22nd July, 1968, which provides for the company to make a capital contribution to NOSHEB in connection with the supply of electricity required for a period of 29 years for a reduction plant rated at 100,000 tons annual output of aluminium. The Heads of Agreement provide for a capital contribution currently estimated to be £25.8 million, representing the capital cost of transmission and 20 per cent of the capital cost of Hunterston B.

Government Loan

... I attach a copy of a Memorandum setting out the main points which we have agreed should be included in a loan agreement between the Board of Trade and the British Aluminium Company Limited. This Memorandum outlines the terms of a Government loan to cover B.A. Co.'s actual contribution to NOSHEB. I confirm that it is the Government's intention to seek the approval of Parliament, in the next session, for an industrial investment scheme under the Industrial Expansion Act, 1968, which will authorise the making of the Board of Trade loan.

Plutonium Purchase

I note that, under the Heads of Agreement with NOSHEB, B.A. Co. have the right to transfer as plutonium nitrate to the Ministry of Technology 20 per cent of the plutonium calculated to have been produced in the reactors at Hunterston B. The Government have agreed that the Minister of Technology will enter into a contract with the British Aluminium Company Limited whereby (subject to the approval of Parliament to the necessary expenditure), B.A. Co. will transfer the right to this plutonium nitrate to the Minister in consideration of which the

/Minister

Sir William Strath, K.C.B.,
British Aluminium Company Limited,
Norfolk House,
St. James's Street,
London, S.W.1.



Minister will make quarterly payments to B.A. Co. of £30,250, commencing on 15th May, 1971, until the NOSHEB supply agreement is terminated. This figure of £30,250 will be adjusted to take account of any changes in the estimated quantities of plutonium resulting from any changes in the share of Hunterston B in respect of which B.A. Co. has made a capital contribution to NOSHEB. There will have to be some provision for retrospective adjustments in the event of the Power Agreement's being terminated in its early years as a result of an act or default by B.A. Co.

Capacity of the reduction plant

The Board will be glad to review the situation with you if you wish to increase the plant's capacity when market and other conditions permit, so that there can be full consideration of all the likely effects of your plans, and in particular the ways in which the additional capacity might be achieved. In this connection, you are aware that the British Government have told our EFTA partners that we propose to review with the aluminium companies, not later than 1971, the further expansion of smelters in the United Kingdom so that there may be full consideration of the likely effects on Norwegian interests before decisions are taken. I have taken note of your assurance that B.A. Co. will not, before this date, decide to extend its capacity at Invergordon above 100,000 tons without prior consultation with the Government.

Capital and running costs of Power Station

In assessing the commercial viability of an aluminium smelter on the power terms and loan arrangements offered to you, you expressed great concern that the escalation on capital and running costs for power might operate so unfavourably as to make the effective power price uneconomic. You were given opportunities to obtain the views of the Atomic Energy Authority, the South of Scotland Electricity Board and the North of Scotland Hydro Electric Board on the probable future course of capital and running costs. The extent of escalation envisaged by these bodies was relatively small and fell within the limits which you judged to be tolerable. I recognise that in agreeing to proceed with an aluminium smelter at Invergordon you have given considerable weight to these views, put forward in good faith, and accepted by you as such.

Review

We agree that the Board of Trade and the British Aluminium Company Limited will consult together if circumstances arise which, in the opinion of either party, substantially modify the assessments which at present underlie the project.

/Any



Any variation of the loan agreement, so as to make it inconsistent with the industrial investment scheme that is approved by Parliament, would be subject to an amended scheme also being approved by Parliament.

I should be grateful if you would confirm that this letter represents your understanding of the agreement reached between us. .

Yours sincerely

Edmund Dell
EDMUND DELL



10 DOWNING STREET

From the Private Secretary

7 December 1981

THE BRITISH ALUMINIUM COMPANY, LTD

I attach a copy of a letter the Prime Minister has received from Lord Plowden about the Invergordon smelter. I should be grateful for a draft reply for the Prime Minister's signature. It would be helpful if this could reach me by Monday 14 December.

The Prime Minister, who was warned in advance that Lord Plowden was likely to write, has indicated that she is ready to see Lord Plowden.

I am sending a copy of this letter, and its enclosure, to John Kerr (H.M. Treasury), Richard Dykes (Department of Employment) and Muir Russell (Scottish Office).

M. C. SCHOLAR

F. R. C. Ellison, Esq.,
Department of Industry.



flint

10 DOWNING STREET

From the Private Secretary

7 December 1981

I am writing on behalf of the Prime Minister to thank you for your letter of 7 December, about Invergordon.

I will place this before the Prime Minister at the earliest opportunity, and a reply will be sent to you as soon as possible.

M. C. SCHOLAR

The Lord Plowden, K.C.B., K.B.E.



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

Prime Minister

BRITISH ALUMINIUM COMPANY LTD: INVERGORDON SMELTER

I have seen the Secretary of State for Industry's minute to you of 10 December reporting on the outcome of the E(EA) meeting on 9 December. He has noted my view that we will need to defend any decision to close the smelter against what it would cost to provide an additional subsidy to keep it going. I am therefore setting out the relative costs of the options for closure and continuation for consideration by colleagues.

Continuation

2. The Parliamentary Under-Secretary of State for Industry and I had a meeting this morning with Lord Plowden and Mr Utiger of British Aluminium Company Limited (BACo) during which they set out the requirements which would enable the company to continue its operations in Invergordon, these are attached at Annex A. In summary this would involve writing off the disputed charges from BACo's books, reducing their price for electricity to something nearer to what they originally expected, agreeing a basis for cost escalation in the future, and safeguarding the future of the company by putting the smelter into a separate subsidiary.

As Annex B shows continuation would cost us some £59m to write off the accumulated disputed charges plus a total of £14m or so annually to bring the cost of electricity down to a price the company could afford. The actual cost might be more or less than this depending on how the cost escalation provision worked out. If we were to consider an arrangement such as this I consider that BACo should surrender to us their claim on the residual value of Hunterston B power station currently estimated by the electricity boards at £70m, and a break clause would be necessary so that the arrangements could be reviewed on a mutually agreed basis in three years' time.

3. Closure

I accept that on economic grounds it is difficult to justify an operating subsidy of this kind. Nevertheless this is an exceptional case. The catastrophic effect in the Highlands will give rise to extremely severe political problems. Moral obligations to the company, the need to safeguard the company's other activities, the scale of remedial measures

CONFIDENTIAL

required and the knock-on effects to NCB through reduction in demand for coal together mean that the cost of closure is very large. As the table shows the total for the three years is at least £50m and if BACo are to get a net payment of £30m the total becomes £80m.

If closure is decided on, an aspect which is particularly difficult for me is the continuation of much larger subsidies from CEGB to the Anglesey smelter. Because Dungeness B is still not in operation this smelter gets its electricity at about a third of the cost at Invergordon with CEGB meeting the deficit. Invergordon would of course be viable at this price also.

Assistance to the Highlands

I made it clear at E(EA) that if closure takes place special measures would be required at Invergordon to try to reduce the political and economic impact. Unemployment in the immediate area would rise to 25 per cent and there would be very wide repercussions. The local economy is fragile and there would be no prospect that early new development could make good the loss of one of the largest industrial projects in the Highlands.

I propose that the Highlands and Islands Development Board (HIDB) should be given the task of co-ordinating remedial measures and should have its budget increased by up to £5m in each of the next three years. This should make it possible for them to redevelop the Invergordon site, make a particular effort to attract new industry to the area by providing funds for investment if necessary, and assist retraining by providing further funds for Inverness Technical College. In addition, in view of the scale of the disaster and the difficulty of the remedial task we face I would wish to see the area accorded Special Development Area status.

Recommendation

As will be seen from the table the costs of closure exceed those of continuation over the first three years. I therefore recommend strongly that we offer arrangements to the company which will enable the plant to continue.

I am sending copies of this minute to members of E and E(EA); the Secretary of State for Wales, the Lord Advocate, the Parliamentary Under Secretary of State, Department of Industry, Robin Ibbs and Sir Robert Armstrong.

A.Y.

4 December 1981

Strictly Confidential

14 December 1981

A BASIS TO ENABLE BRITISH ALUMINIUM TO CONTINUE OPERATING
INVERGORDON

The following actions will be necessary for Invergordon to be a competitive plant in the future.

- 1 NSHEB to withdraw the present legal action and to give up any claim in respect of the disputed items at 31 December 1981.
- 2 NSHEB to give firm undertakings that it will not attempt to charge BA in the future for costs within the categories of the present disputed items.
- 3 BA to receive a guarantee that future escalation under the terms of the contract shall not exceed the general rate of inflation in any year.
- 4 BA to pay charges to NSHEB in direct proportion to the number of kWh actually taken.
- 5 BA to be given an undertaking that in the event of a termination of the power contract at any future date the smelter deficit account cannot be included as a deduction against BA's rights in termination.
- 6 BA would wish to put the Invergordon smelter into a separate wholly owned subsidiary company, together with all agreements and contracts pertaining to the smelter, so that there could be no future risk of problems arising from the power contract destroying the financial viability of the whole Group.

BA would almost certainly need to reduce load at Invergordon to about half until the market improves, and this would presumably qualify for short-time working compensation.

R E Utiger
Chairman

CONFIDENTIAL

COMPARISON OF COSTS OF CLOSURE AND CONTINUATION

The complicated arrangements which would be necessary to either effect the closure of the Invergordon smelter or to provide assistance to allow continuation would give rise to various transactions. Some of these would be self-cancelling in Government accounting terms and therefore the following table concentrates on those transactions which would have an effect on cash flows.

A. CLOSURE	<u>£m (1981/82 Prices)</u>			
	<u>1981/82</u> <u>January-March</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>
Net Cash to BACo	<u>£30</u> Note 1	-	-	-
Loss of Revenue to NCB by coal displaced by Hunterston	2 Note 2	8	5	2
Loss of capital repayments on loan by BACo	0	2	2	2
Extra expenditure by HIDB	1	5	5	5
Unemployment Pay)	1	3	2	1
Loss of tax revenue)				
		2	1	1
TOTAL	<u>£34</u> or 4	20	15	11
				<u>GRAND TOTAL</u> <u>£80m</u> or £50m

B. CONTINUATION

NSHEB loss on supply to BACo	4 Note 4 Note 5	14	14	13
				<u>GRAND TOTAL for 3½ YEARS = £45m</u>
SAVINGS ON CLOSURE	<u>£-30</u> or 0	-6	-1	+2

A - B

/NOTES:

NOTES:

1. Opposed by Treasury.
2. Assuming that NCB cannot find alternative markets or rundown production in late years.
3. Provisional figures subject to examination by officials of remedial measures for which expenditure may be required.
4. In addition to other costs it will be necessary to place an Order before Parliament in 1982 to reimburse the disputed charges to NSHEB. These would amount to a total of approximately £59m. In exchange for this write off the Government will take a charge on the tranche of Hunterston B previously held by BACo.
5. Financial support for deficit payments would be necessary until the end of the contract.

