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PART 2

Confidential Filing

PM's meeting with Lord Plowden to discuss the British Aluminium Company's Smelter at Invergordon

PRIME MINISTER

Pt 1 :- December 1981

Pt 2 :- March 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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Cabinet / Cabinet Committee Documents

Reference	Date
LCA to E(82) 10th Meeting, Minutes	23.3.82
E(82) 38	22.4.82
E(82) 39	22.4.82
LCA to E(82) 12th Meeting, Minutes	4.5.82

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed C Wayland Date 30 October 2012

PREM Records Team

Prime Minister

We will let you have briefing on the main points raised in questions on this statement.

WH 28/7

STATEMENT

WEDNESDAY 28 JULY 1982

HOUSE OF COMMONS

INVERGORDON

STATEMENT BY THE SECRETARY OF STATE FOR SCOTLAND (MR GEORGE YOUNGER)

WITH PERMISSION, MR SPEAKER I WISH TO MAKE A STATEMENT ABOUT THE INVERGORDON SMELTER. THE HOUSE WILL RECALL THAT THE BRITISH ALUMINIUM COMPANY CLOSED ITS INVERGORDON SMELTER LAST DECEMBER. THE SMELTER EMPLOYED SOME 900 PEOPLE. THE CLOSURE TOOK PLACE AFTER INTENSIVE NEGOTIATIONS BETWEEN THE COMAPNY AND THE GOVERNMENT. DURING THESE NEGOTIATIONS THE GOVERNMENT HAD BEEN PREPARED TO OFFER THE COMPANY A PACKAGE OF ASSISTANCE WHICH INCLUDED WRITING OFF SOME £47M OF DISPUTED POWER CHARGES AND AN ANNUAL SUBSIDY TOWARDS ITS POWER COSTS OF £16M FOR THREE YEARS. IN MY STATEMENT TO THE HOUSE ON 18 JANUARY I SAID THAT THE COMPANY HAD UNDERTAKEN TO MAINTAIN THE SMELTER IN A USABLE CONDITION FOR SIX MONTHS AND THAT THE SCOTTISH OFFICE, IN CONJUNCTION WITH LOCATE IN SCOTLAND AND THE HIGHLANDS AND ISLANDS DEVELOPMENT BOARD WOULD MAKE EVERY EFFORT TO FIND A NEW OPERATOR. I ALSO SAID THAT THE GOVERNMENT HAD AGREED, IN THE EVENT THAT NO NEW OPERATOR CAME FORWARD, TO PROVIDE A SPECIAL EXTRA ALLOCATION OF FUNDS FOR THE HIDB, AMOUNTING TO UP TO £10M OVER THE NEXT THREE YEARS.

I AM SORRY TO TELL THE HOUSE THAT DESPITE THE EXTENSIVE EFFORTS WHICH HAVE BEEN PUT INTO THE SEARCH AND THE COMPANY'S AGREEMENT TO MAINTAIN THE PLANT FOR A FURTHER MONTH NO NEW OPERATOR IS PREPARED TO TAKE OVER THE SMELTER.

THE DETAILS OF THE GOVERNMENT'S DISCUSSIONS WITH THE PARTIES WHO HAVE EXPRESSED AN INTEREST IN ACQUIRING THE PLANT MUST OBVIOUSLY REMAIN MATTERS OF COMMERCIAL CONFIDENTIALITY. THE HOUSE WILL HOWEVER WISH TO KNOW WHAT LEVEL OF ASSISTANCE THE GOVERNMENT WAS PREPARED TO OFFER TO PROSPECTIVE OPERATORS. AS HON MEMBERS KNOW, THE LEVELOF POWER COSTS IS CRUCIAL TO THE ECONOMICS OF ALUMINIUM SMELTING. WE THEREFORE OFFERED PROSPECTIVE OPERATORS AN ANNUAL SUBSIDY FOR EACH OF 5 YEARS UP TO £20M AMOUNTING TO £100M IN TOTAL.

THE SCOTTISH OFFICE HAS SEARCH FAR AND WIDE FOR POSSIBLE OPERATORS AND HAS BEEN IN CONTACT WITH A TOTAL OF 16 COMPANIES. MY HON FRIEND AND I HAVE PERSONALLY MET SEVERAL OF THE COMPANIES WHO HAVE EXPRESSED AN

INTEREST. SOME COMPANIES HAVE VISITED THE PLANT AND HELD DISCUSSIONS WITH THE SCOTTISH ELECTRICITY BOARDS. DESPITE THIS WHOLLY EXCEPTIONAL OFFER OF ASSISTANCE, WHICH WE WERE PREPARED TO MAKE BECAUSE OF THE UNIQUE IMPORTANCE OF THE SMELTER FOR THE LOCAL ECONOMY AND THE REST OF THE HIGHLANDS, NO COMPANY WAS PREPARED TO ACQUIRE AND OPERATE THE SMELTER. EVEN IF WE WERE TO TAKE STEPS TO MAINTAIN THE PLANT IN USABLE CONDITION FOR A FURTHER PERIOD I SEE NO PROSPECT OF A PURCHASER COMING FORWARD.

I VERY MUCH REGRET THAT THE GREAT EFFORTS WHICH HAVE BEEN MADE TO FIND A PURCHASER HAVE NOT BEEN SUCCESSFUL. THE DECIDING FACTOR HAS BEEN THE VERY DEPRESSED STATE OF THE ALUMINIUM INDUSTRY THROUGHOUT THE WORLD. THE PRICE OF ALUMINIUM IS AT VERY LOW LEVELS, IN REAL TERMS WELL BELOW WHAT IT WAS FOURTEEN YEARS AGO WHEN THE SMELTER PROJECT WAS ANNOUNCED. MANY MAJOR COMPANIES ARE MAKING SUBSTANTIAL LOSSES. LAST WEEK ALCAN ANNOUNCED THE DEFERMENT OF A HUGH NEW SMELTER PROJECT IN AUSTRALIA, AND THAT IS ONLY THE MOST RECENT IN A LONG SERIES OF SUCH ANNOUNCEMENTS. IN THESE CIRCUMSTANCES IT IS UNDERSTANDABLE, ALTHOUGH DEEPLY DISAPPOINTING THAT NO COMPANY IS PREPARED TO MAKE THE NECESSARY INVESTMENT AT INVERGORDON.

THE GOVERNMENT WILL OF COURSE NOW MAKE AVAILABLE TO THE HIDB THE ADDITIONAL FUNDS PROMISED IN JANUARY.

THE BOARD AND THE SCOTTISH OFFICE HAVE COMPLETED A JOINT REPORT ON THE IMPACT OF THE CLOSURE AND THE ACTION WHICH MIGHT BE TAKEN TO OFFSET THE EFFECTS ON EMPLOYMENT. THE BOARD HAS ALREADY APPOINTED A LOCAL DEVELOPMENT OFFICER AND OPENED A NEW LOCAL OFFICE TO DEAL WITH DEVELOPMENT ENQUIRIES. IT WILL ALSO BE PROVIDING ADDITIONAL SMALL FACTORY SPACE. LOCATE IN SCOTLAND HAS ALREADY JOINED WITH THE BOARD TO DRAW THE AREA TO THE ATTENTION OF POTENTIAL INVESTORS AND THE SCOTTISH OFFICE WILL DO EVERYTHING POSSIBLE TO BRING NEW DEVELOPMENTS TO THE AREA. IN ADDITION TO THESE EFFORTS I HAVE DECIDED THAT ONE OF THE TWO NEW SCOTTISH ENTERPRISE ZONES WHICH MY RT HON ANDLEARNED FRIEND THE CHANCELLOR OF THE EXCHEQUER ANNOUNCED YESTERDAY SHOULD BE LOCATED IN THE INVERGORDON AREA.

I WILL BE MEETING VERY SHORTLY WITH THE LOCAL AUTHORITIES IN THE INVERGORDON AREA AND REPRESENTATIVES OF THE SMELTER WORKFORCE TO DISCUSS THESE INITIATIVES.

SCOTTISH OFFICE

Prime minister

Aluminium Smelter (Invergordon)

3.52 pm

The Secretary of State for Scotland (Mr. George Younger): With permission, Mr. Speaker, I wish to make a statement about the Invergordon smelter. The House will recall that the British Aluminium Company closed its Invergordon smelter last December. The smelter employed some 900 people. The closure took place after intensive negotiations between the company and the Government. During the negotiations, the Government had been prepared to offer the company a package of assistance which included writing off some £47 million of disputed power charges and an annual subsidy towards its power costs of £16 million for three years.

In my statement to the House on 18 January, I said that the company had undertaken to maintain the smelter in a usable condition for six months and that the Scottish Office, in conjunction with Locate in Scotland and the Highlands and Islands Development Board would make every effort to find a new operator. I also said that the Government had agreed, in the event that no new operator came forward, to provide a special extra allocation of funds for the HIDB, amounting up to £10 million during the next three years.

I am sorry to tell the House that, despite the extensive efforts that have been put into the search and the company's agreement to maintain the plant for a further month, no new operator is prepared to take over the smelter. The details of the Government's discussions with the parties who have expressed an interest in acquiring the plant must obviously remain matters of commercial confidentiality. The House will, however, wish to know what level of assistance the Government were prepared to offer to prospective operators. As hon. Members know, the level of power costs is crucial to the economics of aluminium smelting. We therefore offered prospective operators an annual subsidy for each of five years up to £20 million, amounting to £100 million in total.

The Scottish Office has searched far and wide for possible operators and has been in contact with a total of 16 companies. My hon. Friend and I have personally met several of the companies who have expressed an interest. Some companies have visited the plant and held discussions with the Scottish electricity boards. Despite this wholly exceptional offer of assistance, which we were prepared to make because of the unique importance of the smelter for the local economy and the rest of the Highlands, no company was prepared to acquire and operate the smelter. Even if we were to take steps to maintain the plant in usable condition for a further period, I see no prospect of a purchaser coming forward.

I very much regret that the great efforts which have been made to find a purchaser have not been successful. The deciding factor has been the depressed state of the aluminium industry throughout the world. The price of aluminium is at very low levels—in real terms, well below what it was 14 years ago when the smelter project was announced. Many major companies are making substantial losses. Last week Alcoa announced the deferment of a huge new smelter project in Australia. That is only the most recent in a long series of such announcements. In these circumstances, it is understandable, although deeply disappointing, that no company is prepared to make the necessary investment at Invergordon. The Government will, of course, now make available to the HIDB the additional funds promised in January.

The board and the Scottish Office have completed a joint report on the impact of the closure and the action that might be taken to offset the effects on employment. The board has already appointed a local development officer and opened a new local office to deal with development inquiries. It will also provide additional small factory space. Locate in Scotland has already joined the board in drawing the area to the attention of potential investors. The Scottish Office will do everything possible to bring new developments to the area. In addition to these efforts, I have decided that one of the two new Scottish enterprise zones that my right hon. and learned Friend the Chancellor of the Exchequer announced yesterday shall be located in the Invergordon area.

I will shortly be meeting the local authorities in the Invergordon area and representatives of the smelter work force to discuss these initiatives.

Mr. Bruce Millan (Glasgow, Craigton): The Secretary of State has made a tragic statement. The tragedy goes well beyond Invergordon and the surrounding area. The whole of Scotland is affected by its serious implications. What he said confirmed our criticisms at the time of the initial crisis—that the Government's dereliction of duty was to allow the smelter to close in the first place. That error having been made, it is extremely difficult to retrieve the situation.

Not only was the error made, despite a bonus of more than £20 million that was paid to British Aluminium, but the works was not taken over. It is still in private ownership. What is more, the assurances about Falkirk look a little sad when one bears in mind that plant's present difficulties.

Is the Secretary of State aware that the designation of an enterprise zone is a poor substitute, indeed no substitute, for what has happened? Despite what the Secretary of State has just said, we know little about the negotiations with the companies that he mentioned. Is he aware that it has been suggested—I should like the suggestions to be confirmed or contradicted—that no specific offer was made to those 16 companies in the negotiations? It has been suggested that what might be available was discussed but that no specific offers were made. Perhaps the Secretary of State will deal with that point.

Can the Secretary of State make it absolutely clear that what was on offer to the new operator at Invergordon was at least as favourable as what is now being provided at the other two smelters at Anglesey and Lynemouth—a matter to which the Secretary of State said earlier that he attached importance? May we have an absolute assurance about that?

As to what will now happen, has the Secretary of State seen the action group's proposals that a public company might take over the smelter? What does he think about that? At least that would leave the opportunity open for perhaps two or three years to see whether a new operator could come forward, by which time the aluminium market may have improved.

Many people in Scotland, not just hon. Members, felt that the way in which the Secretary of State dealt with the matter was the real test of his credibility as the Minister

[Mr. Bruce Millan]

who looked after Scottish economic and industrial interests. If that is the test, the Secretary of State has failed lamentably.

Mr. Younger: I entirely agree with the right hon. Gentleman that it is an extremely serious situation and I regret it every bit as much as he does. I shall try to cover all his questions.

First, the right hon. Gentleman said that it was a gross error to have allowed the smelter to close in the first place. I made it perfectly clear to him and to others at the time that the only option to try to prevent it closing would probably have brought down virtually all the other British Aluminium Company plants. He will recall that it was a case of trying to save them. In any case, the British Aluminium Company had not the slightest intention of continuing to run the smelter at that time. The right hon. Gentleman's criticism is therefore totally misplaced.

I agree that the enterprise zone is a poor substitute for keeping the smelter open, but I should have thought that the right hon. Gentleman would at least have had the grace to welcome it as a useful contribution to help people in the area who will now be extremely worried about their future.

I am not sure what the right hon. Gentleman's point was about no specific offer being made, but the discussions with the many companies that we contacted went into all the details of how much support each company felt that it would need to take on the running of the smelter. In spite of many serious negotiations with companies that were clearly interested, however, not one came remotely near £20 million—itself a truly staggering amount to offer in annual subsidy.

As I think the right hon. Gentleman knows, neither of the other smelters receives Government subsidy. Their power contracts are confidential between the smelters and the fuel suppliers. I received the action group's proposals only yesterday afternoon, but I studied them with great care to see whether they contained anything new. I have replied that, although I greatly welcome the interest and trouble taken by the group, the proposals contain nothing that we have not considered many times in the past few months, so I am afraid that they provide no basis for any continuation.

As for my credibility, I think that on reflection the right hon. Gentleman will agree that to have found, with the full approval of Government colleagues, a scheme to commit no less than £100 million over five years to help the Highlands is about the biggest commitment to the Highlands that any Minister could have made.

Several Hon. Members *rose*——

Mr. Speaker: Order. I promised on Question No. 1 that if the hon. Member for Dunfermline (Mr. Douglas) would wait he would be called first now.

Mr. Dick Douglas (Dunfermline): Thank you, Mr. Speaker. Does the Secretary of State agree that the whole history of this matter is a governmental botch-up and that the great tragedy is that the company in default of its long-term obligations still owns the assets?

Mr. McQuarrie: It was the Labour Government in 1967.

Mr. Douglas: Does the Secretary of State agree that the assets must be put into public sector hands at break-up value?

Will the Secretary of State also deal with the knock-on effects for the Scottish economy, particularly in the mining industry, as I believe that they will be extremely severe?

Lastly, will the Secretary of State tell us how many companies actually visited the plant? Will he also assure the House that the £100 million over five years is still in his grasp and will be ploughed into the Scottish economy and not vanish back into the Exchequer?

Mr. Younger: I am not sure how far back the hon. Gentleman was going in his comments about a Governmental botch-up. Certainly, no one who has been concerned in the whole sad history of the smelter over 15 years or more can regard it as a great success. When I took responsibility for the matter the smelter contract was clearly in great trouble and in danger of causing the company itself to go under. As the hon. Gentleman will recall, law suits were involved. Speakimg for the Conservative Government, I can say that we have done all that we conceivably could to retrieve a desperately difficult situation. I think that history will be clear on that.

There are, of course, serious knock-on effects. For instance, a considerable quantity of coal will now have no outlet. That is a very serious matter.

Mr. Douglas: We are having no pit closures.

Mr. Younger: I presume that the National Coal Board will now seek ways of using that coal or exporting it to some profit if possible.

On the number of companies, we approached every company that we could find that might be interested, as quite a number of them were. In all, we approached 16 companies. I cannot say offhand how many actually visited the plant, but many of them had many discussions both here and on the ground about what might be done, and a surprising amount of interest was shown. The real difficulty was that the gap between the operational costs of the plant and the falling price of aluminium was so large that even the huge sum that the Government were prepared to contribute seems to have been nothing like enough to persuade any company to take on the operation.

Sir Hector Monro (Dumfries): Does my right hon. Friend agree that to obtain £100 million for a prospective purchaser was a tremendous achievement and that only the over-capacity of the smelting industry brought failure? Does he further agree that my right hon. Friend the Member for Ross and Cromarty (Mr. Gray), the Minister of State, Department of Energy, did everything possible to help his constituents, as did the community of Invergordon itself and that we are all desperately disappointed at the failure?

Mr. Younger: I am grateful to my hon. Friend. My right hon. Friend the Member for Ross and Cromarty (Mr. Gray) has been totally involved at all stages. Without his help, we should not have achieved nearly such a good prospect as we did. I entirely agree that this is a tragedy, but I hope that no one will say that we have not pulled out every possible stop to try to rescue the company.

Mr. Roy Jenkins (Glasgow, Hillhead): The right hon. Gentleman has no doubt made strenuous efforts in recent weeks, but how does he explain the contradiction between his dismaying statement today and the fully confident

promise that he gave during the Hillhead by-election campaign that Invergordon would reopen? As the depressed state of the world aluminium market was fully known to him then, was it his judgment or his frankness that was at fault?

Mr. Younger: I note the right hon. Gentleman's interest in this matter. I have made it clear at all times that my effort was to find a company that would reopen the smelter. In that, I include everything that I said during the famous Hillhead by-election campaign. At that time, a number of companies were still showing very lively interest. It was literally in the last day or two that the questions of all the interested companies were finally solved. Therefore, I hope that the right hon. Gentleman will acquit me of any suspicion that I have not been absolutely frank about this throughout. I was at all times doing my utmost to find an operator for the smelter. In trying to persuade people to go there, I was certainly not going to go around saying that it was a hopeless task, because it was not.

Mr. George Foulkes (South Ayrshire): How does the Secretary of State reconcile his statement that he has done everything possible with reports in the trade press that people in the industry regard his efforts as having been half-hearted and more of a public relations exercise than a genuine attempt to save the plant? Furthermore, how can his hon. Friend the Member for Ross and Cromarty (Mr. Gray) continue as a member of the Government at the Department of Energy after the fiasco at Invergordon?

Mr. Younger: I always enjoy the highly intellectual contributions of the hon. Member for South Ayrshire (Mr. Foulkes) on these matters. With regard to his readings in the trade press——

Mr. Foulkes: You should read it.

Mr. Younger: I am not sure to which section of the trade press the hon. Gentleman refers, but I assure him that the companies with which we have been negotiating were in no doubt whatever that this was a real concrete exercise in seeking an operator to take over the plant. If the hon. Gentleman needs any further evidence of that, I should have thought that persuading the Government—no doubt he would say, this Government in particular—to earmark no less than £20 million per year for five years made nonsense of his claims.

Mr. Barry Henderson (Fife, East): Does my right hon. Friend accept that, contrary to the view of the Opposition Front Bench, a great many people will share the view of my hon. Friend the Member for Dumfries (Sir H. Monro) that no one could have expected any Government to do more than has been done? Did not the implications of the public statements of the British Aluminium Company at the time of the closure imply that on the basis on which it was operating it could never possibly have made a profit even if the electricity had been free?

Mr. Younger: I am grateful to my hon. Friend. The British Aluminium Company managed to make a profit on operating the plant in some years, but it had difficulty in other years. I think that there is probably agreement between both sides of the House—in more normal times, there would certainly be agreement—that the old power contract, although started with the best of intentions, had become completely inoperable by the time it finished. The power contract had been rendered out of date by events and had to be superseded by a new one. The Government have certainly been extremely generous in the contribution that they were prepared to make. Tragically, however, due to the falling price of aluminium, the gap was so wide that even that sum was nowhere near enough to persuade any company that it could viably operate the plant.

Mr. Gavin Strang (Edinburgh, East): Is the Secretary of State aware of just how black a day this is, not only for the Highlands but for the whole of the Scottish Economy, not least the electricity and coal industries? Is it not monstrous that in his statement he should make no reference to the future of the plant while at the same time he pointed out that the deciding factor was the depressed state of the aluminium industry? Will he use some of that £100 million to acquire and maintain the plant so that this Government or another Government can bring it back into production when conditions improve in the aluminium industry?

Mr. Younger: Perhaps the hon. Gentleman will agree that I am in a better position than most people to consider that this is a black day. It is not for nothing that I have spent seven months trying to save the plant for nothing. With regard to the latter part of the hon. Gentleman's question, I have shown by what I have said today that the Government have no intention of turning their back on the Invergordon area and leaving it to get on with it. I am meeting its representatives tomorrow. We have already said that we are prepared to commit money. I have said today that we will create an enterprise zone there and that I shall enter into discussion with them. That is surely a clear commitment from the Government to try to help the area with its serious problems.

Several Hon. Members *rose*——

Mr. Speaker: Order. I propose to call those hon. Members who have been rising.

Mr. Grimond: Will the Secretary of State tell the House, first, how much public money has been lost at Invergordon; secondly, to whom the plant now belongs; thirdly, what his intention is about the future of the plant—whether it is to be mothballed or demolished; and fourthly, whether if enterprise areas are so good, he will extend them throughout the Highlands?

Mr. Younger: I shall write to the right hon. Gentleman to give him a total of how much public money has been spent on the plant and I shall try to make a balance sheet to answer the first part of his question. Secondly, the plant is and always has been owned by the British Aluminium Company. Thirdly, the future of the plant is a matter for its owner and no doubt BACO will consider that.

Mr. Albert McQuarrie (Aberdeenshire, East): My right hon. Friend has referred to the telex that he received from the Invergordon smelter action group. I am sure the House will welcome the action that the group has taken in an endeavour to maintain the plant. I should like to draw my right hon. Friend's attention to the reference in paragraph 6 of the telex.

"income from goods imported and exported over the Invergordon jetty, from existing leases of land currently in ownership of BACO at Invergordon".

Are those leases to be retained by BACO or are they to be made available for sale? If they are to be sold, will he give serious consideration to the recommendations that have

[Mr. Albert McQuarrie]

been made by the Invergordon smelter action group that there should be a public/private sector company formed with part of the £20 million that is available for the next five years? Will he examine the telex even more carefully as a last-minute endeavour to save the smelter? As has been rightly said, he and my right hon. Friend the Secretary of State for Industry and my right hon. Friend the Minister of State, Department of Energy are justified in making every effort they can to ensure that the smelter is retained, if at all possible.

Mr. Younger: I should like to join in the tribute my hon. Friend paid to the way in which the Invergordon smelter action group has conducted itself over the past seven months. In an extremely nasty position, it has been thoroughly helpful and constructive. I pay tribute to the group for that.

My hon. Friend refers to the scheme that was sent to me by telex yesterday. We have studied it carefully and I look forward to discussing it with the group later. He referred to the suggestion in the telex that BACO might be prepared to use some of the facilities remaining at the smelter at commercial rates. It is too early to say whether there are such facilities that BACO would want to use and, if so, whether BACO would be prepared to pay commercial rates and what those rates would be. Those matters would have to be gone into. I can assure my hon. Friend that I am looking forward to meeting all concerned on the ground in the area and discussing the problems with them.

Mr. Gordon Wilson (Dundee, East): Does the Secretary of State realise that he has created an industrial cemetery in the area and that we are seeing the second Highland clearances? In those circumstances, bearing in mind that he had offered about £20 million a year to keep the smelter going, would he not consider it to be a worthwhile investment to pay £300,000 a year for continuing maintenance of the smelter so as to have it available as an asset as and when the world market in aluminium picks up?

Mr. Younger: While the phrase "industrial cemetery" may be good for a headline, it is not helpful to the people in Invergordon, who will now need every help they can get to attract some other employment to the area. With regard to the £300,000 a year to keep the plant going, I would stress to the hon. Gentleman—perhaps he will think about this—that we have looked all over the world to find firms that are skilled and versed in the running of smelters. Not only have none of them been able and willing to come forward to run the smelter now but none of them has been able to contemplate running it at anything remotely approaching even the huge amount of subsidy that I have mentioned today. Therefore, we must realise that it is not likely to be a viable proposition in the future.

Mr. Robert MacLennan (Caithness and Sutherland): It is only 18 weeks since the Secretary of State was quoted as saying in the Scottish *Sunday Express*:

"I am confident that the smelter will reopen."

Was he not aware at that time that there was a vast gap, which he has described, between the money that the Government were prepared to make available and what was necessary to put the smelter back into operation? Does the Secretary of State realise that his amiability is wearing a little thin and that his competence is now deeply in question?

Mr. Younger: I said that at that time because several weighty and worthwhile companies were showing interest in that matter. If that was the case, it was not likely that I would get far by rushing round the country saying, "It is a dead duck; there is no chance of getting its work". That is why I said it, and I stand by it.

Mr. Ian Lloyd (Havant and Waterloo): The Secretary of State will be aware that the Select Committee on Energy carefully examined energy costs with regard to Invergordon. Is he aware that we reached very cautious conclusions about that matter and that many of us admire the effort he has made to reach a solution to an immensely complex problem but that some of us would have been dismayed had he announced this afternoon that yet another vast outpouring of the taxpayers' money, virtually in perpetuity, was to be organised to maintain the smelter in existence? Indeed, if the industrial future of Scotland is his main concern, should not sums of this magnitude, if they are to be paid anywhere, be paid to reinforce the enormous success of his Department in reinforcing information technology in Scotland rather than to industries which have no hope of long-term survival?

Mr. Younger: I appreciate what my hon. Friend has said and his proper anxiety not to see excessive amounts of public moneys, which are badly needed for all sorts of things, spent unwisely. I was very much prepared to find these huge sums of money to get the plant started again because it seemed to me to be the best and cheapest way of making use of an existing asset. That is why I felt it was worth doing. No one has suggested—I doubt if anyone will—that it would be sensible for any Government to have provided the still larger sums that it is clear would be needed to have any chance to get the plant operated by a new operator.

Mr. Alex Eadie: While making his announcement, the right hon. Gentleman informed the House that it had serious consequences for the coal industry and that he presumed that the National Coal Board would have to go into the export market. Since the right hon. Gentleman is the custodian of the Scottish economy, surely he is not informing the House today that that is all he intends to do to save jobs for the people of Scotland.

Mr. D. N. Campbell-Savours (Workington): Resign.

Mr. Younger: I am not certain how far the hon. Gentleman wishes to take his last few words. I am deeply concerned that a part of the Scottish coal industry has lost a market. However, the hon. Gentleman knows that the coal industry is dependent, like all other industries, on finding good markets for its products. It is most important that it should produce its goods at the cheapest possible price so that it can find more markets. I am certain that the National Coal Board, which is charged with running the coal industry, will be looking for other markets for its coal, and I hope that it finds them.

Mr. John Home Robertson (Berwick and East Lothian): The Secretary of State has calmly announced that he has exported 900 jobs from Easter Ross. I am not surprised that the right hon. Member for Ross and Cromarty (Mr. Gray), the Minister of State, Department of Energy, has left the Chamber. The right hon.

Gentleman told my hon. Friend the Member for Dunfermline (Mr. Douglas) that jobs in the energy industry elsewhere in Scotland would also be under threat. If he is proposing to do away with jobs in the coal mining industry or the electricity generating industry elsewhere in Scotland, is he aware that he will stand condemned for the destruction of Scotland's industrial future and that he will have a real fight on his hands?

Mr. Younger: I congratulate the hon. Gentleman on fitting about nine headlines into those few, but rather difficult to understand, questions. In framing them, he forgot that we are discussing the end of seven months of dedicated effort by many people in my Department to find a new operator anywhere in the world to take over the smelter. The search was backed by money found by the Government. The hon. Gentleman should know enough about these matters at least to recognise the good effort that has been made.

Mr. Bruce Millan (Glasgow, Craigton): Does the right hon. Gentleman recollect that he was optimistic only a few days before the Glasgow, Hillhead by-election and that he happened, by coincidence, to be optimistic a few days before the regional elections? As for the future of the plant, he seems to have given the impression that he turned down the action group's proposals out of hand. Is he aware that if he does not reconsider his response to the group's proposals, the plant will be sold off for scrap? We should try to prevent that.

Mr. Younger: I expect to be able to discuss the ideas of the action group and those of others when I meet local authorities and other representatives. It would do no service to anyone in the area—everyone must be extremely worried—to try to conceal the fact that I see nothing in the action group's suggestions that we have not considered already. I cannot accept that it would be sensible to spend a great deal of money to keep the plant in a state of readiness for an operator which we shall not be able to find, wherever we look. I suppose that I could have spent seven months going around Scotland saying, "There is no hope of reopening the smelter." That would not have been very helpful to anyone.

in Scotland and to add to the already appallingly high unemployment as local authorities are forced to reduce staff.

Mr. Younger: There is some misunderstanding, because the meeting to be held tomorrow is only a preliminary and courtesy meeting to tell the president of COSLA what was said to the House today. The right hon. Gentleman should have known that this is a genuine negotiation and consultation. None of the figures are firm and final until they are announced, I hope in November. If the right hon. Gentleman believes that it is not genuine consultation, I hope that he will disabuse himself and others of that belief. I have taken note of what COSLA has said to me many times during the past few years and made changes as a result.

The right hon. Gentleman said that he was depressed about the statement. It is depressing that, after three years, we are still trying to attain a reduction in local government spending. Each year more has been spent than the year before.

The right hon. Gentleman's comments about Lothian were most revealing. He supported the previous administration in that region lock, stock and barrel in its deliberate policy of overspending beyond even what he could have stomached had he been Secretary of State. He is now criticising the new administration, which does not even have a majority, for not having reduced the region's spending to the Government's guidelines in about four months. The right hon. Gentleman is becoming difficult to believe.

Mr. David Steel (Roxburgh, Selkirk and Peebles): The Secretary of State talks about his expectation of low rate increases next year. What target does he have in mind, given that his expectation for this year was wildly inaccurate? Does he accept that the sledgehammer that he is now using will hit the local authorities that have been prudent in their spending just as badly as those that have been extravagant? When will he implement the Government's election promise about reforming the rating system?

Mr. Younger: I do not agree with the right hon. Gentleman's first point. The person who was completely inaccurate in predictions of rate increases this year was the right hon. Member for Glasgow, Craigton (Mr. Millan), who was wildly wrong. I appreciate the right hon. Gentleman's point about prudent authorities, and I hope that when we discuss the details of the general abatement we can ensure that no authority that has spent under the guidelines will suffer a penalty as a result. The Government are considering the alternatives for the reform of the rating system. They liked the Green Paper and hope to produce policy decisions before long.

Several Hon. Members *rose*——

Mr. Speaker: Order. I propose to call those hon. Members who have already risen and then to move on.

Mr. Barry Henderson (Fife, East): Will my right hon. Friend tell us something about the immpact of party control on local authorities and their expenditure? Can he not do more to protect from the rapacious demands of high-spending local authorities the authorities that have been consistently careful? Is local authority staffing still higher than it was in 1979?

JU539

CONFIDENTIAL

2 pts.

(2)

Prime Minister

The second point is, I think, overtaken by events. You may wish to note (1), for Questions on Thursday.

MCS 27/7

PRIME MINISTER

INVERGORDON ALUMINIUM SMELTER

I have seen a copy of George Younger's minute of 23 July covering a draft statement, and also your Private Secretary's letter of 26 July giving your comments.

I agree that a statement should now be made to the House, but I have some difficulty with two points in the draft. First, it will cause considerable embarrassment to myself and my Department in our dealings with other large industrial users of energy, particularly Anglesey Aluminium and Alcan Aluminium, if we were to announce publicly the terms we were prepared to offer prospective operators at Invergordon. Ideally, no figure should be quoted. If, however, colleagues feel that it is necessary to quote the £20 million figure, this should not be described as a subsidy on power costs, but rather as a subsidy channelled through the HIDB on grounds of regional policy. This was what we agreed at the meeting you chaired on 26 May.

(1)

(2) Second, it would be strange to announce yet another Enterprise

Zone after the Chancellor's announcement on Tuesday. If Invergordon is the area in Scotland in greatest need of an Enterprise Zone, then that envisaged for Scotland within the Chancellor's statement ought to be located there. I am also concerned that only part of the cost of the proposed Enterprise Zone would be accommodated within the £10 million already agreed for the HIDB. If an Enterprise Zone is the most appropriate remedial measure, then the whole of its cost should be borne within the £10 million which we have already agreed is the appropriate response to Invergordon's problems.

I am copying this minute to other members of E Committee, to John Biffen, Michael Jopling, Sir Robert Armstrong and John Sparrow.

PJ

P J

27 July 1982

Department of Industry
Ashdown House
123 Victoria Street

Invergordon Smelter Action Group

Tel. No. 0349 852671

Telex 75130

Invergordon Smelter,
INVERGORDON,
Ross-shire,
IV18 0LE,
Scotland.

This is the text of a telex sent to the Secretary of State for Scotland by Councillor R.R. Ruddie, Chairman of the Invergordon Smelter Action Group on 27th July 1982.

Dear Mr Younger

I refer to our communication of 13th July, and set out below the basic outline of our new proposal which is designed to maintain intact the physical assets of the Invergordon Smelter for a period of three years, by which time we believe market conditions will have improved sufficiently to attract a new operator for the plant. Already there are distinct signs in the metal market that the price for aluminuim products is firming.

The main elements of our proposal are:

1. That on the assumption that the Government will not take the Smelter into direct (Albeit Temporary) public ownership, a new company be formed with combined public and private capital to acquire intact the land, buildings and plant of the Invergordon Smelter.

2. That this new company be capitalised through funds provided by an approved Government agency (The SDA) and by private capital on a 50/50 basis. The amount required (the residual scrap value to the plant as agreed by the Scottish Office and by BACO) is £5.9 million.

3. That as an incentive to the providers of the private capital, the Government provide interest relief on the sums so raised for a period of one year.

4. That the sum needed to acquire the Smelter (£5.9 m) be secured on the assets of the plant whose worth to a new operator is estimated at a minimum of £70 m.

5. That the new company hold the assets of the Smelter intact, with required maintenance, until a new operator takes over, or for a minumum period of three years. That during this period, or until the arrival of a new operator, BACO be provided with access, at commercial rates, to the alumina handling facilities at Invergordon.

6. That the costs of ongoing maintenance at the plant, plus necessary insurances, (estimated in total at £300,000 per annum) are met by the new company, which shall in turn be entitled to income from goods imported and exported over the Invergordon jetty, from existing leases of land currently in ownership of BACO at Invergordon, and from new sub-lettings of warehouse and engineering facilities at the plant.

This is the basic outline of our proposal, which we would like to discuss with you in detail at the earliest opportunity. We believe it provides a sensible, low-cost solution to the problem of keeping the Invergordon Smelter intact in the medium term. We believe the risk to potential investors (including the Government agency) is low in view of the fact that the scrap value to the plant will continue to rise at least in line with inflation.

We believe that the Government must give this solution a chance to work to preserve what is nothing less than a national asset, and to give a reasonable time scale for the introduction of a new operator.

Yours sincerely

ROBERT RUDDIE
Chairman
Invergordon Smelter Action Group

PM

2 MARSHAM STREET
LONDON SW1P 3EB

NBPM

MCS 27/7

My ref:

Your ref:

27 July 1982

Dear Geoffrey

23/7

I have seen George Younger's letter about an additional Enterprise Zone at Invergordon. I understand that the Prime Minister has said that she is content, subject to colleagues views.

I would have no objection to the proposal on the clear understanding that your announcement would make it clear that there would still be 7 Enterprise Zones in England.

I am copying this to those who received copies of George's letter.

Yours ever

MICHAEL HESELTINE

Rt Hon Sir Geoffrey Howe QC MP

FILE

E Committee:-

HO	NIO	LPO	CSO
FCO	MOD	DI	CDL
HMT	MAFF	DT	Energy
DES	DOE	DTrans	Emp

RM

PM

10 DOWNING STREET

CPRS
CO
Cmmp of the

From the Private Secretary

26 July, 1982

INVERGORDON ALUMINIUM SMELTER

The Prime Minister has seen your Secretary of State's minute of 23 July, to which was attached a draft oral statement on Invergordon.

The Prime Minister agrees to your Secretary of State making this statement as proposed. She has suggested that the final sentence of the top paragraph on page 2 should be deleted, since it might give the impression that the Government has been prepared to contemplate the continuation of the power contract beyond five years. The Prime Minister has commented that such an implication would be unfortunate, particularly if at some later stage the operators of other aluminium smelters request the Government to make the same offer to them.

The Prime Minister agrees, subject to the views of colleagues, to your Secretary of State's proposal for an additional special Enterprise Zone at Invergordon.

I am sending copies of this letter to the Private Secretaries to the members of E Committee, David Heyhoe (Lord President's Office), Murdo Maclean (Chief Whip's Office), David Wright (Cabinet Office) and Gerry Spence (CPRS).

M. C. SCHOLAR

J S Wilson, Esq
Scottish Office

CONFIDENTIAL

cc: Press Office

PRIME MINISTER

INVERGORDON ALUMINIUM SMELTER

The danger in making a Statement on Wednesday is twofold. First we will be criticised for delaying it until after the Unemployment Debate. Second the outcome of the negotiations may well become public on Monday evening or on Tuesday. This argues for an earlier statement. The arguments against an earlier Statement are that one on Tuesday would be an unfortunate start to the Unemployment Debate, and that one on Monday may not be possible if the discussions with the Companies concerned drag on.

I think we must leave the judgment on when to make this Statement to Mr. Younger and the business managers, in the light of developments. But you should be aware of the problems.

WM

23.7.82

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prime Minister (1)

CONFIDENTIAL

PRIME MINISTER

No

Yes - see comments being made?

Agree to this statement

Agree, subject to colleagues' views, to the Special Enterprise Zone proposal?

Yes

INVERGORDON ALUMINIUM SMELTER

In my minute of 22 June I reported on the progress of discussions with potential new operators for the Invergordon aluminium smelter. It was subsequently agreed that we should reimburse the additional costs incurred by British Aluminium in keeping the plant in usable condition until the end of this month.

MCS 23/7

I now have to report that the companies with whom discussions were incomplete at 22 June have concluded that they are unable to re-open the smelter on the basis of the terms we have offered. Two companies have expressed a late interest and discussions will not be completed until Monday 26 July. At present I doubt if these will lead to a favourable outcome and because of the pressure of business next week I am minuting before these discussions are completed. I will of course inform you immediately if prospects improve.

One of the companies referred to in my earlier minute has put a figure of £33m on the annual subsidy it would require for a five year period which is comparable with the estimates from other companies quoted in my previous minute. The reason why companies are estimating a requirement for such a large subsidy is undoubtedly the very low state of the international aluminium market over the last six months. An indication of this is that in January 1982 the spot price for aluminium on the London Metal Exchange was £588/tonne and this week stands at £552/tonne. In addition to this the restriction of the period of support to five years and the risk companies were expected to take on inflation and the escalation of energy prices were reasons which companies gave for their lack of interest or inability to work within our terms.

I now accept that I must make a statement announcing our failure to find a new operator and would propose to do this on Wednesday 28 July during Scottish business. A draft of my proposed statement is attached. I intend to make it clear that we were prepared to go to exceptional lengths to attract a new operator in order to demonstrate our commitment to the Highlands and I propose to give details of our terms to make it clear that we were prepared to match, for a new operator, the offer we were prepared to make to BACo last December.

It was agreed at the time of the smelter closure that an additional £10m should be made available to the HIDB over the next three years to assist them in providing alternative employment in the Invergordon area. I have studied a report by the Scottish Office and HIDB on how best this cash could be used and have concluded that in addition to the measures identified in the report, the provision of a Special Enterprise Zone in the area would be the best way of making a credible response. This would be without prejudice to the one additional Enterprise Zone for Scotland which will be mentioned in the Chancellor's announcement in Tuesday's debate. This Special Enterprise Zone would be limited to approximately 100 acres in size and its cost within the first 3 years would be accommodated within the £10m agreed for HIDB. It will not have escaped colleagues' notice that the failure to attract a new operator avoids expenditure of £100m over the next five years and I hope Leon Brittan can agree that in recognition of this additional resources can be found to cover the cost of the Enterprise Zone over the remainder of its 10-year life. I realise that this proposal may cause difficulties for Michael Heseltine, Nick Edwards and Jim Prior in dealing with other crisis areas, but I hope they will agree that the circumstances of Invergordon are so exceptional as to justify this special treatment.

I would be grateful if you could give sympathetic consideration to my announcing the Special Enterprise Zone and for your agreement to the

terms of the draft statement. I am copying this minute to the other members of E Committee, to John Biffen, Michael Jopling, Sir Robert Armstrong and John Sparrow.

J.S. Wilson

Approved by the Secretary of State
and signed in his absence

Scottish Office
23 July 1982

DRAFT STATEMENT ON INVERGORDON

Mr Speaker, with permission I wish to make a statement about the Invergordon smelter. The House will recall that the British Aluminium Company closed its Invergordon smelter last December. The smelter employed some 900 people. The closure took place after intensive negotiations between the company and the Government. During these negotiations the Government had been prepared to offer the company a package of assistance which included writing off some £47m of disputed power charges and an annual subsidy towards its power costs of £16m for three years. In my statement to the House on 18 January I said that the company had undertaken to maintain the smelter in a usable condition for six months and that the Scottish Office, in conjunction with Locate in Scotland and the Highlands and Islands Development Board, would make every effort to find a new operator. I also said that the Government had agreed, in the event that no new operator came forward, to provide a special extra allocation of funds for the HIDB, amounting to up to £10m over the next three years.

I am sorry to tell the House that despite the extensive efforts which have been put into the search and the company's agreement to maintain the plant for a further month no new operator is prepared to take over the smelter.

The details of the Government's discussions with the parties who have expressed an interest in acquiring the plant must obviously remain matters of commercial confidentiality. The House will however wish to know what level of assistance the Government was prepared to offer to prospective operators. As hon members know, the level of power costs is crucial to the economics of aluminium smelting. We therefore

offered prospective operators an annual subsidy on power costs for each of 5 years of up to £20m. We recognised that the matter would have to be reviewed at that stage because it would have been wholly irresponsible to agree to an open-ended long-term power contract which could turn out to involve massive costs for the taxpayer.

Could we delete this. It sounds as if we were prepd. to contemplate such a situation. That could be back forgotten

The Scottish Office has searched far and wide for possible operators and has been in contact with a total of 16 companies. My hon Friend and I have personally met several of the companies who have expressed an interest. Some companies have visited the plant and held discussions with the Scottish Electricity Boards. Despite this wholly exceptional offer of assistance, which we were prepared to make because of the unique importance of the smelter for the local economy and the rest of the Highlands, no company was prepared to acquire and operate the smelter. Even if we were to take steps to maintain the plant in usable condition for a further period I see no prospect of a purchaser coming forward.

I very much regret that the great efforts which have been made to find a purchaser have not been successful. The deciding factor has been the very depressed state of the aluminium industry throughout the world. The price of aluminium is at very low levels, in real terms well below what it was fourteen years ago when the smelter project was announced. Many major companies are making substantial losses. Last week Alcan announced the deferment of a huge new smelter project in Australia, and that is only the most recent in a long series of such announcements. In these circumstances it is understandable, although deeply disappointing, that no company is prepared to make the necessary investment at Invergordon.

The Government will of course now make available to the HIDB the additional funds promised in January.

The Board and the Scottish Office have completed a joint report on the impact of the closure and the action which might be taken to offset the effects on employment. The Board has already appointed a local development officer and opened a new local office to deal with development enquiries. It will also be providing additional small factory space. Locate in Scotland has already joined with the Board to draw the area to the attention of potential investors and the Scottish Office will do everything possible to bring new developments to the area. /- In addition to these efforts I am designating an area at Invergordon as a Special Enterprise Zone which will be in addition to the Enterprise Zone for Scotland announced by my rt hon Friend the Chancellor of the Exchequer yesterday. -/

I will be meeting very shortly with the local authorities in the Invergordon area and representatives of the smelter workforce to discuss these initiatives and to consider a future strategy for the area.

CONFIDENTIAL

c.c. Mr. Vereker
Mr. Ingham

PM

10 DOWNING STREET

From the Private Secretary

28 June, 1982.

Invergordon

The Prime Minister noted without comment your Secretary of State's minute of 22 June; and also the Chief Secretary's minute of 25 June about the same subject.

I am sending copies of this letter to John Kerr (HM Treasury), Julian West (Department of Energy), Jonathan Spencer (Department of Industry), David Wright (Cabinet Office), and Gerry Spence (CPRS).

M. C. SCHOLAR

Muir Russell, Esq.,
Scottish Office.

CONFIDENTIAL

CC. JV
B.I.
(2)
Prime Minister
Mrs 25/6

PRIME MINISTER

INVERGORDON

with P.M

I have seen George Younger's minute to you of 22 June.

2. I would hope that it does not prove necessary to subsidise BACO to maintain the smelter in an operable condition. It is as much in their interests to find a purchaser for Invergordon as it is in our's. But, if absolutely necessary, I can agree to BACO being paid £150,000 to maintain the smelter until the end of July.

3. However, I think it is important that we are quite clear in our own minds why we wish to purchase this one month's breathing space. I believe it is reasonable to make this effort to facilitate a proper appraisal by the one company that George has identified as interested in reopening the smelter on the basis of the sort of subsidy that was agreed at E: ie. a fixed sum of up to £20 million a year over 5 years from the Highland and Islands Development Board. I do not believe it would be reasonable to buy time in the hope that some other potential operator might materialise or that we might be able to offer even more generous terms than those we have already agreed to.

4. I am copying this to George and to recipients of his minute.

T. Mataus
for LEON BRITTAN
25 June 1982

Approved by the Chief Secretary and signed in his absence

c/c JV
BI

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prime Minister (2)

Mr Younger's office have been discreetly enquiring of me whether there would be any point in his returning to E, to seek authority to make a higher offer than £20m p.a. or for longer than 5 years. On the strength of this minute that would be premature - even if it would ever be acceptable

I don't think there would

MT

CONFIDENTIAL

PRIME MINISTER

INVERGORDON ALUMINIUM SMELTER

In his letter of 14 June my Private Secretary informed yours that I would be writing shortly with details of our discussions with potential operators of the Invergordon aluminium smelter.

Discussions have been concluded with all but two of sixteen companies with which my officials have had contact and none of the fourteen is prepared to undertake the task of re-opening the smelter within the terms on offer. The companies contacted were substantial international companies and several of them were anxious that their names should be revealed only if a definite proposal emerged for them to restart the smelter; for this reason I do not refer to individual companies by name. MCS 22/6

Of the fourteen companies with which discussions have been completed, a number said that they would be interested if the terms were different. Most companies were reluctant to give an exact definition of the improvements which they considered necessary but a typical response was that a longer period was needed (eg at least ten years) and that Government (ie not the Electricity Boards) would have to be more specific about the power price and escalation factors. Two companies were more specific:

> One company said that their three key requirements were a minimum length of ten years for financial support; annual financial support in the order of £15-20m; and an acceptable escalation clause on power costs - for example that a proportion of the power price should be adjusted in line with variations in a price index and with variations in the price of aluminium.

A second company concluded that to break even over the five-year period they would need a subsidy of £130m (with a probable annual profile of 55, 25, 20, 20, 10). Even the break even situation had many elements of risk and therefore they felt unable to submit a proposal because of the short term nature of the offer and its inherent risks. They said that if a long term energy price could be more closely linked to international energy pricing for aluminium smelters they would wish to reconsider their position. They would also like to reconsider their position if there was any question of the longer term power price being related to the international price for coal.

Of the two companies with which discussions are incomplete one is very interested and following exploratory talks with my officials they have had talks with BACo (as owners of the plant) and have had a first look at the smelter. These preliminary discussions have convinced them that further investigations are worthwhile and they are assembling a team of experts who will be flying to London later this week for further talks with my officials, BACo and the Scottish Electricity Boards. The second company was later than the remainder in expressing an interest and discussions with that company are still at an early stage. Discussions with both these companies are of course being taken forward as urgently as possible in the hope that a final decision can be taken before the end of the month.

My officials have also spoken to and corresponded with BACo over their decision to dismantle the plant at the end of June unless they either have a direct statement of genuine interest from a company or the Government are prepared to reimburse BACo for its expenditure on maintenanceand the interest on the capital tied up in Invergordon. My officials have emphasised to BACo that it is in their interest to maintain the smelter in working order as long as there is the possibility of finding a new operator. I cannot be certain however that BACo will be willing to agree to a short delay even if these discussions are continuing with some chance of success - the Company needs cash quickly and has adopted a pessimistic public attitude about the chances of attracting a new operator. I may therefore find it essential to make BACo a payment to cover their costs of keeping the plant available. BACo's first estimate for this is £150,000 a month.

If there appears to be some possibility of success in finding a new operator and discussions have not been completed by the end of the month it is, I believe, politically imperative that we should not allow BACo to move in and begin to break up the smelter before negotiations are complete. If this happened we would lose much of the credit which we have gained from our willingness to make such sustained and serious efforts to find a new operator. I would regard a payment to BACo as a last resort if other measures of persuasion of the company fail - and we will of course appeal strongly to their self interest using the arguments outlined above. I do however seek Treasury approval to reimburse BACo's maintenance and interest costs, if necessary by an ex gratia payment. This would be subject to scrutiny of BACo's costs by officials and would be for a short period, no more than a month in the first instance. My officials are writing separately to the Treasury about this.

Finally, as will be apparent from this minute, there is a real risk that at the end of the day we will be unsuccessful in the search for a new operator. If this proves to be the case we will have to consider what the next step should be.

I am copying this to Geoffrey Howe, Nigel Lawson, Patrick Jenkin, Sir Robert Armstrong and John Sparrow.

G.Y.

G.Y.

Scottish Office
22 June 1982

Prime Minister

Prime Minister (2)

You were asking about this.

SCOTTISH OFFICE MCS 15/6
WHITEHALL, LONDON SW1A 2AU

cc. J.V.
CBI

COMMERCIAL - IN CONFIDENCE

Michael Scholar Esq
Private Secretary
10 Downing Street
Whitehall

14 June 1982

Dear Michael,

INVERGORDON SMELTER

Following the Prime Minister's meeting on the previous evening your letter of 27 May said that my Secretary of State should explore with potential operating companies the possibility of re-opening the Invergordon aluminium smelter on the basis of a £20m annual grant through HIDB for five years without any direct coal or electricity subsidy. In exploring the possibility the Scottish Office has written to 13 aluminium companies of whom 10 have replied and an additional 3 companies have contacted us following reports in the press.

Of those companies that replied or contacted us for further details we have had meetings with 4, a further meeting is arranged for 15 June and 2 companies are still considering the proposition. At present however only one company has expressed real interest to the extent of contacting the owners of the plant, British Aluminium Company (BACo), to have preliminary discussions about the acquisition of the plant. The remaining companies have either said that they have no interest or that they might be interested if the terms were different - in particular if the offer covered a much longer period than five years.

From these various responses and initial discussions we are not optimistic about a successful outcome. The main stumbling block is undoubtedly the length of time for any support arrangement. We are fairly confident that we could attract two or three bidders who might come within the subsidy limits for a first five-year period, possibly including some tapering, but only if there was a guarantee of lower power prices in the longer term. However we will of course continue our discussions under the terms agreed by Government.

Whether or not we are successful in finding a genuinely interested company my Secretary of State may have to approach colleagues very urgently in the middle of June to establish his next course of action. We have had discussions with BACo and they intend to begin dismantling

E.R.

the plant at the end of June unless they either have a direct and reasonably firm indication of interest from another company or are assured that the Government are prepared to pay for the further maintenance of the plant. Their first estimate of this cost is £150,000 per month.

I am copying this letter to Julian West (Energy), Jonathan Spencer (Industry), Terry Matthews (Treasury) and to Michael Buckley (Cabinet Office).

Yours sincerely

John Wilson

JOHN S WILSON
Private Secretary

CONFIDENTIAL

UB

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PM.

SUBJECT.

10 DOWNING STREET

From the Private Secretary

27 May 1982

bc. Mr. Walters

cc. Market sec.

Dear Muir,

INVERGORDON SMELTER

The Prime Minister held a short meeting yesterday evening on the matter raised in your Secretary of State's minute of 17 May together with subsequent correspondence. The Secretaries of State for Industry, Energy and Employment, and the Chief Secretary, Treasury, and Mr. Sparrow were also present.

Your Secretary of State said that he fully understood his colleagues' anxiety to establish a clear ring fence around the subsidy for the Invergordon smelter. But he saw very great difficulties about the proposal to channel the whole of the subsidy through the Highlands and Islands Development Board (HIDB). The fact was that we had told the British Aluminium Company (BACO) that we could not subsidise the smelter to the tune of £16 million a year, yet we would now be seen to be offering a subsidy for £20 million a year to someone else. Secondly, the "headline" figure of £20 million would cause difficulty with the EEC, and would generally make the Government subsidy visible and open to attack. Finally, if there was to be no subsidised power contract, the effect would simply be to enable the NCB to sell coal at higher prices than it would otherwise be able to obtain in the open market, and thus to improve pointlessly their financial position.

In discussion, it was argued that a direct subsidy to the power contract for Invergordon would present Industry and Energy Ministers with insuperable problems with other high energy using industries. A number of such industries were watching events very carefully, and were poised, if such a subsidy were introduced, to argue that the arrangements should be extended to themselves. There were no arguments available for denying a subsidy in these cases once one had been granted to Invergordon. There might well also be - although the legal position seemed not to be clear - a serious problem in relation to claims of undue preference. It was true that Invergordon would be the largest consumer of electricity in Scotland, and on this basis there might be a case for the new operator securing a low coal price after negotiation with the NCB. On the other hand, the power supply for Invergordon was electricity and not coal, and it was arguable that the Electricity Boards had already secured, in virtue of their large purchase from the NCB, the discount which was appropriate. Furthermore, the subsidy which had been in question so far as BACO was

/ concerned

CONFIDENTIAL

concerned had been £16 million a year until the end of the century. All that was now offered to the new operator would be £20 million a year for 5 years. There would be no question of concealing the size of the total subsidy if the Scottish Secretary's preferred route were chosen: the EEC Commission, and probably the PAC, would scrutinise the arrangements carefully, and there was likely to be publicity both from these scrutinies and also from potential operators of the smelter. Finally, there would be no windfall benefit to the NCB, since insofar as they sold coal at the power station price rather than at a lower price, their deficit would be smaller and so the Government's deficit grant would be correspondingly smaller. There would be, thus, no benefit to public funds from the subsidised power contract route.

Summing up the discussion, the Prime Minister said that, notwithstanding the problems of presentation which your Secretary of State had revealed, it was vital to ring fence the proposed subsidy as robustly as possible. Given that there was no advantage so far as the public finances were concerned in one method of subsidy rather than another, she preferred the arrangement which offered the best prospect of resisting further claims for subsidy. Your Secretary of State should, therefore, explore with the potential operating companies the possibility of re-opening the smelter on the basis of a £20 million per annum grant through HIDB and without any direct coal or electricity subsidy.

BF.

I am sending copies of this letter to the Private Secretaries to other members of E Committee, Adam Peat (Welsh Office), John Sparrow and David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

Muir Russell, Esq.,
Scottish Office.

2pp

CONFIDENTIAL

Qa 05932 25 May 1982

To: PRIME MINISTER

From: JOHN SPARROW

Invergordon Smelter

1. I have seen the correspondence on this, and I believe Leon Brittan's latest minute is hard to refute. We must minimise the problems which a subsidy is bound to cause. A power contract based on a coal price below the normal power station price would create major new problems for our energy pricing policy. Large electricity users such as ICI are already pushing hard for special schemes, possibly based on cheap coal; other users such as BOC are believed to be watching like hawks for evidence of undue preference; as we know from our work on Electricity Prices the issue is smouldering dangerously and it only needs a spark to bring new and powerful pressures to bear.

2. I therefore believe that a 'straight' subsidy through the HIDB represents much the safest method of implementing any subsidy.

3. I am sending a copy of this minute to Sir Robert Armstrong.

JS.

CONFIDENTIAL

cc IV

PRIME MINISTER

INVERGORDON

- TPM

I have seen George Younger's minute of 20 May.

2. I agree with him that there would be presentational advantages in providing assistance to a new smelter operator by a combination of a direct operating subsidy from the HIDB and a concealed subsidy on the price of coal, provided that the concealed element of the subsidy remained concealed. But I see little prospect of our achieving this. Any agreement we reach with a new operator is bound to be scrutinised very closely by the European Commission and probably by the PAC as well (they have already shown an interest in the subject). The fact that subsidised coal is being provided for the smelter, in addition to a very large direct subsidy from the HIDB, will quickly become public knowledge. I believe that an unsuccessful attempt to conceal the full extent of the subsidy provided would be extremely embarrassing.

3. We would inevitably come under considerable pressure from other energy intensive industries to provide them, too, with subsidised coal, It will be much more difficult to resist this pressure than it would be if the whole of the subsidy were provided via the HIDB, which would give the subsidy a more limited 'Highland dimension'. I do not imagine that it will be possible, however we tackle the problem, to 'ring-fence' Invergordon completely, but we need to make it as difficult as possible to maintain that our rescue of Invergordon has set a general precedent.

4. I hope, therefore, that you can agree that the balance of advantage lies in providing the whole of the subsidy via the HIDB. I am grateful for the opportunity of a discussion on Wednesday.

5. I am copying this minute to members of E Committee, Nicholas Edwards, John Sparrow and Sir Robert Armstrong.

L.B.

LEON BRITTAN

Prime Minister (2)

Another dissentient from George Younger's line. I have pencilled in a small meeting after E on Wednesday (although I have not entirely lost hope that Energy Treasury and Industry will give up their objections by then).

CC. J.V.

MCS 24/5

DFF713

CONFIDENTIAL

PRIME MINISTER

INVERGORDON SMELTER : ASSISTANCE FOR A POTENTIAL NEW OPERATOR

In his minute of 17 May George Younger argued that the negotiating plan agreed between officials has considerable presentational disadvantages. Since then both Leon Brittan and Nigel Lawson, in their minutes of 19 and 20 May have expressed strong doubts about George's proposal to reconsider the mixed HIDB subsidy/coal price deal. I have also just seen George's response of 20 May.

LWN MCS

2 This is just to let you know that I strongly endorse the points made by Leon and Nigel. I question George's argument for a mixed deal because I do not believe the terms on which coal was being supplied could be kept confidential. I strongly suspect that the Press would quickly put £10m and £10m together to make a headline figure of £20m.

3 But in any case I think the other advantages of providing the subsidy entirely through HIDB far outweigh any presentational problems. This route will underline that the subsidy is not being offered for industrial reasons but for reasons unique to

CONFIDENTIAL

the Highlands. As George Younger concedes it will minimise the risk of other claims for comparable treatment, an aspect which in my view could cause us early and serious embarrassment.

4 It would also avoid the complicated negotiations that would otherwise be necessary between the NCB, the Scottish Electricity Boards and any prospective new operator.

5 At 'E' Committee on 4 May we reached the conclusion that it would be better to provide support entirely by means of a direct subsidy to the operator via HIDB provided it was no more expensive in terms of public expenditure and would not be more difficult to clear with the EEC. Since these conditions appear to be met, I think we should stick to that decision.

6 Copies of this minute go to the recipients of earlier correspondence.

PJ

P J

24 May 1982

Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

10 DOWNING STREET

(1)

Prime Minister

Invergordon

Both Leon Brittan (flag A) and Nigel Lawson (flag B) are unhappy with the decision reached during your brief talk with George Younger (recorded in my letter at flag C). George Younger (flag D) comments on their objections but, clearly, is determined to press on regardless.

Do you wish to intervene

(i) confirming George Younger's preferred

course – i.e. £10m to HIDB plus a low coal price?

(ii) siding with Leon Brittan and Nigel Lawson – i.e. £20m to HIDB with no cheap coal scheme?

(iii) bringing the matter back to E once more on Wednesday?

Or do you prefer to take no further action, allowing George Younger to press ahead as he wishes?

MCS 21/5

PM Invergordon

Prime Minister

VB

c. SO

10 DOWNING STREET

THE PRIME MINISTER

21 May 1982

Dear Mr. Finlayson,

Thank you for your letter of 6 May about Invergordon. You also wrote to George Younger and to Alex Fletcher. I am very grateful for your encouragement and support at this difficult time.

I am pleased that we are now able to open discussions with potential new operators of the Invergordon smelter, even though the forthcoming negotiations will not be easy in the present depressed state of the aluminium industry. I very much share your hope that arrangements which we shall be exploring with interested companies will enable the smelter to be brought back into operation soon.

Yours sincerely

Margaret Thatcher

G.D. Finlayson, Esq., J.P.

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

PRIME MINISTER

INVERGORDON SMELTER: ASSISTANCE FOR A POTENTIAL NEW OPERATOR

I have seen the minutes of 19 and 20 May from Leon Brittan and Nigel Lawson about the agreement we reached when we met on 18 May to discuss my minute of 17 May. They are concerned about the wider implications of a package which includes the supply of coal at around the export price, with a correspondingly lower subsidy payable through the HIDB.

Both minutes draw attention to the risk of challenge to the proposed arrangements on the grounds that they constitute "undue preference". There may be some risk of this whether we adopt the mixed HIDB subsidy/coal price arrangement or channel the entire subsidy through the HIDB: the latter course, which Leon and Nigel favour, would not rule out the risk of challenge. My advice from the Lord Advocate is that provided the South of Scotland Electricity Board is acting in a way which is commercially sound - and supplying low-price electricity from low-price coal is one of the possibilities which, naturally, he considered - the risk of a successful challenge on the basis of the "undue preference" provision is very slight. If we thought it significant I believe we could consider averting it by leasing to the operator the coal-fired plant involved. The Lord Advocate's earlier advice on this option was that it would involve no undue preference. An added advantage of it is that it would strengthen the "ring fence" round the deal although of course it could put up the unit price of electricity to the operator.

Otherwise, both minutes deal with the very matters of judgement and presentation which I canvassed in my minute of 17 May and which we considered when we met. I still feel that the course we agreed I should adopt has decisive presentational advantages but, during the course of the negotiations, I will keep in mind the points which Leon and Nigel have made and if some middle way can be found which partly meets their concerns I will naturally seek to do so. As negotiations proceed I will ask my officials to keep in touch with theirs.

I am copying this minute to the Members of E Committee, Nicholas Edwards, John Sparrow and Sir Robert Armstrong.

Gy.

G.Y.

Scottish Office
20 May 1982

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

W F S Rickett Esq
Private Secretary
10 Downing Street
LONDON
SW1

20 May 1982

Dear Willie

INVERGORDON

I refer to your letter of 10 May and attach, for the Prime Minister's consideration, a draft reply to Mr Finlayson, Convener of Ross and Cromarty District Council.

Yours,

Muir.

A MUIR RUSSELL
Private Secretary

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO

G D Finlayson Esq JP
Convener
Ross and Cromarty District Council
The Birches
West Road
Muir of Ord
IV6 7QN

Thank you for your letter of 6 May about Invergordon. You also wrote to George Younger and to Alex Fletcher. I am very grateful for your encouragement and support at this difficult time.

I am pleased that we are now able to open discussions with potential new operators of the Invergordon smelter, even though the forthcoming negotiations will not be easy in the present depressed state of the aluminium industry. I very much share your hope that arrangements which we shall be exploring with interested companies will enable the smelter to be brought back into operation soon.

CONFIDENTIAL

cc JV

PRIME MINISTER

INVERGORDON SMELTER

I have just seen Leon Brittan's minute to you of yesterday, following George Younger's of 17 May and your Private Secretary's letter of 18 May.

I agree strongly with the points Leon makes. It has now been established that assisting a potential new operator for the smelter by a £20 million subsidy to the HIDB, as E preferred, is no more difficult to clear with the Commission than doing so by a £10 million subsidy and a cheap coal scheme costing another £10 million. On the other hand, the presentational arguments in paragraph 3 of George's minute in favour of the £10 million subsidy depend on the assumption that the cheap coal scheme would remain confidential. I do not believe that it would.

I was content, in our discussion at E on 4 May, to offer the cheap coal scheme because it then appeared to be the only means of saving the smelter. This is no longer the case and, in addition, the scheme as set out by George now includes an element of cheap electricity as well. I have consistently made clear that I cannot accept this because its repercussions, particularly if there were any question of altering the SSEB's obligations on undue preference, would be incalculable. Like Leon, therefore, I hope that you can reconsider the possibility of channelling the whole of the subsidy through the HIDB.

I am copying this minute to the other recipients of the earlier correspondence.

NL

Secretary of State for Energy
20 May 1982

I have just been asked by Britnell to give to you at yesterday's following Prime Minister's or [illegible] and your Private Secretary's letter of 11th.

I agree strongly with the points Lord [illegible] makes. It has now been established that including a potential contribution for the smelter by a £20 million subsidy to the FIDC, as I preferred, is no more difficult to clear with the Commission than doing so by a £40 million subsidy and a cheap coal scheme costing another £40 million. On the other hand, the presentational arrangements in Prime Minister's minute in favour of the £40 million subsidy depend on the assumption that the cheap coal scheme would remain confidential. I do not believe that it would.

I was convinced, in my discussion with a CCN, so far, the cheap coal scheme became it then appeared to be the only means of saving the smelter. This is no longer the case and, in addition, the scheme is not work by Thorpe not includes an element of cheap hydroelectricity as well. I have consistently made clear that I cannot accept this because its repercussions, particularly if there were any question of allowing the CCN's obligations on undue preference, would be incalculable. Mike Pope, therefore, I hope that you can reconsider the possibility of cancelling the whole of the subsidy through the FIDC.

I am copying this minute to the other recipients of the earlier Thorpe minute.

Chancellor of the Exchequer
20 July 1982

PRIME MINISTER

£20m (gross) is psychologically bad when we returned to keep the smelter operating for £16m gross. £10m net is much better. I understand that NCB does not have a fixed price for coal.

INVERGORDON SMELTER: ASSISTANCE FOR A POTENTIAL NEW OPERATOR

I have seen your Private Secretary's letter of 18 May to George Younger's Private Secretary which records your agreement that the assistance for a potential new operator for the smelter should be given by way of an HIDB subsidy and a power contract based on a coal price below the normal power station price, rather than through a £20 million subsidy to the Highlands and Islands Development Board.

further disincentive

2. I must confess to doubts about the mixed HIDB subsidy/coal price deal which George has suggested. We did agree at E that there were attractions in channelling the whole of the subsidy through the HIDB, if that could be arranged, rather than have the NCB supply coal at export prices: but any arrangement to achieve this end should not be pursued if they had the effect of increasing the cost to the public sector, or of tipping the scale against international acceptance of the subsidy. George's minute records the FCO advice that an operating subsidy of £20 million per annum would be no more difficult to clear with the Commission than one of £10 million per annum and an arrangement on coal. And as he says, the arrangements now proposed ought to be no more expensive. So the conditions envisaged by E do appear to be capable of being met and I hope that therefore you can reconsider the possibility of channelling the whole of the subsidy through the HIDB. This route would have the real advantage of making it much easier to "ringfence" the arrangement to prevent other heavy electricity users, whether aluminum smelters or in the rest of industry, seeking comparable treatment.

If they made such a request, our reply would be that support was being given through the HIDB because of the unique circumstances of the Highlands.

3. That reply would not be available if the mixed HIDB grant/coal arrangement was adopted. Other large users could well demand similar favourable coal contracts as a basis for their cheap power supplies. In that case it would hardly be open to us to defend the deal by invoking the particular circumstances of the Highlands, particularly as the coal would be burned in the power stations of the South of Scotland Electricity Board, not the stations of the North of Scotland Hydro-Electric Board which would actually provide the power to the smelter.

We should have to defend both sets.

4. I also understand that the South of Scotland Board believe the proposed mixed arrangement is quite likely to be challenged by British Oxygen or another industrial customer as "undue preference". I do not know whether George has taken Law Officers' advice on this risk, but we clearly ought not to put ourselves into a position where the arrangement is open to legal challenge, which if successful could have far-reaching and costly repercussions. Nor do I think that we should give the Scottish Boards any assurance that in the event of such challenge the Government would take steps to amend the statute.

Has he?

5. I am sending a copy of this minute to the members of E Committee, Nicholas Edwards, John Sparrow and Sir Robert Armstrong.

L.B.

LEON BRITTAN
19 May 1982

file

Prime Minister DSG
cc: E. Cttee
(inc. L.P. Seal's Off.)
+ WO
CPRS
CO

10 DOWNING STREET

From the Private Secretary

18 May 1982

INVERGORDON SMELTER: ASSISTANCE FOR A POTENTIAL NEW OPERATOR

Your Secretary of State had a discussion with the Prime Minister this afternoon about the outline plan set out in his minute to the Prime Minister of 17 May for the negotiations with a potential new operator for the Invergordon smelter.

Your Secretary of State said that, notwithstanding the conclusion of the interdepartmental group recorded in his minute, he had considerable doubts about a £20 million subsidy to the Highlands and Islands Development Board and a power supply to the smelter based on coal supplied at the normal power station price. He believed that the £20 million figure would be presentationally difficult, would cause problems with the EC Commission, and would invite criticism on the lines that we should have increased our December offer above £16 million and so never have allowed the smelter to close in the first place. Finally, half of the £20 million subsidy would simply be devoted to assisting the NCB's finances in that they would be able to sell coal at a higher price than they would otherwise be able to obtain. In the light of these considerations, his conclusion was that we should go for a £10 million subsidy and a power contract based on a coal price below the normal power station price.

The Prime Minister said she entirely agreed with Mr. Younger's view: the lower the overt subsidy the better. She was ready for Mr. Younger to go ahead with the negotiating plan on this basis.

I am sending copies of this letter to the Private Secretaries to the other members of E Committee, the Secretary of State for Wales, John Sparrow and Sir Robert Armstrong.

M. C. SCHOLAR

Muir Russell, Esq.,
Scottish Office.

D55

CF.
PM has seen. Pl pa.
MCS 18/5

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

PRIME MINISTER

INVERGORDON SMELTER: ASSISTANCE FOR A POTENTIAL NEW OPERATOR

1. At its meeting on 4 May (E(82) meeting) E Committee invited me to arrange for the details of possible assistance for a new operator to be worked out. I now attach an outline plan for our proposed negotiations, the line of which has been agreed by other interested departments at official level.

2. You will see that under the plan the power supply to the smelter would be based on coal supplied at the normal power station price, and that the gap between the power supply price and the price an operator would need would be met entirely through an annual subsidy from the Highlands and Islands Development Board (HIDB). E Committee concluded that this arrangement would be preferable to that put forward in my memorandum (an HIDB annual subsidy of around £10m linked to a supply of coal at a price below the normal power station price), provided that it was no more expensive in public expenditure terms and created no greater difficulties for international acceptance. The arrangements now proposed are indeed no more expensive: the HIDB subsidy would be £20m instead of £10m but NCB's revenue will benefit by £10m from the extra sales at the power station price rather than the export price. FCO advice is that an operating subsidy of £20m per annum will be no more difficult to clear with the Commission than one of £10m per annum linked to an arrangement on coal.

3. I recognise that it may help to minimise the possibility of other claims for comparable assistance if the support for Invergordon is not based on a coal deal and relies entirely on a subsidy from the HIDB. I should however draw attention to the considerable presentational disadvantages I see in the arrangement now proposed. Firstly, it will result in a "headline" figure of £20m for the proposed subsidy. The

proposal I put to E Committee involved a "headline" figure of only £10m, because the terms of NCB's coal supply would be confidential and no extra subsidy would be involved in substituting sales to the smelter for sales in the export market. The £20m figure will I think attract some additional degree of public comment and, with it, some increased chance of difficulty with the Commission. Secondly, the level of subsidy we are known to have been prepared to accept in December was £16m per annum over three years and it will appear that we have increased the total offer in order to find a new operator and that we should never have allowed the smelter to close in the first place. This view is not soundly based but it will be difficult to rebut without detailed explanation. Thirdly, it can be argued that half of the subsidy simply will be devoted to enabling NCB to sell coal at a higher price than it would otherwise be able to obtain in the open market.

4. BACo has made it clear that it intends to break up the plant at the end of June when the Company's undertaking to keep the plant in usable condition expires. It is therefore a matter of urgent priority to establish the level of interest among potential operators and I am therefore proceeding to put into effect the negotiating plan attached to this minute. The first step in this plan will be very early contact by letter with interested companies. It will be some time before any of these negotiations can reach a critical stage and before then I should be very glad to have your views on the presentational difficulties which I have outlined in the preceding paragraph.

5. I am copying this letter to other members of E Committee, to Nicholas Edwards, John Sparrow and Robert Armstrong.

G.Y.

G.Y.

Scottish Office
17 May 1982

CONFIDENTIAL

PROPOSED PLAN FOR NEGOTIATION OF NEW POWER ARRANGEMENTS FOR INVERGORDON

1. Scottish Office officials will write to the companies who have already expressed an interest in acquiring the smelter and to any others who may be interested. The letter will indicate that the Government are prepared to discuss special financial assistance covering a period of no more than 5 years and will invite them to further discussions. The same information will be conveyed to the British Aluminium Company (BACo) in a separate letter, which will also invite the company to discussions about the price at which they would be prepared to sell the plant to a new operator.

2. Scottish Office officials will then hold preliminary discussions with any companies who respond positively to the letter, in which they will outline the basis of the proposed assistance in more detail, but without disclosing the maximum amount of assistance which the Government can offer. The proposed arrangement is that power will be supplied by the Scottish Electricity Boards at the lowest price which would enable them to cover the costs of providing the supply. The marginal generating capacity from which the supply will come would in practice nearly always be coal-fired. The price in the current year will be likely to be around 2.3-2.4 pence per unit. In future years it might be escalated in line with actual costs or power station coal prices; this will be for negotiation but against a background that public finances would not be expected to cover the costs of fluctuations in the power supply. The price to the operator will be lower than tariffs for other industrial consumers but as the new operator will also be the largest consumer in Scotland the costs of generating his electricity will be correspondingly much lower and we consider that this is a defence against claims of undue preference.

3. It will be explained that the Government accepted in principle that at such a power price, aluminium smelting would not be economic and that in the exceptional circumstances of Invergordon, the Government will be prepared to consider an annual subsidy over a 5-year period. It will be made clear that the subsidy will be an annual one, will not subsequently be adjusted in line with power costs or any other variable and will have either to be fixed in money terms or to decline over the period. The companies would then be expected to have discussions with BACo about the price at which they could acquire the smelter.

4. If any of the companies who have expressed an interest respond positively to this proposal, subsequent more detailed negotiations will be undertaken by a team led by Scottish Office officials but including representatives of the Scottish Electricity Boards, HIDB and, if they wish, other interested departments. The aim will be to establish from each of the companies the level of assistance they would consider essential to operate the smelter successfully and the basis on which they would operate the plant, including in particular the numbers they would employ and the various operating costs assumed including the wage bill they would intend to pay. Any eventual offer of HIDB assistance would be varied according to the level of output achieved in each of the years in question.

5. In parallel with these discussions, consideration must be given to the problem of clearance of the proposed assistance with the Commission. A draft notification will therefore be prepared in consultation between the Scottish Office, FCO and UKREP. It it becomes clear that a potential new operator could be found, UKREP will first show the notification on an informal basis to the Commission and then in the light of their comments formally submit a notification for the Commission's approval. Sufficient time should be allowed to enable the Commission to complete its examination of the notification.

6. The Secretary of State for Scotland will consult his colleagues before making a final decision between any competing candidates for assistance. If no company is prepared to reopen the smelter on the basis of a subsidy of less than the £20m approved by the Committee, he will report to his colleagues, before terminating negotiations, the level of subsidy which those companies expressing interest consider would be necessary.

Scottish Office
17 May 1982

PM

(1)

10 DOWNING STREET

Prime Minister

George Younger has asked for 5 minutes tomorrow, to make a point about Invergordon.

I have put him in at 3.45 in your room at the House.

MCS 17/5

vb

G D FINLAYSON
24/5

10 May 1982

I am writing on behalf of the Prime Minister to acknowledge your letter to her of 6 May. This is receiving attention and a reply will be sent to you as soon as possible.

WFSR

WFR

G.D. Finlayson, Esq., J.P.

Treasury Chambers, Parliament Street, SW1P 3AG

Professor Alan Walters
10 Downing Street
London SW1A 2AL

7 May 1982

Dear Alan,

INVERGORDON

I very much appreciated your letter of 6 May 1982 and entirely agree with your thinking on this subject.

I have accordingly instructed Treasury officials who are working out the details of the subsidy with the other departments to insist on the quid pro quo from the workforce that you suggest.

I am sure you are right to say that even if the financial effect of such a quid pro quo is minimal its indirect effect would be of considerable importance.

Yours

LEON BRITTAN

PERSONAL AND CONFIDENTIAL

MR(SO)PM

ROSS AND CROMARTY DISTRICT COUNCIL

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

6th May, 1982

The Right Hon. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
LONDON.

Dear Mrs Thatcher,

I should like to express, on behalf of the Members of Ross and Cromarty District Council, our most sincere appreciation for the announcement recently made on what appears to be a favourable power contract which will enable negotiations to proceed with Companies who have shown an interest in the reactivation of the Invergordon Smelter. From the outset we have seen no real alternative to the problems facing the Highlands, and in particular Ross and Cromarty District, other than the Smelter being brought back into operation at the earliest possible date.

The interest which you have shown in our problems and your endeavours to reach a solution are extremely heartening to us all and I therefore wish to convey to you my own very personal thanks.

May I, in conclusion, wish you every success in reaching a just and lasting settlement to the Falklands crisis which is uppermost in all our thoughts. We in the Highlands have a long association with the Falklands, spanning the last one hundred and fifty years. Our thoughts and prayers go with you at this time of sadness.

Yours very sincerely,

G.D. Finlayson
CONVENER

CC JN. PM

CONFIDENTIAL

Prime Minister (2)

To note

MCS 5/5

Qa 05910

To: PRIME MINISTER

From: JOHN SPARROW

Invergordon

1. Following yesterday's decision to support the continuation of aluminium smelting at Invergordon, there remains the possibility that the assistance which the Government is prepared to offer will fall short of that which is required by the industrial companies concerned. In particular, the limitation of assistance to a five year period may well prove to be a barrier.

2. These possibilities underline the importance of two points which may not have been fully spelled out at the meeting. First, the extent of Government assistance should be clearly defined in advance in order to minimise the risk of pressure being brought to bear for just a little more help. Secondly, any announcement of the Government's attitude should take into account the possibility that talks may fail and should not therefore permit exaggerated expectations to be built up.

3. I am sending a copy of this minute to the members of E Committee, and to Sir Robert Armstrong.

JS.

5 May 1982

CONFIDENTIAL

cc. Transport: Channel Tunnel: file

CONFIDENTIAL

Prime Minister cc JV

New paper - came in today.

MCS 4/5

Prime Minister

INVERGORDON SMELTER AND THE FIXED CROSS CHANNEL LINK

Since E Committee's consideration of these topics has been put back until today, and I unfortunately have commitments in Belfast in the afternoon, I am forwarding my comments in this note.

2. As regards the future of the Invergordon Smelter, I can fully appreciate the problems George Younger faces. While there are no similar smelter operations in Northern Ireland, lessons I have learned in the Province have made me all too well aware of the very real difficulties which closure of a major employer causes in an area which has high unemployment and whose economic base is fragile. The loss of a major employer in such circumstances has serious social and economic consequences. George's paper makes this abundantly clear.

3. As the study George commissioned reveals, alternative employment prospects are hard to find for areas with difficulties similar to those of Invergordon. Accordingly I support the general thrust of George's proposals that we must make every effort to reopen the existing smelter. Whilst I appreciate the Treasury view that there are precedent dangers, and that there could be EC difficulties to be overcome, I am sure that it is right to make progress along the lines proposed. If we are seen not to have made an effort to respond it will be detrimental to our credibility and cause difficulty for our own supporters.

4. On the proposals for a Fixed Cross Channel Link, I strongly agree with the Secretary of State for Transport that we cannot rely solely on the development of shipping and air services to take the increasing cross-channel traffic. I do have serious doubts, however, about the advisability of relying on rail transport as the sole alternative to the present cross-channel links. I appreciate that, over the years, more work has inevitably been undertaken on the feasibility of bored

tunnel(s) for rail traffic. But the most effective way to secure choice and competition would be through a composite scheme as proposed in the Euro Route Bridge/Tunnel Scheme. I am not convinced that there need be a serious delay in commencing construction, despite the additional work which could be done once a decision in principle to proceed with a composite scheme had been taken. Nor am I convinced that the rail-only tunnel scheme would be free of environmentally damaging effects, eg presumably sizeable marshalling yards would need to be constructed to facilitate the transfer of containers from road to rail; and if these were situated away from the Dover area, might the potential freight users of the tunnel be deterred by the prospect of the lengthy rail journey on this side of the Channel? For these reasons, of the options put forward by David Howell, I favour Option B although I do not believe that it would be right for a decision to be deferred for as long as he suggests. I am of course influenced by Ian MacGregor, but he is a man of vision and imagination and I think he would argue strongly that the technology is not new.

5. I am copying this note to other members of E, George Younger, Nicholas Edwards, Douglas Hurd and Sir Robert Armstrong.

pp J P
(Signed on behalf of the Secretary of State in his absence)

4 May 1982

ssd

Prime Minister

The export price is not calculated - it is market-determined. The present surplus of UK coal is not determined by that but more by the pace of our pit closures programme - itself determined largely by political pressure.

MCS 4/5

How is the export price of coal calculated. There must be some means of ensuring that it is not below cost. That would mean phasing out some of the old pits - and that would be a good thing.

CONFIDENTIAL

P.0730

PRIME MINISTER

Invergordon Smelter

E(82)38 and 39

BACKGROUND

The consequences of the closure of the aluminium smelter at Invergordon have been discussed several times by the Committee, the most recent being E(82)7th Meeting on 7 March and E(82)10th Meeting on 23 March. At the second of those meetings the Committee clearly tended to the view that it would be difficult to construct defensible arrangements for subsidising the smelter on the scale required for a new operator to be willing to re-open it. The Secretary of State for Scotland was accordingly invited -

(i) to summarise the arguments which could be used publicly against basing a power contract for the smelter on hydro-electric power supplies; and

(ii) to put forward proposals for an increase in the grants available to the Highlands and Islands Development Board (HIDB) to stimulate investment and employment in the Invergordon area.

E(82)38, with which the Secretary of State for Energy is associated, has been prepared in response to the first remit; E(82)39 is the response to the second.

2. However, E(82)39 does not favour an increase in the provision for the HIDB for general purposes. Instead, it proposes that the option based on supply by the National Coal Board (NCB) of coal at export prices for the generation of electricity should be revived; an option on these lines was described in E(82)19 and 31 and discussed at E(82)7th Meeting. As now put forward, it is modified by the suggestion that

CONFIDENTIAL

the additional subsidy that would be required should be provided by way of direct grants for a period of five years from the HIDB to the smelter operator. The Secretary of State for Scotland recommends that officials should have urgent discussions with the NCB and the Scottish Electricity Boards (SEB) to draw up a detailed proposal to be cleared with the Commission and offered to potential operators.

3. It will be convenient for the Committee to consider E(82)39 first: if the proposals there are accepted, there will be no need to spend much time in considering the public justification for discarding alternatives; if not, it may be necessary for the Committee to discuss how rejection of the current proposals will be publicly defended. The agenda is arranged accordingly.

MAIN ISSUES

4. The arguments in favour of offering a subsidy to potential smelter operators are based on the serious effects of permanent closure on economic activity and employment in the Scottish Highlands, and the political consequences of this. At previous meetings of the Committee it has been estimated that the total loss of jobs is likely to be at least 1,500. This would raise unemployment in the area to 25 per cent, with little or no prospect of alternative employment. The Government has already come under heavy criticism.

5. The main arguments against subsidy are as follows.

(a) General Economic:
The world aluminium industry is depressed; and even in the longer term, the United Kingdom will suffer from a permanent competitive disadvantage against countries with access to large supplies of cheap energy.

(b) Repercussions:
If subsidies are given at Invergordon it will be difficult to resist pressure for similar subsidies to the aluminium smelters at Anglesey and at Lynemouth in North East England,

both of which (for different reasons) will fairly soon face substantial increases in their electricity costs. More generally, other large users of electricity could claim similar treatment.

(c) Cost:
The cost of subsidy can be assessed in a variety of ways. The minimum estimate (in E(82)39) is £20 million a year - about half through the supply of coal at export prices and half through grants by the HIDB. This would almost certainly be considerably increased by eventual subsidies at Lynemouth (where electricity is also produced from cheap supplies of coal) and possibly Anglesey.

A further point, particularly relevant to the current proposal is -

(d) Position of the Coal Industry:
Several members of the Committee have been opposed to long-term subsidy arrangements linked to coal supplies, on the grounds that this encourages the NCB to maintain its activities at an uneconomic level.

There has also been concern about the potential Community implications and possible difficulties with the Commission.

6. It is not clear that the Secretary of State for Scotland's current proposals succeed in avoiding the difficulties. Most of the arguments set out in paragraph 10 of E(82)39 have already been considered by the Committee. You may think that the following arguments particularly need to be probed.

Limitation of Offer to Five Years (paragraph 10(e))

7. You will wish to ask whether it is realistic to suppose that subsidy could be withdrawn, or even substantially reduced, after five years if, as seems likely, that entailed that continued operation of the smelter would not be economically viable.

8. A possibility which you may wish to explore, and which may be suggested by other members of the Committee, would be to offer a tapering subsidy from the HIDB. This would avoid the difficulties of overnight withdrawal of subsidy, and could be defended by reference to the likelihood that world aluminium prices will rise. And, even if it is not acceptable to the potential operators, at least it would allow the Government to say that a reasonable offer had been made.

9. On the other hand, once the Government opens negotiations with a potential operator it will come under heavy pressure to make concessions; and there is a risk that it could be accused of making proposals which so obviously stood no chance of being acceptable as to be a transparent attempt to shift the political blame elsewhere.

Community Implications (paragraph 10(g))

10. Paragraph 8 of E(82)39 is not quite correct as it stands. First, an additional grant to the HIDB would not in itself constitute a State aid which is notifiable to the Commission: it would be the payment of the subsidy to the smelter operator which would be notifiable. Secondly, and more important, it is not the pricing of coal at export prices which is questionable, but the funding of the NCB's consequential deficit, which is notifiable under Decision 528/76 of the European Coal and Steel Community.

11. E(82)38 suggests that there could well have been difficulties with the Commission over the discarded hydro options. It is also relevant that in E(82)31, the Secretary of State for Scotland said the following about a previous version of the coal option, also based on a supply of coal at export prices, but with direct grant paid by the Government to the smelter operator.

> " Recognising that coal [at export prices] will not produce sufficiently cheap electricity [the Secretary of State for Energy] has proposed that the Scottish Office should in addition pay a direct grant to the smelter operator. It

would certainly be open to me to pay grant under existing legislation towards the setting-up of a new smelter operation and towards any new investment which the new operator proposed to put into the plant. But any assistance I could offer would be modest in relation to the smelter's annual electricity bill. ..... I believe that to take powers as the Secretary of State for Energy suggests to pay such a new operating subsidy would provoke a major row with the Commission. It would be a blatant breach of the EEC Treaty and would clearly be more open to challenge than would any subsidy provided through the NCB or South of Scotland Electricity Board".

12. Presumably the Secretary of State for Scotland must believe that subsidy through the HIDB would avoid, or at least reduce, these drawbacks. But this may not be so: the Commission is likely to regard it for these purposes as an extension of Government.*

Repercussive Effects on Industry in general (paragraph 10(h))

13. It is not obvious that the current proposal has advantages compared with previous suggestions. It is true that providing subsidy through the HIDB rather than direct from Government may have presentational advantages; but a subsidy for the smelter at Anglesey could presumably be channelled equally well through the Welsh Development Agency. And in some respects it would be easier to resist repercussions from a scheme based on hydro-power, which exists on a significant scale only in the Scottish Highlands.

Public Presentation

14. Public presentation will naturally depend on the decisions of substance. It may be helpful to concentrate more heavily on the general arguments than in E(82)38, since public opinion may not be much impressed by the niceties of operation of the Scottish electricity generating system.

* Since neither the Lord Advocate nor a Minister from the FCO is available to attend the meeting, the FCO will be circulating a letter on the Community aspects.

15. In the light of the Committee's decisions, you may wish to ask the Secretary of State for Scotland, in consultation with the Secretary of State for Energy and the Chief Secretary, Treasury, to prepare either a statement or background briefing which could be made available to the press and the Government's supporters.

HANDLING

16. After the Secretary of State for Scotland has made his opening remarks, you may wish to ask the Secretary of State for Energy for his views. The Chief Secretary, Treasury can be expected to comment from the standpoint of public expenditure and nationalised industry policy. The Secretary of State for Industry may have views on potential repercussions.

CONCLUSIONS

17. You will wish to reach conclusions on the following:

i. Do the proposals by the Secretary of State for Scotland in E(82)39 form at least a satisfactory basis for further study on the lines which he proposes?

ii. If not,

a. would there be any tactical advantage in making a more limited offer to potential operators, even though this were virtually certain to be refused; or

b. should the Committee conclude that it is impossible to devise satisfactory subsidy arrangements for Invergordon and that there is no point in pursuing the matter further?

iii. How should the Government's decisions be publicly presented?

PG

P L GREGSON

28 April 1982

File BK

26 March 1982

I am writing on behalf of the Prime Minisfer to thank you for your telegram which you send on 24 March about Invergordon.

I showed this telegram to the Prime Minister immediately upon receipt. As you know discussions are continuing within the Government about the situation at Invergordon, and I can say nothing further at this time.

MICHAEL SCHOLAR

D.J. Davidson, Esq.

Tol

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Prime Minister (2)

MCS 24/3

24 MAR 1982/1621
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THE HONOURABLE MARGARET THATCHER MP
PRIME MINISTER
10 DOWNINGSTREET
LONDONSW1

HIGHLAND REGIONAL COUNCIL AND ROSS AND CROMARTY DISTRICT COUNCIL
GRAVELY CONCERNED ABOUT REPORT THAT THE PRINCIILE OF AN ENERGY
CONTRACT
HAS NOT YET BEEN ESTABLISHED IN RESPECT OF INVERGORDON SMELTER
DESPITE OPTIMISTIC AND POSITIVE STATEMENTS MADE BY THE SECRETARY OF

COL 10 LONDONSW1

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STATE FOR SCOTLAND STOP IT IS OF VITAL IMPORTANCE THAT MATTER
IS DEALT WITH AS ONE OF EXTREME URGENCY STOP PARAGRAPH
HIGHLANDS HAVE ENERGY RESOURCES AND MUST BE ALLOWED TO UTILISE
THESE RESOURCES N THE INTEREST OF ITS PEOPLE STOP THE
SMELTER MUST REOPEN STOP AN ASSURANCE MUST GIVEN AND

GWE647 PF256 3381LOND THE PAGE3/39

GIVEN QUICKLY OF THE ESTABLISHMENT OF THE PRINCIPLE THAT AN
ENERGY CONTRACT AT INTERNATIONALLY COMPETITIVE RATES CAN AND WILL
BE GIVEN TO ANY COMPANY INTERESTED IN OPERATION THE SMELTER
D.J. DAVIDSON DIRECTOR OF ADMINISTRATION ROSS AND
CROMARTY DISTRICT COUNCIL

County Buildings
High Street,
Dingwall,
IV15 9QN.

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889113 PO SW G
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Foreign and Commonwealth Office

London SW1A 2AH

22 March 1982

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From The Minister of State

Rt Hon Douglas Hurd CBE MP

Dear George,

I have seen your Memorandum E(82)31 of 19 March about a new power contract for the Invergordon smelter. As Peter Carrington and Humphrey Atkins are away and I will be unable to attend 'E' Committee myself, I am writing to let you have our views in advance of the meeting.

We think the Memorandum brings out the EC implications quite well. The paper rightly recognises that the aid package should be notified to the Commission (although in fact under Article 93.3, not Article 92.1 as stated). I assume of course that the aid cannot be disguised so as to make non-notification a viable option. I agree that we might have a case under Article 92.3(a) or 92.3(c), but I would not wish to give members of 'E' Committee the impression that clearing this with the Commission will be straightforward. We would rate our chances at about even. We shall therefore have to play our hand very carefully, and I would recommend informal consultations with the Commission (not formal as stated in your Memorandum) so as to establish the best way in which the formal notification could be presented. This is a standard procedure in cases of this kind.

If, therefore, it is decided to proceed on the basis of your Memorandum, I hope we can see a draft notification from your Department fairly soon which we could then discuss inter-departmentally and with UKREP Brussels, before showing it on an informal basis to the Commission. I agree in principle with your idea of a simultaneous political approach, but we can give further thought to this after we know the Commission's informal reaction to our draft notification.

I am copying this letter to other members of 'E' Committee.

Yours ever,

Douglas.

The Rt Hon George Younger MP
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall

Qa 05865 22 March 1982

To: PRIME MINISTER

From: J R IBBS

Invergordon Smelter

1. In his paper E(82)31 the Secretary of State for Scotland sets out a proposal designed to provide the Invergordon Smelter with cheap power. This is based on new legislation to allow NSHEB to discriminate substantially in favour of large industrial consumers, and a significant adjustment in the SSEB's balance sheet to ensure that the burden of this falls on the taxpayer rather than SSEB consumers.

2. The proposal that assistance should be provided by allocating to the smelter (and other large users in the area) the low cost hydro-electric power produced in the Highlands does not allay my concern that there is no sound economic argument for this help. In countries with a large amount of low cost electricity it is entirely appropriate to devote some of it to aluminium production. But in this country low cost electricity is a valuable rare resource. If it is not going to be used (as at present) to reduce average costs and prices of electricity then it should be deployed on industrial uses of major strategic importance so as to bring substantial economic and employment benefits. Aluminium production is not such an activity. Furthermore, the very high subsidy per job will be apparent and the proposal will seem inconsistent with the Government's basic policy of encouraging economic realism. This could cause widespread confusion and resentment.

3. Three particular difficulties with the proposal are:

(i) it opens the way piecemeal to demands for special treatment by any intensive electricity user facing competitive difficulties related to electricity costs. (Some users would be able to argue that they are close to a source of low cost power, e.g. a successful nuclear power station; if low cost power generated in

the Highlands can be allocated to intensive users, why cannot the same principle apply in other localities which also have economic and employment problems?)

(ii) The device of reducing the impact on other consumers by writing off assets and waiving a loan, although ingenious, is obviously artificial. The modification of the SSEB balance sheet is either appropriate or not in its own right. If the status of the power station at Inverkip is such that the assets should be written off then this should happen regardless of what is done about Invergordon. Whether or not the loan should then be waived is a policy decision. If it is seen to be as a direct result of the NSHEB discrimination in favour of Invergordon this would make it clear that the funding of and rates of return required from electricity boards are political, rather than economic. This would increase the vulnerability of the electricity pricing structure to further lobbying.

(iii) It would be difficult to limit this major subsidy to the Invergordon smelter. In view of the points in (i) and (ii) above it will be hard to argue that the assistance to Invergordon related solely to the local availability of hydro-electric power. Both Lynemouth and Anglesey are in areas of high unemployment, and are likely to be able to deploy substantial backing for special treatment.

4. I am sending a copy of this minute to Sir Robert Armstrong.

JR

P.0687

PRIME MINISTER

Invergordon Smelter:
New Power Contract

E(82)31

BACKGROUND

In E(82)31 the Secretary of State for Scotland makes recommendations for a new power contract to be offered to firms interested in reopening the aluminium smelter at Invergordon. Of the two main possibilities which emerged from the Committee's discussion on 8 March, he rejects a contract based on coal prices as unlikely to be sufficiently attractive to interest firms and to be in a form immune to European Community challenge (paragraphs 12 and 13 of his paper). Instead he recommends that the contract should be based on setting aside the output of hydro-electric stations in the North of Scotland.

2. Although the details would have to be negotiated, the working assumption is that a new operator could pay no more than 1.2p a unit for power if the smelter was to be viable, compared with the minimum price of about 2.5p a unit which the North of Scotland Hydro-Electric Board (NSHEB) could justify in relation to short-run costs. It is suggested that a concessionary electricity price could be justified on the grounds that cheap hydro-electric power, which is used to meet peak demands, is available in the locality even though the smelter would be drawing on power from the system as a whole. Since the smelter would not absorb power equivalent to the full output of the hydro-electric system, concessions would also be made available to other industrial consumers in the area (paragraph 5 of E(82)31); these include oil rig platform construction yards, distilleries, and paper makers. The total cost of the concession would be £25 million a year initially, of which £22 million for Invergordon. For the reasons given in his paragraph 7, the Secretary of State for Scotland does not believe that this could be met by increasing the bills of other Scottish electricity consumers. If this is accepted, it is then necessary to finance the subsidy by means other than a direct grant which would run into Community objections.

3. Against this background the Secretary of State for Scotland proposes:-

(i) a Bill, for introduction if possible before Whitsun and for Royal Assent in the Summer, to enable him to designate by Order those areas and categories of consumer to which the requirement on the NHSEB to avoid 'undue preference or undue discrimination' would not apply;

(ii) the writing-off of loan charges - which, it is thought, would also have to be enabled by the proposed Bill - to compensate the Board for the annual costs of the concession;

(iii) an approach to the European Commission, and at political level, to persuade them of the acceptability of the proposals.

4. If the Committeee approves this approach there would be negotiations both with the Scottish Electricity Boards and with potential operators of the smelter. The Scottish Office believe that Alcan would still be interested, though this deal does not offer them assistance for their smelter at Lynemouth where their existing coal contract comes up for review in 1983 and 1986. Alumax of California and two Norwegian companies are thought to be interested. The British Aluminium Company would have to sell the site to the new operator and it is thought they might take a minority equity stake in return for continued use of the jetty which they need for shipping in supplies to their other Scottish companies.

MAIN ISSUES

5. At their discussion on 8 March the Committee were particularly concerned by the difficulty of finding a solution to the undoubted social and economic problems of Invergordon which was at an acceptable level of cost and which did not open the way to a flood of claims for similar subsidies for other large industrial users of energy and to other firms in areas of high unemployment. The Committee will now wish to consider how far the present proposal meets such objections and, if it does, whether the legislative and Community difficulties are manageable.

Costs

6. The direct annual cost of the subsidy would be £25 million. Although the paper does not say so, a new operator would probably want a contract running for 15 years or so, and it seems implausible that he would agree to a break-clause which would allow for significant variations. Unless the gap between aluminium and coal prices narrows, the costs would rise over the years. As the Treasury have pointed out - see paragraph 11 of the paper - the cost per job saved at Invergordon would be £30,000 a year, or £20,000 a year in the short term while the NCB is reducing capacity. The Committee will wish to consider whether this level of subsidy can be defended and, in doing so, to take account also of the further costs which will arise if an effective ring-fence cannot be drawn round this contract.

Repercussions

7. If this proposed contract goes ahead, Alcan will certainly fight for a similar contract for their Lynemouth smelter (NB. Mr John Peyton is on their Board); so too will Angelsey Aluminium if their present favourable contract folds up.

8. Other high industrial energy users would similarly bid for subsidies. Clearly the aim would be to argue that the Scottish contract was applicable only to the special circumstances of the Highlands and to the existence of hydro-schemes in the area. But this does not seem to be an impregnable line of defence. ICI, British Oxygen and other high base-load users could also claim that part of the output of a low cost power station should be regarded as dedicated to their use. Some Welsh firms could claim that their prices should be adjusted to take account of the fact of the hydro-electric system in Wales. Other firms could point out that in practice the Invergordon smelter would not actually be using hydro-electric power and that they too happened to be near a cheap source of fuel.

9. The proposed form of subsidy - the writing down of loans to the NHSEB - could also have repercussions. Most nationalised industries have had to write

down some assets recently and they and their consumers would no doubt be very happy for the Government to write off loans correspondingly so that lower prices could be charged. In particular some of the Scottish power stations which are under used or unused are in the area of the Southern Board and so consumers throughout Scotland could mount a case for benefiting through lower prices from loans written-off.

10. In short, the Committee will need to decide whether the scheme proposed by the Secretary of State for Scotland could be defended against vigorous claims for similar concessions generally and, if not, whether the repercussions were acceptable.

Legislation

11. If the Committee does decide in favour of the proposal the necessary Bill will add to the burdens this Summer on both Houses. If necessary this could no doubt be managed but the Secretary of State for Scotland may be optimistic in his judgement that the Bill would be both short and straightforward. There must be a risk that it would open up the whole debate on the Government's policy towards industrial energy pricing and the adequacy of the measures announced in the last Budget. Although the Scottish Office have professional advice that the proposed writing down of loans could be defended they could well be questioned hard as to why they are using the device of writing-off loans in order to subsidise a particular group of consumers.

European Community implications

12. As explained in paragraphs 9 and 10 of E(82)31, the Commission must be notified of the proposals which are in principle open to challenge, although it is judged that in practice the Commission could probably be persuaded to allow them. We understand that Mr Hurd will be writing today on behalf of the FCO (who will not be represented at the meeting) broadly to confirm the assessment in the paper and the Lord Advocate has commented in more detail in his minute of 19 March.

13. It is clear that the risk of difficulty with the Commission cannot be wholly discounted. You may therefore wish to ask why it is thought that the Commission would refuse to accept a direct grant but would accept the writing-off of loans which in practice is no different from giving a direct grant.

Courses open to the Government

14. If the Committee concludes that the Secretary of State for Scotland's proposal is unacceptable, it will need to consider whether there is any alternative to making it clear, at an appropriate time, that no power contract is available on which a viable aluminium smelter at Invergordon could be based. This would have serious implications both socially and politically. The option of doing more work in the hope of finding an acceptable basis for a viable smelter is unattractive; the fundamental difficulties which have been identified in all solutions so far considered (the heavy Government subsidy involved by one route or another, the difficulty of concealing it, and the inevitable repercussions) are unlikely to be avoided in some new variant.

15. The Committee may however wish to consider whether the Government should make some offer, even if it is unlikely to provide the basis of a viable operation, to soften the impact of the unfavourable decision and to demonstrate the efforts which have been made. The Secretary of State for Scotland is opposed to this, because of the risk that such an offer might be seen from the outset to be a cynical manoeuvre. If however the Committee chose to adopt this approach, the only offer on the table is that outlined in paragraph 12 of E(82)31 under which 0.75 million tonnes of Scottish deep-mined coal would be made available each year for five years at £26 per tonne ie the export price, and the Secretary of State for Scotland would pay such grants as could properly be paid under existing legislation towards the setting up of a new smelter operation and towards any new investment. The option of an offer on these lines, inadequate though it would be, might therefore be discussed, and, if the Committee favours it, some further work would be needed to define the offer more precisely.

HANDLING

16. After the Secretary of State for Scotland has introduced his paper the Committee will wish to hear the views of the Chancellor of the Exchequer, the Secretaries of State for Energy and for Wales and Mr MacGregor (representing the Secretary of State for Industry) on the costs and likely repercussions of the proposals. The Lord Advocate can advise on the legal and Community aspects.

The Lord President of the Council and the Chancellor of the Duchy of Lancaster will wish to comment on the proposed Bill for introduction before Whitsun.

17. In the discussion you will wish to examine the proposals under the four headings above: costs; repercussions; legislation; and Community implications.

18. There will inevitably be pressure after the meeting for a statement on what decisions the Government has taken on Invergordon. Whatever the outcome, care will have to be taken on precisely what is said; in particular, if the Committee decides in favour of the scheme it will be important not to say anything which could prejudice the negotiations and the level of the eventual subsidy. The Secretary of State for Scotland has, therefore, prepared two short statements, for use either if the Committee endorses his proposals or if they do not reach a conclusion; copies are being sent today to your Private Secretary. At the end of the meeting you might wish to read out to the Committee an appropriate form of words so that all Ministers have guidance on what should be said publicly.

CONCLUSIONS

19. If the Committee approves the Secretary of State for Scotland's proposals you will wish to approve the four specific proposals for further work in paragraph 15 of E(82)31 and to inform the Committee of what can be said publicly and immediately.

20. If the Committee decides that the present proposal is not acceptable you will wish either to call for further work or to conclude that there is no prospect of opening the Invergordon smelter. You will wish to guide the Committee on what, if anything, ought to be said publicly.

PLG

P L GREGSON

22 March 1982

for E folder

From: THE PRIVATE SECRETARY

Prime Minister
MCS 22/3

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

Michael Scholar Esq
10 Downing Street
LONDON SW1

22 March 1982

Dear Michael

Mr Prior has commitments in Belfast tomorrow and therefore regrets that, provided the Prime Minister is agreeable, he will not be attending tomorrow morning's meeting of 'E' Committee.

Yours sincerely
Mike Hopkins

M W HOPKINS

Invergordon Smelter Action Group

Tel. No. 0349 852671

Telex 75130

Invergordon Smelter,
INVERGORDON,
Ross-shire,
IV18 0LE,
Scotland.

22/3

The Prime Minister
10 Downing Street
LONDON

Dear Prime Minister

On behalf of my committee may I thank you for receiving our delegation and allowing us to put our case so fully.

We feel strongly that continued operation of the Invergordon Smelter is of major importance not only in Easter Ross but in the Highlands as a whole and we are therefore delighted that the Government are considering linking a power contract to Hydro Power. We clearly see such a policy guaranteeing our long term future.

As you will note from the document compiled by the Action Group we have emphasised the Hydro angle but have also made reference to power through coal. We feel that to attract an operator quickly it may be required that a special scheme for a short period be entered into but we are confident that this is an area that the Highland Board would be better equipped to detail.

Lastly you may have noted some minor errors in the document which had been corrected by hand, this has now been reprinted and we will therefore take the opportunity to send your office amended copies.

Yours faithfully

A A McCreevy

PRIME MINISTER

INVERGORDON

1. The E papers speak of a subsidy of £25 million per annum for 15 years = £30,000 per annum per job (assuming 890 jobs lost).

2. But deduct

(i) £9 million per annum NCB saving, arising from reduction of NCB's need to export excess coal at a loss (see para 7(c) of E(82)31).

(ii) £3 million per annum lost revenue for British Rail

(iii) £6 million per annum in extra unemployment benefit

3. This brings the net cost down to £7 million per annum immediately = £7,900 per annum per job (assuming 890 jobs lost); or £4,700 per annum per job (assuming 1500 jobs lost).

4. This calculation makes the subsidy look far less daunting. But it takes no account of

(i) the costs of similar subsidies elsewhere - e.g. for Lynemouth and Anglesey;

(ii) the general and hidden economic costs which giving this 'wrong signal' would generate.

MCS

Content for Mr MacGregor to represent Mr Jenkin (in N America)?

MCS 22/3

22 March 1982

Prime Minister

(1) Given the Press interest I imagine you will want to agree a form of words at E tomorrow.

(2) I doubt whether those below will appeal to you. May I suggest alternatives:

(A) "The government have today decided to go ahead as far and as fast as possible, with the aim of assuring the future of the Invergordon smelter on the basis of a power contract related to hydroelectricity costs."

(B) "The government have today considered a proposal to base a new power contract for the Invergordon smelter on hydroelectricity costs. This is a highly complex issue, and the government is seeking further information before reaching a decision."

MCS 22/3

SECRETARY OF STATE FOR SCOTLAND

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Michael Scholar Esq
Private Secretary
No 10 Downing Street
London SW1

22 March 1982

Dear Michael

INVERGORDON

When we spoke this morning about Invergordon you asked for two draft statements for possible use tomorrow by the Prime Minister, one if my Secretary of State's proposal is accepted and another should it be deferred. The following paragraphs have been approved by Mr Younger:-

(A) Statement if proposal accepted

There is now a substantial measure of agreement within Government on the basis of a new power contract for the smelter. Some details remain to be finalised but we will shortly be ready to make an announcement.

(B) Statement if decision on proposal deferred

The Government have today considered a proposal to base a new power contract for the Invergordon aluminum smelter on the hydro-electric resources of the North of Scotland Hydro-Electric Board. Without a power contract we are unable to start negotiations with potential operators for the re-opening of the smelter. The complexities of the proposal make it necessary for the Government to seek further information before reaching a decision. They have therefore agreed to discuss the proposal again when this information is available and officials have been instructed to report back to Ministers as a matter of urgency.

I am copying this letter to Bernard Ingam and to David Moore in the Cabinet Office.

Yours ever,

John Wilson

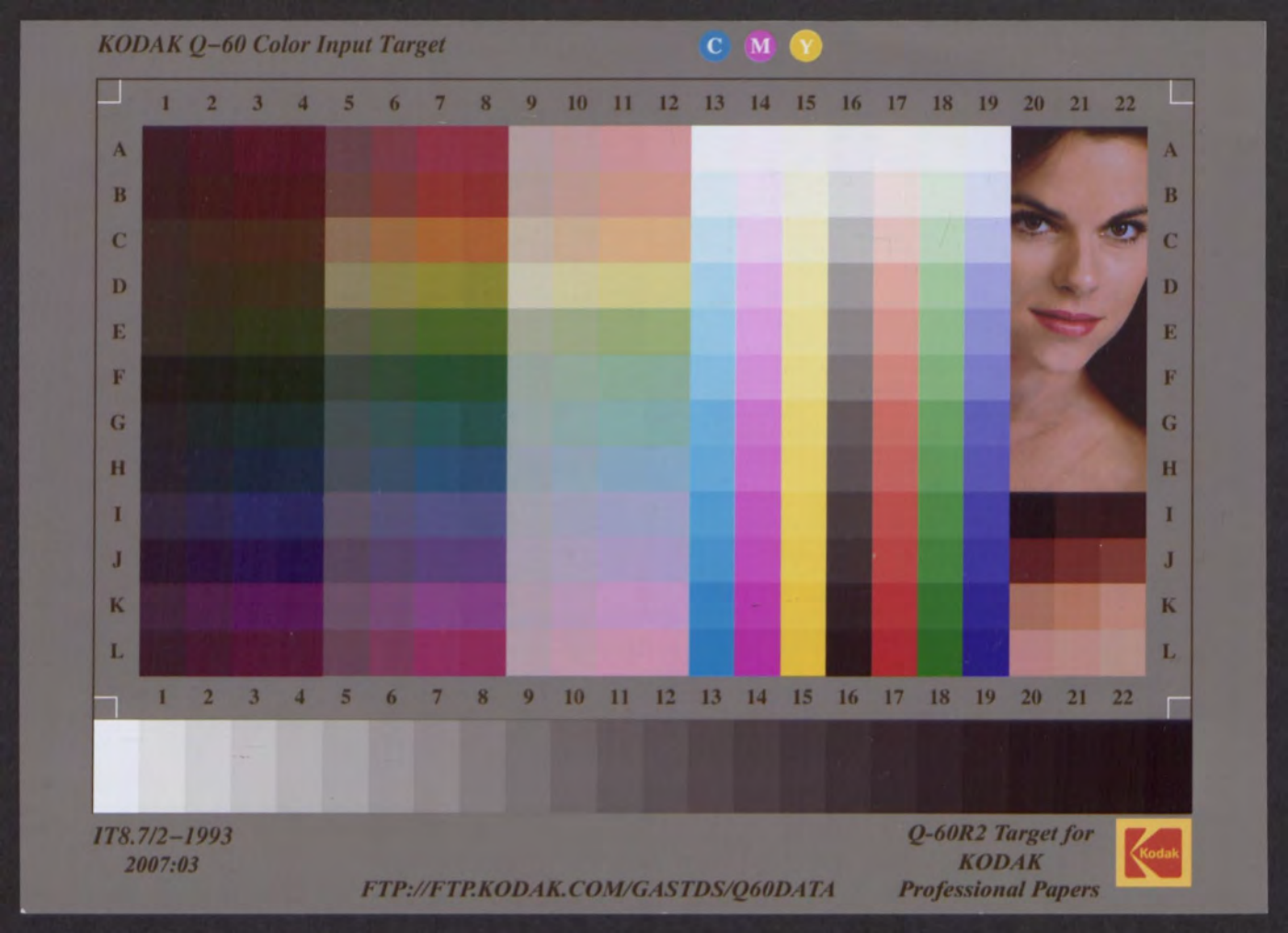
JOHN S WILSON
Private Secretary

PART 1 ends:-

E(82) 31 19.3.82

PART 2 begins:-

Scottish Office to MCS 22.3.82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