

CONFIDENTIAL FILING

ALCAN ALUMINIUM (UK) LTD

INDUSTRIAL

POLICY

JULY 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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PREM 19/1066



FILE

DA

*off file - see below*

*cc: DT + incoming letter*

10 DOWNING STREET

THE PRIME MINISTER

30 November, 1983

*Dear John*

On my return from Delhi I read with interest David Culver's letter of 15 November. I was most heartened to hear of the improvement in your company's fortunes, produced by the recent merger, the renegotiation of the contract with NCB, and the improvement in the aluminium market.

*Yours ever  
Raymond*

The Rt. Hon. The Lord Peyton of Yeovil

*RW*

From: The Rt. Hon. Lord Peyton of Yeovil

**British Alcan Aluminium Limited**

A member of the Alcan group of companies



Registered Office: Chalfont Park, Gerrards Cross, Bucks SL9 0QB

Telephone: Gerrards Cross (0753) 887373; Telex: 847343

22nd November 1983

*Dear Prime Minister*

*R24*

*in box* David Culver has sent me a copy of a letter which he wrote to you on the 15th November reporting that following the merger of Alcan UK and British Aluminium, there is emerging a viable industry in this country, which provides employment for more than 10,000 people.

I would like to add my own thanks and appreciation, for I am quite certain that this would not have occurred without the prompt welcome accorded by you and your colleagues to the merger, when the possibility arose a year ago.

*Yours sincerely*

*John Lee*

The Rt. Hon. Margaret Thatcher, M.P.

Ind Po!  
July 821  
Alcan.

311

# Alcan Aluminium Limited

1188 Sherbrooke Street West, Montreal, Québec, Canada H3A 3G2  
Telephone: 514/848-8000 • Telex: 05-25236 • Cable: ALCAN



bcc DTI

*off pps*

Prime Minister ②

15 November 1983 *I have replied, saying you will be very pleased with these encouraging developments.*

*CGH*

*AT 22/11*

The Rt. Hon. Margaret Thatcher, M.P.,  
10 Downing Street,  
London SW1,  
U.K.

Dear Prime Minister:

You will recall that when I came to see you in April, we had only just started upon the process of merging the operations of Alcan U.K. and British Aluminium. This, I am happy to be able to say, has now been completed without undue disturbance and some real benefits are beginning to appear. We have also arrived at an energy arrangement which, being based on the f.o.b. price of U.K. coal exports, means that we are now in a position to face European competition; it is very much what I had in mind and, indeed, mentioned to you when we met.

The fact that a viable aluminium industry has now emerged is due in no small measure to the favourable wind which your Government gave to the merger. For our part, the decision to make the large additional investment necessary amounted (and the Financial Times quoted me on this recently) to a vote of confidence in Britain, where there is now, in my view, a state of mind very different from anything we have seen for a long time.

Yours sincerely,

*David M. Culver*

David M. Culver  
President and  
Chief Executive Officer

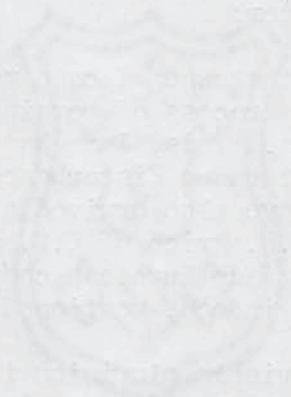
DMC:JD

Ind. Pol : Alcan (UK) Ltd  
7/82



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Sec DTI  
HMT

HL

10 DOWNING STREET

*From the Private Secretary*

22 November 1983

Thank you for your letter of 15 November. I will show it to the Prime Minister when she returns from Delhi. I am sure she will be delighted at the very encouraging developments which you report.

Andrew Turnbull

D.M. Culver, Esq.

da

ALCAN ALUMINIUM LIMITED

1 PLACE VILLE MARIE, MONTREAL • MAIL ADDRESS: BOX 6090, MONTREAL, CANADA H3C 3H2  
TELEPHONE: 514/877-2340 • TELEX: 05-25236 • CABLE: ALCAN

Prime Minister <sup>2</sup>

MCS 29/4



21 April 1983

The Rt. Hon. Margaret Thatcher, P.C., M.P.,  
10 Downing Street  
London, S.W.1  
England

Dear Prime Minister:

I appreciate very deeply the kind and considerate reception that you gave to John Peyton, George Russell and me on 13 April 1983.

We all have to live with the consequences of our own decisions. But in the case of Alcan's increased commitment to the British aluminium industry, this is all made a great deal easier for me by the knowledge of your personal interest and encouragement.

Yours sincerely,

*David M. Culver*

David M. Culver

DMC:BAR





FILE

HZ

cc: D/N  
D/Ind

10 DOWNING STREET

THE PRIME MINISTER

12 April, 1983

Dear John,

Thank you for your letter of 1 March with which you enclosed a memorandum by British Alcan.

I am sorry that it has taken us a little time to consider this complicated problem. Nigel Lawson is now writing to Norman Siddall suggesting that discussions with British Alcan about the terms of supply of coal to the Lynemouth power station be resumed. I suggest that the next step is for British Alcan to arrange a meeting with the National Coal Board.

I am sending copies of this letter to Patrick Jenkin and Nigel Lawson.

Lawson  
Raymond

The Rt. Hon. John Peyton, M.P.

RM

Prime Minister



JU423

Secretary of State for Industry

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

Telephone Direct Line 01-212 3301  
Switchboard 01-212 7676

12 April 1983

You can say to Mr Culver that  
there ought to be room for  
agreement between Alcan  
and NCB: no-one would

Tim Flesher Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

sell Alcan coal at £15 a tonne (and if we  
subsidised to that price there'd be a long queue  
of people also wanting subsidy); and the NCB <sup>would</sup> get benefit

Dear Tim

from selling Alcan coal at the export price (which happens  
to be about\* mid-way between £25 and £15). NCB can

PRIME MINISTER'S MEETING WITH MR DAVID CULVER: 13 APRIL

Your office told me yesterday that the Prime Minister has agreed  
to meet Mr David Culver, the President and Chief Executive of  
Alcan (Canada). He will probably be accompanied by Mr John  
Peyton MP (a non-executive director of British Alcan) and Mr  
George Russell, the UK Managing Director.

justify this  
price,  
and avoid

2 The principal topic for discussion is likely to be the re-  
negotiation of the coal contract for supplying the Lynemouth  
smelter. British Alcan, and Mr Peyton in particular, have been  
pressing Government to intervene. Ministers regard this as  
primarily a matter for the company and the NCB, and the Secretary  
of State for Energy has encouraged the NCB to negotiate flexibly  
within their commercial judgment. The company should now  
undertake further negotiations urgently.

an  
awkward

3 The attached brief also covers British Alcan's rationalisation  
plans in general terms. These are linked with the coal contract  
negotiations and are unlikely to be raised in any detail.

Yours etc

STEPHEN NICKLEN  
Private Secretary

\* depending on  
exchange rate and

Mr Siddal's success in  
negotiating with Alcan

precedent by  
reference to the  
unique Lynemouth  
contract.

MLS 12/4



BRITISH ALCAN: MEETING WITH DAVID CULVER, 13 APRIL

BRIEF

Mr David Culver is the President and Chief Executive of Alcan (Canada). He is seeing Mr Baker, Minister of State, and Sir Peter Carey, Permanent Secretary at the Department of Industry on the morning of 13 April.

2 There are 2 likely topics for discussion:

i The coal contract for supplying the Lynemouth smelter

The NCB have given notice for the termination of half the supply of coal for the smelter from the 1 January 1984 under contractual powers which British Alcan contest. British Alcan have been pressing the Government to intervene in their negotiations about a revised price. British Alcan claimed that £15 per tonne was the highest price they could afford and the NCB said that £25 per tonne was their minimum price. Ministers decided in October 1982 not to intervene in the negotiations. Since then the only 2 vertically integrated aluminium companies in the UK, BACO and Alcan (UK) have merged and the merged company, British Alcan, have warned of the serious consequences for the whole of their UK operations, involving some 15,000 jobs, if agreement cannot be reached and the smelter is forced to close.

After correspondence between the Secretary of States for Industry and Energy, the Secretary of State for Energy has now written to Mr Norman Siddall, the Chairman of the NCB, encouraging him to negotiate flexibly with British Alcan within his commercial judgment.

ii British Alcan's rationalisation plans

British Alcan have already announced details of their first rationalisation proposals which are designed to make their downstream operations efficient and profitable. There will be a number of plant closures involving some 1350 jobs. We expect more cutbacks to be announced during the course of this year as duplicated activities and excess capacity are trimmed in the merged company.

British Alcan will be seeking Government assistance for their restructuring and reinvestment plans. They are already in discussion with officials of the Department of Industry to see what may be available under existing Government aid schemes. In the past the downstream

/activities ...



activities have been subsidised by profits generated at the Lynemouth smelter. The rationalisation plans are therefore linked closely to the future profitability of the smelter which depends largely on the future price of coal.

LINE TO TAKE

3 Explain that the Secretary of State for Energy has encouraged the NCB to negotiate flexibly with British Alcan within their commercial judgment and encourage them to begin negotiations urgently.

4 Encourage British Alcan to proceed with their rationalisation and reinvestment proposals so as to make their downstream facilities profitable and efficient.

Minerals & Metals Division 3  
Department of Industry

11 April 1983



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APR 22 1988

B/MP

Prime Minister<sup>2</sup>

MS 11/4

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CONFIDENTIAL

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

7 April 1983

Dear Secretary of State

BRITISH ALCAN: LYNEMOUTH

Thank you for your letter of <sup>21</sup>15 March.

I am glad that you regard my proposals as helpful. I shall ask NCB to negotiate on those lines with British Alcan. I shall ask Norman Siddall to consider your point about the existing price for supplies under Stage II of the contract, although the reality of the situation is clearly that they cannot be excluded from renegotiation. I must, however, make it clear that NCB have already had protracted negotiations with Alcan and gone as far as they believe commercially justified. If they are going further, it is at our instigation. While, therefore, there may be room for some flexibility around my proposals, I am sure that we shall need to be involved in the final decision.

I am sending copies of this letter to the Prime Minister, Geoffrey Howe, George Younger and Nicholas Edwards.

*Yours sincerely*

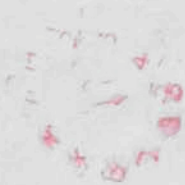
*C Brooks*

NIGEL LAWSON

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

1nd POT July 82 Alcan

1st POT



CF

①

Arranged for 14:00 on  
Wednesday 13<sup>th</sup>.

Prime Minister

②

1/1nd meeting Brey  
Ch. 11/4

ALCAN ALUMINIUM LIMITED

1. Herewith John Peyton's letter to you dated 1st March, and reply to him for your signature, please.
2. John Peyton has since been in touch with me and has asked whether you will see him and Mr David Culver, the President and Chief Executive of Alcan, who will be in London on 13th and 14th April.
3. Herewith letter dated 30th March from the Department of Industry which recommends (predictably) that you should not see Mr Culver.
4. If you did agree to see Mr Culver, I am sure that you ought not to discuss with him the matters currently under discussion with the Secretaries of State for Industry and Energy; they are both doing all that they can.
5. The disagreeable truth is that John Peyton is anxious to enhance his own standing within the Alcan group by seeking to arrange for you to see the President of the parent company of whose subsidiary John is Chairman. We have come across this before with Edward du Cann.
6. With considerable reluctance, I think that you ought to agree to see John Peyton and the President, Mr David Culver, for a quarter of an hour only, which you could manage at your room at the House immediately after Questions on Thursday 14th April.



7. Do you agree, please?

*Yes - but substantial difficulties  
would have to be placed elsewhere - i.e.  
not at London by Energy.*

*Tessa*

6.4.83

*IP* IAN GOW

cc. Caroline



10 DOWNING STREET

lanj

This is agreed with  
Patrick Jenkin & Nigel Lawson  
as to the PM's signature now.  
Please see the advice at Stage A  
about the PM seeing Mr Wilver.  
Can you deal with this  
request or should something be  
added to the PM's letter, please?

Mes 31/3

Ind. Pol. *gnc*



Y SWYDDFA GYMREIG  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switsfwrdd)  
01-233 6106 (Llinell Union)  
Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switchboard)  
01-233 6106 (Direct Line)  
From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

N. B. P. R. 31<sup>st</sup> March 1983

A.P.C. <sup>5</sup>/<sub>24</sub>

h.a.

*De Nigel*

I have seen your letter of 15 March to Patrick Jenkin about proposals for re-negotiating British Alcan's contract with the NCB for coal supplies to the Lynemouth smelter. I have also seen Patrick Jenkin's letter of 21 March and George Younger's of 24 March.

I agree that the NCB should be asked to make a further attempt to reach an agreement with British Alcan on the price of coal for Lynemouth. The proposals set out in your letter would be a reasonable basis for getting negotiations going between the two parties. However I share Patrick's hope that Norman Siddall will be allowed sufficient latitude to enable him to negotiate flexibly with the company. I am anxious that British Alcan's plants in Wales should have a secure and viable future; and in view of their dependence on the Lynemouth smelter I do hope that a way can be found of providing coal for the smelter at prices which are acceptable to both the company and the NCB.

I am copying this letter to the Prime Minister, Geoffrey Howe, Patrick Jenkin and George Younger.

*J*  
*Nigel*

The Rt Hon Nigel Lawson MP

Ind Pd,  
July 82,  
July Alcar

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31 MAR 1988

GRZ A

JH 425



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

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

Secretary of State for Industry

30 March 1983

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

*Dear Michael,*

BRITISH ALCAN - COAL SUPPLIES FOR LYNEMOUTH

Mr John Peyton wrote to the Prime Minister about this on 1 March enclosing a memorandum from the company.

2 We spoke and as you are aware, the Secretary of State for Energy wrote to my Secretary of State on 15 March proposing a basis on which the NCB should negotiate with British Alcan. My Secretary of State replied on 21 March with comments and the Secretary of State for Scotland has also commented (I attach copies of the correspondence). We understand that Mr Lawson agrees (a letter from him should follow shortly) that negotiations should be resumed between British Alcan and the NCB on the lines he and my Secretary of State have discussed. All that seems necessary, therefore, is a short reply to Mr Peyton recommending British Alcan to resume negotiations with the NCB. I enclose a draft to this effect.

3 Mr Peyton has also asked the Prime Minister to see Mr David Culver, the President and Chief Executive of the Alcan parent for a quarter of an hour on 13/14 April - your letter to us of 24 March. We see no need for the Prime Minister to see Mr Culver. My Secretary of State would have been happy to see Mr Culver, whom he saw in January last year but Mr Jenkin will be in the US. The Minister of State concerned, Mr Kenneth Baker, will also be abroad. However, Mr Norman Lamont could see Mr Culver at a convenient time on 13 April or Mr John MacGregor, on whose side British Alcan falls, could see him on either day. You may care to propose this to Mr Peyton. Mr Culver will in any case be seeing Sir Peter Carey on 13 April.

4 A copy of this letter goes to Caroline Brooks (D/En).

*Yours ever*  
*Caroline Varley*

CAROLINE VARLEY  
Private Secretary

Encl

Pl type WPM

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO  
MR JOHN PEYTON



BRITISH ALCAN - COAL SUPPLIES FOR LYNEMOUTH

Thank you for your letter of 1 March with which you enclosed a memorandum by British Alcan.

*I am sorry that*

(It has taken us a little time to consider this complicated problem. Nigel Lawson is now writing to Norman Siddall suggesting that discussions with British Alcan about the terms of supply of coal to the Lynemouth power station be resumed. I suggest that the next step is for British Alcan to arrange a meeting with the <sup>National Coal</sup> Board.

I am sending copies of this letter to Patrick Jenkin and Nigel Lawson.



Prime Minister 2

ce NO  
J. H. A.

SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

Mus 24/3

CONFIDENTIAL

The Rt Hon Nigel Lawson MP  
Secretary of State for Energy  
Department of Energy  
Thames House South  
LONDON  
SW1P 4AQ

M

24 March 1983

Dear Nigel,

with MCS?

I have seen your letter of 15 March to Patrick Jenkin about a proposal to help Alcan at Lynemouth. Though I have no direct involvement in a settlement of the Lynemouth problem, I am very much interested that British Alcan's operations in Scotland should, if possible, remain intact and commercially viable. I am, however, also concerned about possible damaging comparisons with the Government's efforts to save the Invergordon smelter.

I would not object to a settlement on the lines you suggest, ie coal at £20 per tonne for a period of three years providing we are clear that it can be defended as a commercial decision by the NCB. If that is the case then I do hope that the NCB and British Alcan will apply a commercial-in-confidence classification to the terms of any settlement between the two parties which would be purely a renegotiation of an existing contract. You will recall that Alcan were one of the Companies with whom we had discussions about taking over Invergordon after BACo closed their smelter and it is known that a coal based arrangement, similar to what you are now proposing was one of the options we examined in our attempt to get the smelter restarted. What makes it worse is that NCB were insisting that the very minimum price they could contemplate was £26 per tonne and colleagues absolutely refused to countenance the principle of such an arrangement. Although I appreciate that the situation is not precisely the same, you will readily understand that Ministerial speeches about the successful "saving" of Lynemouth would be very embarrassing politically to us in Scotland.

I do hope therefore that I can be assured that if anything like this is arranged, the details will be kept very confidential indeed.

I am copying this letter to the Prime Minister, Geoffrey Howe, Patrick Jenkin and Nicholas Edwards.

Yours sincerely,  
George

The Pol.

Alman

July 1982

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John PEYTON, MP 31/3

David CULVER of Alcan.

SP

10 DOWNING STREET

*From the Private Secretary*

24 March 1983

I wrote to you on 1 March about Mr. John Peyton's letter to the Prime Minister about the difficulties faced by the aluminium industry.

Meanwhile, the Prime Minister has been asked, via Mr. Peyton, whether she will see Mr. David Culver, the President and Chief Executive of Alcan, on 13/14 April for "a quarter of an hour".

I should be grateful if you would let us have advice on this, as soon as possible, at the same time as you send the draft reply to Mr. Peyton.

I am sending a copy of this letter to Julian West (Department of Energy).

M. C. SCHOLAR

Jonathan Spencer, Esq.,  
Department of Industry.

D.R.

CF → GR PP's ?  
PPS PL CLR  
MLI 24/3

Michael Scholar

THE RT HON JOHN PEYTON MP

1. You will remember the letter which arrived last week, from Mr John Peyton, about Alcan.
2. I have had a message from Mr Peyton, in which he says that Mr David Culver, the President and Chief Executive of Alcan, will be in England on 13th and 14th April.
3. Mr Peyton asks whether the Prime Minister would agree to see him for a quarter of an hour.
4. I think that your advice will depend on the extent to which we are able to send to Mr Peyton a satisfactory reply to the letter which we received last week.

23.3.83

IAN GOW



Secretary of State for Industry

Prime Minister <sup>2</sup> *CO/NO*  
 Mrs 22/3  
 DEPARTMENT OF INDUSTRY  
 ASHDOWN HOUSE  
 123 VICTORIA STREET  
 LONDON SW1E 6RB

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

21 March 1983

The Rt Hon Nigel Lawson MP  
 Secretary of State for Energy  
 Thames House South  
 Millbank  
 London SW1

Dear Nigel,

BRITISH ALCAN - LYNEMOUTH

Thank you for your letter of 15 March. *with mcs?*

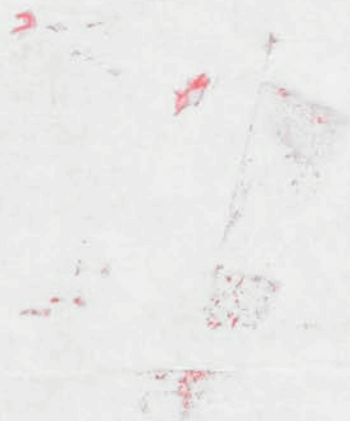
2 I take it, of course, that the £20 per tonne applies to the part of the supply of coal which the NCB has given notice it will terminate from 1 January 1984, and that the rest will be treated under the terms of the existing contract. Otherwise, the offer is less attractive during the three years than the offer already made to British Alcan.

3 On this basis, your proposals seem to me a helpful first step to get British Alcan and the NCB to start real negotiations. I am convinced that it is they who must negotiate in detail and that we cannot do it on their behalf. But I think British Alcan will insist on an understanding about the cost of future supplies of coal after the three years; you will remember that the offer of a much larger sum for 5 years failed to find a taker for Invergordon. While it is for them to argue their case, I hope you will give Norman Siddall latitude for reasonable negotiations.

4 I am copying this letter to the Prime Minister, Geoffrey Howe, George Younger and Nicholas Edwards.

*Yours  
 Peter*

Incl Pol,  
July '82,  
Algeria



22.11.82  
LABORATORY  
UNIT

Hatched

John PEYTON, MP. 21/3

Key  
Do you have the Peyton  
letter please

Prime Minister

Chased J/Ind  
10/16/3  
Chased again 23/3  
01-211-6402

We are awaiting  
a ~~ref~~ draft reply for  
you.

MUS 15/3

The Rt Hon Patrick Jenkin MP  
Secretary of State for Industry  
Department of Industry  
Ashdown House  
123 Victoria Street  
London  
SW1E 6RB

15th March 1983

John Patrick

I have seen, as you have, a copy of the latest note which John Peyton sent to the Prime Minister on 1 March. There is little new in it. In particular, the price which he reports that Alcan is now ready to offer for NCB coal appears to be only about £1 a tonne better than the figure of £15 a tonne that has been under discussion between Alcan and the Coal Board for the past 12 months, and the points which he makes about the legal position under the contract are familiar.

Nevertheless, I have been considering what I can do to help Alcan, and have come up with the following proposal:

- The NCB and Alcan should agree a variation of their existing disputed coal contract, which runs to 1999, in full and final settlement of all claims under that contract;
- the variation should consist of the NCB undertaking to supply Alcan with coal for Lynemouth for a period of three years at a price equivalent to NCB's lowest export realisations - viz £20 a tonne, which is well below the price Alcan would have to pay for imported coal.

An offer along these lines would secure for the Coal Board a customer which otherwise they might conceivably lose, at a time when they need all the customers they can get, and it would give Alcan a breathing space in which to sort out their strategy in the UK. It would require no extra call on the PSBR, since the NCB could accommodate it within their EFL and deficit grant limits so far as they have been set at present.

Subject to your views I propose to ask Norman Siddall to negotiate with Alcan with a view to a solution along these lines.

I am copying this letter to the Prime Minister, Geoffrey Howe, George Younger and Nicholas Edwards.

John  
Nigel

5

John ...

19 MAR 1983

...

...

...

...



John PEYTON, MP



da

~~14/3~~

Chased 14/3.  
BU extended 21/3

10 DOWNING STREET

From the Private Secretary

1 March 1983

Chased D/Ind. 21/3. S/S Energy has become involved. Draft will be delayed a couple more days.

Willie

I chased industry again today. The S/S has asked the Divisions concerned to revise the draft - hopefully it will be here by Thursday next 21/3. Kay

16/3

Kay

OK

WM  
16/3

I enclose a copy of a letter to the Prime Minister from Mr. John Peyton M.P., about the difficulties faced by the aluminium industry in this country.

I should be grateful if you could provide a draft reply for the Prime Minister to send to Mr. Peyton, to reach us by 11 March.

I am sending a copy of this letter and enclosure to Julian West (Department of Energy).

MCS

Jonathan Spencer, Esq.,  
Department of Industry.

ls



da

10 DOWNING STREET

*From the Private Secretary*

1 March 1983

I am writing on behalf of the Prime Minister to thank you for your letter of 1 March. I will place this before her and you will be sent a reply as soon as possible.

mcl

The Rt. Hon. John Peyton, M.P.

ls



The Rt. Hon. John Peyton, M.P.



HOUSE OF COMMONS  
LONDON SW1A 0AA

CONFIDENTIAL

1st March 1983

cc: 15  
(2)

Prime Minister

We will let you

have a draft reply.

MMS 1/3

Dear Prime Minister

You are, I know, already aware of the difficulties which the aluminium industry in this country has had to face as a result of the recession and of the efforts which it has been making to overcome them.

The recent merger of Alcan Aluminium (UK) and British Aluminium was brought about and implemented at a cost to Alcan's parent company of £150 million. While it represents an important step forward, the shadow of a steep increase in energy costs still hangs over the new company. This has been caused by the Coal Board's unilateral decision to end the contract under which it supplies coal to the Lynemouth smelter.

George Russell, the Managing Director, and I have been at some pains to keep Ministers informed of our problems and of the consequences of a failure to solve them. David Culver, President of Alcan Aluminium Ltd. (our parent company) and Patrick Rich, President of Alcan Aluminium (Europe) S.A. and Chairman of British Alcan Aluminium Ltd. are aware of this approach to you. Both would be willing to come to this country at any time, if you or your colleagues thought that discussion with them would contribute to mutual understanding of future prospects as well as to a solution of our present problems.

I am sending you the enclosed memorandum on behalf of the Chairman of British Alcan, in order to stress the urgency which we attach to the settlement of our energy problem. Copies will go to all Ministers with whom we have been in touch.

John Smith  
John Smith

The Rt. Hon. Margaret Thatcher, M.P.

BRITISH ALCAN

(This memorandum updates, and should be read in conjunction with, George Russell's letter of 17 December to the Secretary of State for Industry)

For most of 1982, three factors stood in the way of survival for the U.K. aluminium industry: fierce and damaging competition in a home market not big enough to sustain both Alcan UK and BACO; the possibility that future energy costs might cause the Lynemouth smelter to go the same way as Invergordon: prices depressed by recession and further weakened by cheap European imports. No matter how desirable, it was not possible in the time available and in the circumstances prevailing last Autumn for Alcan to take more than one step at a time.

Alcan and BACO had between them lost in 1981 and 1982 £50 million and £40 million respectively. BACO's losses led directly to the closure of Invergordon; they also caused severe pressure for Tube Investments, which owned 60% of the shares. In November 1982, Alcan Aluminium (UK) Ltd., with the support of its parent company, took over BACO at a cost of £100 million; implementing the merger has cost a further £50 million. No Government support was either asked for or offered: but the Government did accept the merger as a necessary and inevitable step and decided not to refer it to the Monopolies and Mergers Commission.

In the seven months prior to December 1982, 1,000 people had left the two companies. The new Company, British Alcan Ltd., announced on 8 February that it had made some 1,300 people redundant in Falkirk, Rogerstone and Kitts Green. In the previous week it announced the closure of its foil plant at Wembley involving some 300 people. Those measures have done no more than clear the decks; they have given the Company the opportunity to look at the crucial problem of energy prices.

Alcan's original contract with the National Coal Board is obscure in its detailed provisions. Its broad purpose, however, was to provide low cost energy until the year 2001. One term in the contract, which the N.C.B. has tended to overlook, provides that in the event of the Board withholding supply it would be obliged to pay half the additional cost of purchase from an alternative source. Alcan had already paid, prior to the merger, a total of more than £25 million above the prices provided for in the contract. The new Company is now prepared to increase the price by a further 50%; there remains however a gap of some £6 million p.a. between the figure which the N.C.B. have in mind and what the Company could pay without making the smelter hopelessly unprofitable.

The Lynemouth smelter is of particular importance: it processes metal in shapes and to a quality essential in the downstream operations. Moreover, its closure at this juncture would result in such a diminution of the assets as to put the Company in breach of its borrowing covenants: its survival would then require a substantial financial restructuring, something which the parent company could not and would not accept. Thus, closure of the smelter would bring to an end the whole of the downstream activities: redundancies would be of the order of 10,000, principally in the North East, South Wales, the West Midlands and Scotland.

Metal prices have been deeply depressed: they fell from nearly 2,000 dollars a tonne in 1980 to something under 1,000 dollars a tonne in 1982. U.K. prices have been further weakened by cheap imports made possible by the high value of the pound. Moreover, other European Governments have been determined to sustain their industries more or less regardless of cost. A separate note giving examples of such activities is attached.

British Alcan believes that the merger, achieved at considerable cost to its parent company, marks an important step towards the establishment in the U.K. of a strong, permanent and profitable aluminium industry. Further progress depends upon the Company having a firm base in its own home markets. Its efforts to achieve this could be undermined either by a continuing flow of imports from Europe, made cheap by subsidies, or by some sudden surge in energy costs. It now sees an early settlement of its post 1983 coal prices as being essential. If it cannot achieve such a settlement by the end of next month, it will have no alternative but to embark upon the closures indicated.

British Aluminium (UK) Limited

SECRET

Registered Office: 123 Victoria Street, London SW1E 6RB  
Telephone: 01-235 1234

17 December, 1982

The Rt. Hon. Patrick Jenkin, M.P.,  
Secretary of State for Industry,  
Ashdown House,  
123 Victoria Street,  
London SW1E 6RB

Dear Secretary of State,

I would like to thank you on behalf of John Peyton and myself for arranging the meeting between ourselves, yourself and the Secretary of State for Energy on December 7.

You will recall that at that meeting I agreed to write to the Secretary of State for Energy pointing out the area within our coal contract which may not have been given full consideration by his department and the National Coal Board. A copy of that letter is attached. I also agreed to write to you following the formation of British Alcan Aluminium Limited, to give our up to date strategic views showing our potential with the Lynemouth Smelter remaining as a viable entity running at full capacity, and also the down-side position with the smelter partly or wholly closed.

As we said at the meeting, our parent company has made a very considerable commitment of faith to the U.K., by making available f100 million of its resources in order to produce a strong, permanent and profitable aluminium industry here. That very large amount of cash will, however, be wholly used up in acquiring the shares of British Aluminium, in paying for the physical rationalisation of the many businesses in the U.K., and in meeting the losses which are bound to occur in the short term. Thus little or no cash will be available from our parent for further expansion, and in the circumstances it would, in my view, be wholly unreasonable to seek to obtain further funds from them.

Your Department is well aware of the significance to our company of the Lynemouth smelter. The recent study carried out by both the Departments of Energy and Industry confirmed the statements made in correspondence between yourself, myself and John Peyton earlier this year. Certainly Alcan was well aware of the importance of this facility, for the future business and I do not believe would have invested further in the U.K. (nor could I have recommended them to do so) if they had believed that there was a serious risk that

/Continued

the smelter would have to close. Except in times of quite phenomenal low demand for aluminium, or in the case where the energy costs of smelting aluminium at Lynemouth rose dramatically and not in proportion to energy price rises elsewhere in Europe, the smelter is, and always has been, a major cash generator. Its continued operation would, therefore, enable the downstream activities in the U.K. to be supported and expanded without making further demands for cash on our parent company. Moreover, the Lynemouth facilities process aluminium in shapes and to a quality which is essential if the U.K. industry is to remain competitive, and which would otherwise have to be imported from Canada or from elsewhere in Europe.

As we also said at the meeting, we very much welcomed the new Energy Bill which would permit us, we believe, to ship power across the grid. This would enable British Alcan to work out an integrated energy policy both for its smelters and for its rolling facilities and would, for example, permit increased production at both Lochaber and Kinlochleven, from the existing facilities, which are currently constrained by the hydro-electric supply. More generally this ability to transfer power across the grid optimally for our own plants would enable us to be completely competitive in energy with European competitors, and fully match them in the second largest item of cost in the semi fabrication of aluminium.

On the assumption, therefore, that the question of the coal supply to Lynemouth can be satisfactorily resolved very soon, it will enable the company to embark on a strategy in the U.K. which will have very significant effects indeed in Scotland, Wales and England. First of all, we will need to reorganise the manufacturing facilities and this by itself will lead in the short term to some redundancies and a write off which will cost us at least another £50 million. However when that is complete after about a year, we believe we will have a viable rolling business at both Welsh plants, a secure defence plate business in the Midlands, three interlinked smelters, including two in Scotland, producing more than ever before, foil and extrusion divisions able to withstand the strongest European competition, and a series of small speciality businesses located across the U.K., demand for whose products is counter-cyclical. If this plan can be satisfactorily implemented we see a possibility for the non-reduction plants at Invergordon (though not for the smelter) as a world wide supplier of anodes, cathodes, cryolite and, if imagination can be shown on the part of the Government Departments and agencies, the private sector and the company itself in developing a suitable financial package, a basic carbon calcination plant also, supplied with Scottish oil. I indicated to you at our meeting that we were already taking practical steps to work out this strategy, and a team jointly composed of Canadian and U.K. experts is already studying these possibilities in Scotland.

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In addition, you may know that we have been working for the past two years with British Leyland on the development of their new aluminium-based car. Technology resulting from the collaboration between us, and involving improved rolled products, has produced a car which we believe will be able to do 100 m.p.g. at 30 m.p.h. This development could well be critical to Rogerstone in the longer term, or provide a base load for a new Falkirk facility. However, if the rolled product business were to be put at risk because of a high cost base, it would be virtually impossible for BL to carry this major development forward on its own, and even if it did, the economic advantage to the U.K. as a whole would be substantially reduced.

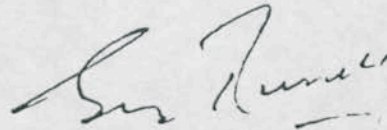
I cannot emphasise too strongly, therefore, the significance in our thinking of the Lynemouth Smelter, and the need to resolve the question of the coal supply quickly in order that we can get on with the hard work of implementing our strategy in the U.K., and thus securing a large and viable business with enhanced and more soundly based employment opportunities in Scotland, Wales and England. The downside risks, if the future operation of the smelter is put at risk, are very simply stated, either:

- (a) If the smelter had to be half closed in 1984, we do not believe it would be possible to maintain production of rolled products. This would mean at least the closure of half of Lynemouth (500 jobs) two rolling mills in Wales (2000 jobs) and the stockist company (500 jobs). In addition another 500 or so jobs in other areas of the company which are dependent on our ability to optimise energy supplies to our plants would also inevitably disappear. Moreover there could be no question of any activity remaining at Falkirk if it were still in operation by the end of 1983, much less of any new business being established there. The National Coal Board tell us that in these circumstances there will also be a loss of 1000 mining jobs, giving a total job loss in excess of 5500.
- (b) The worse scenario, but by no means an improbable one, would be that the smelter is totally closed by 1984, on the grounds that it is not economically viable to run it at half capacity. This would precipitate a major financial crisis for the company, since it would not be able to stand a write off of a further £60 million, in addition to the write off of the assets of the rolled products group. In those circumstances, the only way to stave off financial collapse would be to obtain parental support on a massive scale, larger indeed than the investment which Alcan has made this year. There could be no conceivable commercial grounds why our parent company should make such an investment. In these circumstances the job losses would be between 10,000 and 15,000 depending on the impact on National Coal Board activities.

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I fear that would not be the end of the matter, however. Your Department is also aware of the uncertain legal position under the contract, and that the obligations of both parties to the contract continue until 2001 even if the National Coal Board withdraw the supply of coal. A major lawsuit would be inevitable, involving the public discussion of many of the points I have put to you in this letter, and with no possibility of the taxpayer emerging the winner. I am sure that all parties, the company, the National Coal Board and the Government have the strongest possible interest in achieving a positive result and we strongly urge you to do what you can to secure it.

Yours sincerely,



George Russell  
 Managing Director

==

STEPS TAKEN BY EUROPEAN GOVERNMENTS TO SUSTAIN AND  
SUPPORT THEIR ALUMINIUM INDUSTRIES

1. France

The French Government recently announced a grant to Pechiney (Government owned monopoly producer) of F.F. 2.4 billion to cover the company's losses in 1982.

Electricité de France has been "persuaded" to give Pechiney a 25% reduction from F.F. 0.16 per K.W.H. to 0.12 or even 0.10. It is likely that Electricité de France will, in order to make this respectable in European eyes, take shares in Pechiney. The arrangement is intended to be long term.

2. Germany

The German Government has recently intervened with a temporary financial bridging arrangement (to be replaced during the year by something more permanent) costing D.M. 8 million in 1983, in order to keep open Alcan's smelter at Ludwigshafen. This smelter, which is in Kohl's constituency, is a small one with a 40,000 tonne capacity; West Germany's total smelting capacity being of the order of 750,000 tonnes. The energy costs of the much larger smelter at Hamburg now stand at about half of that agreed for Ludwigshafen.

3. Italy

It is expected that the Italian Government's support for its aluminium industry in 1983 will amount to U.S.\$1 billion. This will be used to provide oil-based power to the major smelter at something substantially below the cost of production.

4. Spain

The Government intends to keep energy costs for smelting down to a level equivalent to the average of the costs in all E.E.C. countries.



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Secretary of State for Industry

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB  
TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

15 November 1982

The Rt Hon G Younger MP  
Secretary of State for Scotland  
Scottish Office  
Whitehall  
LONDON  
SW1A 2AU

Prime Minister (2)

Some friction here.

MCS 15/11

Dear George,

You were kind enough to explain to me why you felt it necessary to write in the terms of your letter of 9 November. While I understand your indignation, you will, I think, recognise the need for us to act on a cautious and consistent basis, both at Ministerial and official level, until the major matters have been decided collectively.

2 I have done my best to keep you in the picture. In the cases you mention, however, there were exceptional circumstances of which you may not personally be aware. When Alcan and BACO gave us the first indication of their joint intentions, they made it clear that they were very worried indeed about the possibility of a leak, which might in their view have had the effect of so depressing the share price of BACO and its parent, TI, that the whole project would have been frustrated. They were insistent that the information they gave us should not go outside a very narrow circle, and specifically asked that it should not be passed on to the Scottish Departments. And I believe they may have subsequently expressed their unease to you about the premature disclosure of commercially sensitive information, even though they recognise, as we all do, the political pressures on Ministers with major regional responsibilities.

3 Nor do I think that the merger will in fact be bad for Scotland, or indeed for the UK as a whole, in the medium term, given the absence of credible commercial options. As soon as the dust of the merger has settled, I intend to discuss with the industry, and particularly with Alcan, their strategy for UK operations, and shall naturally want your help and that of Nick Edwards to achieve a positive and permanent result. As to the particular point about the waiver of the loan for the Invergordon Smelter, it falls to my Department to ensure that the financial proprieties are fully observed and this we have, of course, done.



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4 We had a word in the Lobby on Thursday evening about the iron and steel side. I can only repeat that, given our conversation in the margins of Cabinet in the morning, I was very surprised, when on my return from Brussels I learned of the statement that you had made to the Press. Although the terms used had been discussed with my officials, they were under the impression that you would only use the line agreed in response to direct questions put to you personally by the Lobby. They only later discovered that your Department had in fact issued a Press Notice.

5 Whatever the outcome of our consideration on Mr MacGregor's options, I am going to face an extremely difficult argument with the European Commission. I had spent the afternoon with Viscount Davignon pressing him and his fellow Commissioners in advance of our meeting in Denmark this week to be prepared to take the strongest possible line with our partners in enforcing the Davignon regime and in particular in demanding that State Aids should be linked with firm and implemented closure plans. This is a regime which has got to apply as firmly to BSC as to our partners. Of course I have made the point again and again that we have already made a bigger sacrifice than other countries, but we have also paid vastly more in subsidies. I do not yet know what the outcome of our consideration of the MacGregor options is likely to be, but I am sure you will appreciate that if in the event we decide that the immediate closure of Ravenscraig is not on, there is no way that this will not involve significant extra finance for BSC. I cannot stress too strongly that it is necessary that all of us in Government bear these considerations as fully in mind in what we say in public as we do to the more obvious and immediate political concerns which press so hard upon us.

6 I must make it clear that I have not yet had a firm statement of Mr MacGregor's options. His paper raises a number of issues which I have discussed with Mr MacGregor and on which I have asked for further elaboration and more detailed figures. Mr MacGregor's proposal to close Ravenscraig is therefore not "out in the open". In Yorkshire on Saturday, I found a general assumption that there is some kind of published document which is the BSC's firm proposals which are now being considered by Government. As you and your officials know, this is not the case and it is unfortunate that the Press should have been given the impression that it was.

7 Let me say at once that I do understand the intense pressure you are under from the Scottish Press, as indeed I am from the national Press. On television, on the radio, in the House of Commons, and last week in a helpful meeting with the Labour Steel Group, I have been taking a consistent and sympathetic



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... line which was perhaps adequately summarized in the relevant passage of my speech last Tuesday of which I attach an extract. It really does not help our consideration of these difficult and sensitive issues if Ministers do not appear to be talking with one voice.

8 I am as anxious as you are that we should maintain the closest consultation, together with Nick Edwards, during these difficult weeks. Of course, there will be leaks to the unions and to the Press (e.g. that at Scunthorpe a day or two ago). But in the last resort, it is my responsibility to bring to colleagues our considered proposals for the future of the steel industry and it only makes my task more difficult if the impression is given to the Press that we are at odds with each other. In fact, we are not as our discussions have made clear. Let us try to keep it that way.

9 I am sending copies of this letter to the recipients of yours, and to Nick Edwards.

Your ever  
Ratne

Encl

Mr. Jenkin: I hope that the hon. Gentleman will forgive me. I must proceed with my speech. I come now to the passage in the Gracious Speech that deals with private generation of electricity, where we shall be introducing legislation. The Bill will remove existing statutory constraints on generating electricity as a main business and will require the electricity boards to purchase electricity from the private generators at a fair price.

It will open up electricity generation and supply to competition, it will encourage industry to use waste heat, as in combined heat and power schemes and will encourage private investment in renewable energy sources, such as hydro-electric and wind power.

The House will recall that I made a statement on the steel industry and answered questions on 22 October. Subsequently, there were questions about it at Question Time. I fully understand the anxieties that are felt in all parts of the House about the steel industry. Across the world, markets for steel have been collapsing and there is a world-wide excess of steel-making capacity. This country is not alone in facing a crisis in its steel industry.

The British Steel Corporation is now considering how to respond to the downturn and is reappraising its medium-term prospects. I have asked Mr. MacGregor, the chairman, to put forward a number of options for the future so that the Government can consider the problem on the widest canvas. In recent weeks, I have made it clear to the House that to the extent that these options concern the future of BSC's five major integrated steelworks, neither the Government nor the corporation has any intention of taking precipitate action based solely on short-term considerations. That would be very short-sighted.

However, we must take a careful look, as far ahead as possible, at the prospects for the steel industry if we are to reach sensible decisions on the future strategy of such an important basic industry. I do not want to disguise from the House the difficult decisions that may face the Government, and for which the Government will accept responsibility. However, the review of BSC's five main integrated works cannot and will not hold up other measures that BSC needs to take urgently to restore its financial and commercial position.

Mr. Orme: I have been listening carefully to the Secretary of State and he is on a vital point. We understand that he does not want to be precipitate and that he wants to discuss any decision in some depth before coming to the House. However, there is great uncertainty both within and outside the industry. Trade unions and those working within the industry are nervous about the situation. Will there be a statement before Christmas, or after Christmas?

Mr. Jenkin: I am acutely aware of the anxieties that are felt in many parts of the country. I have said privately, and will say again today, that I hope that we shall be in a position to reach decisions and to make announcements before Christmas. However, the right hon. Gentleman will understand that, given the gravity of the issues to be faced, it would be unwise of me to give a cast-iron guarantee. Nevertheless, I shall do my best.

Mr. A. E. P. Duffy (Sheffield, Attercliffe): It has been suggested that the Government should explore any

opportunities that are available to help the industry. The right hon. Gentleman will know that under last year's Iron and Steel Act powers are still available to enable him to help the industry and to write off still further some of its indebtedness, and thus relieve it. However, those powers run out at the end of the year. Does the right hon. Gentleman intend to exercise them?

Mr. Jenkin: I am sure that the hon. Gentleman would not expect me to prejudge any decisions that the Government might reach in the light of the corporation's advice. Therefore, perhaps I can duck that question. Today, we agreed to increase the amount of money to be made available under the private steel scheme. I hope that we shall be able to respond favourably to most, if not all, of the applications that had to be in, under that scheme, by 25 September.

Since the subject has been raised, I should remind the House that the Government have provided well over £1 billion to help to rationalise British Leyland. I am sure that the Opposition are as pleased as I am that the board can report that a break-even is now in prospect and that it expects to seek private sector equity over the next two years in its mainstream businesses. I hope that Opposition Members welcome that as unreservedly as we do. British Leyland negotiated a two-year wage settlement with its work force. Such settlements help jobs, because excessive wage claims—often uncritically backed by Opposition Members—destroy jobs if they are met. I see that the right hon. Member for Chesterfield (Mr. Varley) is deep in "The Times Guide to the House of Commons". He has something to answer for and I hope that he will do so when he replies to the debate.

During Mr. Scargill's barnstorming campaign for a 30 per cent. pay increase in the mining industry, the right hon. Member for Chesterfield appeared on a platform and told his audience something that was quoted on BBC radio. He said:

"This is the most crucial battle that you are facing and if you don't win this battle then just imagine what Margaret Thatcher will do. She will go out on Downing Street, there will be the assembled television cameras and the hordes of reporters and she will say 'rejoice, rejoice.' That would be a disaster for us." There was then applause. The right hon. Gentleman clearly backed the 30 per cent. pay increase for miners every inch of the way, although he prides himself on being a sensible moderate. He has tarnished his reputation—I hope, for his sake, not beyond redemption.

The terms of the Opposition's amendment and the content of the Gracious Speech have led me to concentrate most of my remarks on the public sector. The world recession has hit private industry hard. Nevertheless, the picture is far from all black. Productivity in manufacturing industry, expressed as output per person hour was, in the second quarter of this year almost 9 per cent. above the average for 1979. Having lost—I come to the point raised by the right hon. Member for Stepney and Poplar (Mr. Shore)—about 50 per cent. of our competitiveness between 1975 and 1980, we have won back some 10 per cent. to 15 per cent. However, as the right hon. Gentleman will recognise, those figures show that we still have a long way to go. The Government are ready to do all they can to help. I have already described the help, worth several billions of pounds, given by the Government to industry in the form of reduced interest rates, national insurance cuts and help with energy. My Department has a further contribution to make.

The House will remember that in 1979 payment of regional development grants was deferred for four months to reduce public spending and the public sector borrowing requirement. Its continuation has involved, and still involves, an extra financing cost for industry which it could well do without. The Government have therefore decided that the four-month deferment should end. The amount involved is about £150 million and I hope to clear this within a month. From today, new grants approved will be paid without deferment. I am today placing in the Library a note giving details of how that will be done. The regional development grant scheme does not extend to Northern Ireland but my right hon. Friend the Secretary of State for Northern Ireland will also act to end deferment as it applies to the standard capital grant scheme in the Province.

The measure will, I know, be warmly welcomed by industry. It will give a valuable boost to company liquidity in the manufacturing sector in the regions. It is further evidence of the Government's determination to play their part in helping industry to reduce its costs and to become competitive. At the heart of our industrial policy lies the truth that it is customers who create jobs. To win customers, industry must be efficient and competitive. Many British firms are efficient and competitive. They are able not only to safeguard jobs but often to take on new people. However, many firms are not yet competitive, although most are making strenuous efforts to become so.

The prime responsibility for that lies with industry. The Government can help through lower inflation and lower interest rates and by helping industry to cut costs, to introduce new technology and to invest. The Government can also help by freeing industry from the burdens that nationalisation has, over the years, imposed upon it, and by giving the State industries the freedom to become as efficient as their private-sector customers. The Gracious Speech contains important measures to achieve this. The amendment moved by the right hon. Member for Salford, West is deeply and irremediably rooted in the Opposition's past failures. I ask the House to reject it.

Several Hon. Members rose—

Mr. Deputy Speaker (Mr. Ernest Armstrong): Order. Mr. Speaker has asked me to remind the House that yesterday long speeches prevented a number of right hon. and hon. Members from taking part in the debate. Today, many more hon. Members wish to speak. I ask for brevity.

5.50 pm

Mr. William Rodgers (Stockton): For a large part of this afternoon we have been discussing the privatisation of the public sector. No doubt we shall do so during much of this debate.

If the autumn statement of the Chancellor of the Exchequer yesterday had been a prospectus with which to launch a company, nobody would conceivably have bought the shares. It was depressing on every possible count. As has been pointed out to the House, it assumes that in 1983 we shall have 3.5 million registered unemployed, with a peak figure certainly larger. My favourite sentence, and one which is very finely honed, is the final one in paragraph 1.18:

"At the end of 1983, the inflation rate may still be around 5 per cent."

Anybody who has ever had ministerial responsibility, particularly in the Treasury, will know the amount of

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July 82

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IND. POLICY.

SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

Prime Minister (2) *CG JV.*

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

*This is very  
disturbing.*

*MLs 10/11* 9 November 1982

*Dear Patrick,*

I am writing to express my extreme disquiet about the failure of the Department of Industry to consult with the Scottish Office over the proposed BACo/ALCAN merger, a matter of great importance to the Scottish economy and to the political credibility of Scottish Ministers. Since one of my officials was attending the inter-departmental discussion on the future of ALCAN's Lynemouth smelter, I find it all the more astonishing that we were not told of the proposed merger and I regard the possibility of the failure being ascribed to inadvertence as remote.

BACo has in Scotland two smelters (600 employees), a rolling mill (1,050), a chemical plant (500) and a foil mill (300). Approaches by BACo and/or ALCAN to the Department of Industry were made in the middle of October; but I was left to find out what was afoot from an opposition MP, whose delight at exposing the lack of communication within Government and the lack of regard by Whitehall Departments for my interest is now publicly expressed.

Our two Departments worked closely together last year in the discussion over the Invergordon smelter and regular contact was maintained throughout the months while that issue remained unresolved. Quite apart from the obvious importance of BACo's operations in Scotland, your officials were therefore fully aware of our concern over the future of this company and this concern was underlined when my officials followed up the information which came to me from the Opposition. Yet the Department of Industry took a position of support for the takeover without consultation with me, and acted on it by advising Lord Cockfield in your letter of 26 October that the bid should be facilitated. Failure to send me a copy of this letter was inexcusable given the background and the fact that it was copied to the Department of Energy leaves me with no alternative but to conclude that this failure was deliberate. I would certainly have wished to explore alternatives (and not to have relied on protestations by BACo that it had already done so) in circumstances where the clear intention of ALCAN, acknowledged in your Department's briefing for the Prime Minister's Questions on 27 October, is to run down or completely close the Falkirk mill; and where the Government, for once, had a powerful card to

play in relation to reversionary rights to the hydro electric power supplies for the Lochaber smelter. From a political point of view you will recall that BACO was the beneficiary of a generous settlement over the Invergordon smelter at the taxpayer's expense, which was agreed, and was justified by me to the House, on the basis that it would help to secure the future of its other operations. Now that the main benefits of that settlement appear to be going to the shareholders of Tube Investments, BACO's parent, public comment on the Government's dealings with the aluminium industry is, not surprisingly, scathing, and I am left to bear the brunt, as the enclosed cutting from the "Sunday Standard" illustrates.

A similar difficulty arose over Ian MacGregor's recent letter about the steel industry. My Department has good relations with the Iron and Steel Division of your Department and this I greatly welcome, but last month it was only after extreme pressure from my office that yours was prepared to make available to mine Ian MacGregor's letter in which he outlined a proposal which had the most far reaching implications for Scotland. I find this extraordinary considering that I and my colleagues in the Scottish Office have probably more at stake in this matter than any of our colleagues.

Simply from the point of view of efficiency, this seems to me to be no way to conduct the business of Government. But it is not simply a question of efficiency: the political implications are very serious. We have been remarkably successful in defusing the Scottish devolution campaign and in demonstrating that a Secretary of State in the Cabinet has more clout where it matters than a Scottish Assembly could wield. What has happened in these two cases is being used by our opponents to demonstrate precisely the opposite. I hope you can assure me that they will get no more help of this kind.

I am copying this letter to the Prime Minister and to the Secretary of State for Trade.

Yours ever,  
Cunze



The quality of Scotland  
**SUNDAY STANDARD**

## Disarray over aluminium crisis cannot be tolerated

FOR A Government department to be caught out once on a major issue in politics is hardly unusual, and even forgivable. To be caught out twice within a year, over the same issue involving many Scottish jobs, is simply not tolerable. Thus the failure of the Scottish Office to anticipate last week's crisis over the future of British Aluminium and its 2500 jobs in Scotland has exposed a worrying weakness at New St Andrew's House.

When this newspaper revealed exclusively last Sunday that BACO and its rival Alcan were in merger talks, Scottish Office Ministers had just three days' prior knowledge of the affair. They had not been consulted and had little chance to work out possible policy options to protect jobs.

The whole, sad, serious business has ominous echoes of the previous BACO crisis in Scotland, over its Invergordon smelter. Then, too, the Scottish Office was ill-informed and ill-prepared to negotiate seriously with the company, either over a possible subsidy to stay at Invergordon or over its wish to back out of its power deal with the South of Scotland Electricity Board.

It was inevitable that the taxpayer would lose out over Invergordon, through the company's success in selling its cheap power rights for a clear profit of £20m (once again, as revealed by the

Sunday Standard) and through having to pick up the pieces for the shattered community and its 600 lost jobs.

Now it seems inevitable that this fresh crisis will bring more misery to Scotland, through closure and cutback among BACO's five plants, the most vulnerable of which is the Falkirk rolling mill employing 1000.

We are entitled to ask, why was this not foreseen? Given the widely reported fact that the world aluminium market has continued to plunge into still-deeper crisis since the Invergordon closure, and that plants have been shut around the world, it is astonishing that the Scottish Office remained ignorant of BACO's new plight and the consequent decision by its majority owner, Tube Investments, to divest itself of the troublesome and costly subsidiary. Are there adequate procedures for monitoring the health or sickness of major employers in Scotland, so that Ministers can be

given advance warning of any impending crisis? If so, why did they apparently fail on this crucial occasion?

The need of effective monitoring of Scottish industry and commerce has never been higher. Not only has the recession wrought havoc among areas of the economy previously thought immune from cutbacks and closures, but this latest aluminium saga seems to add weight to the widely held view that Scotland suffers from a lack of political clout where it matters — in London, in the Cabinet and in No. 10.

If the Scottish Office cannot rely on being kept swiftly informed of events by other Government departments — for there was certainly a delay of days in news of the BACO-Alcan talks passing from the Department of Industry to senior Scottish civil servants and Ministers — then it must redouble its efforts to make sure that it knows what is going on under its own nose.

But how different could it have all been if, just for once, an informed Scottish Office had taken the initiative months ago? If, having detected BACO's fresh problems and Tube Investments' unwillingness to continue meeting its losses, it had repeated its Invergordon exercise and launched a Government search for a buyer before the situation reached crisis point? It seems at least possible that a more managed, controllable change of ownership could have been accomplished with less potential effect on Scotland. But we shall never know.

In coming weeks the Scottish Office and its Ministers will embark on their most critical fight yet: to avert the threatened closure of Ravenscraig steelworks. The performance of the Scottish Secretary George Younger and Alex Fletcher, his Industry Minister, to date on the aluminium issue does not lend much confidence for the future of the Scottish steel industry.

### Secrecy rules

MR YOUNGER may be unhappy about aluminium, he is also unhappy about leaks. Last week at the Scottish Council's International Forum at Aviemore, he criticised the way that continuing leakages of information from Government and industrial sources

often force Ministers to take major policy decisions in public. Many likely options are denied because they are paraded, distorted and destroyed before he has a fair chance to consider them in private, he complained.

Undoubtedly Mr Younger has a point with regard to the lack of privacy accorded to public figures today although there is a quid pro quo stated: politicians often turn constant exposure very much to their own advantage.

But he does not have a valid argument when he argues the right of Government Ministers for privacy in which to take decisions. For privacy, read secrecy in Mr Younger's vocabulary. The Government machine still manages to be observably secret when considering issues of major public interest, and heavily "leaky" when it wants to get its political point across.

While journalists have by and large a good record in breaking down the barriers of secrecy within government, far too many issues continue to be decided without the knowledge of those directly affected. The aluminium crisis is a case in point.

For as long as this attitude persists, the Sunday Standard and other newspapers will continue to investigate issues with regard only to the public interest.

Oct 31st 1982  
 PAGE 12

IND. POL : ALCAN ALUMINIUM JULY 1982



40 NOV 1982



Ind. Pol.

From the Secretary of State

Prime Minister (2)

COMMERCIAL - IN CONFIDENCE

MARKET SENSITIVE

The Rt Hon Patrick Jenkin MP  
Secretary of State for Industry  
Department of Industry  
Ashdown House  
123 Victoria Street  
London  
SW1E 6RB

*[Handwritten mark]*

Good.

MS 28/10

27 October 1982

*Dear Patrick,*

ALCAN/BACO

Thank you for your letter of 26 October about Alcan's proposal to bid for Baco.

I recognise that a quick decision is needed, and in the circumstances have agreed that confidential guidance should be given to the two companies that on the facts before me I would not propose to refer the bid to the Monopolies and Mergers Commission. This guidance will be provided in time for the Alcan parent Board meeting on Thursday 28 October.

Copies of this letter go to the Prime Minister, Nigel Lawson and to Sir George Younger.

*[Handwritten signature]*

LORD GOCKFIELD

COMMERCIAL - IN CONFIDENCE

MARKET SENSITIVE

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE



JF1806  
Secretary of State for Industry

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

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

26 October 1982

Lord Cockfield MP  
Secretary of State for Trade  
Department of Trade  
1 Victoria Street  
LONDON  
SW1H 0ET

Prime Minister (2)

MS 26/10

Dear Arthur,

ALCAN/BACO

I understand that you will be considering later today whether confidential guidance should be given to Alcan immediately on the bid which they are known to be contemplating for the whole of BACO.

2 I recognise that it might seem odd to give such guidance now, when the matter has been public knowledge and before hearing the views of other interested parties. For that reason it could only be quite exceptional circumstances which could justify considering such a course of action. I believe these exceptional circumstances do in fact exist, and I urge you to consider whether you should not respond favourably to Alcan's proposals before the Board Meeting of the parent company in Canada on Thursday. In the current state of the international aluminium market the takeover by Alcan of BACO's business is by far the best guarantee the UK can have of continued activity in that area, together with an appropriate measure of future financial support. Until relatively recently the Alcan Board Members in Montreal were so convinced of the industrial logic of this proposal that they had virtually authorised the UK management to make a bid, subject only to final approval by them. But this position has now changed. Alcan will be registering a loss on its worldwide business for the last quarter, and this is the first time that this has happened in the life of the company. Future resource allocation and cash flow has therefore come to the forefront. As a result, the Chief Executive has called for a preliminary meeting before the Board to examine not only this proposal but options for the use of resources, and it is vital that we should do all we can to ensure that a conclusion favourable to the UK is reached. One can well understand the



CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

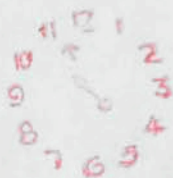
concern on the part of the UK management that the UK Government's attitude is made known to the Board in as convincing and explicit terms as possible. Otherwise there is a serious possibility that the Board will either decide not to proceed at all (which seems rather unlikely) or to postpone a decision in which case an offer cannot be made. This is bound to have adverse consequences not only for the business in the UK, but for BACO and its parent, TI, whose financial position is also a matter of considerable concern to me.

3 If you would like to have a word this evening I shall be very ready to do so.

4 Copies of this letter go to the Prime Minister, and to Nigel Lawson at the Department of Energy.

Your  
Patrich

26 OCT 1982





Prime Minister (2)

ms 21/10

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Patrick Jenkin  
 Secretary of State for Industry  
 Department of Industry  
 Ashdown House  
 123 Victoria Street  
 London  
 SW1E 6RB

20 October 1982

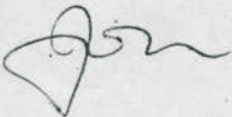
Dear Patrick,

ALCAN ALUMINIUM (UK) LIMITED

I have seen a copy of your letter of 13 October to Nigel Lawson, Nigel's reply of 18 October and Nicholas Edwards' and John Sparrow's comments in their letters of 15 October.

2. I agree that we should accept officials' conclusion that there is no case for the Government to intervene in the normal commercial negotiations between NCB and its customers. As you recognise, any course of action other than straight commercial negotiations between the Board and Alcan has very obvious dangers. I therefore agree with Nigel Lawson that the Board must take their decision within existing financial constraints and policy objectives. As John Sparrow comments, the sort of contract which Alcan seeks would be doubtfully consistent with the medium-term profitability objective which we set the Board earlier this year.

3. I am sending a copy of this letter to the Prime Minister, members of E Committee, the Secretary of State for Scotland, the Secretary of State for Wales, Sir Robert Armstrong and John Sparrow.

Yours  


JOHN WAKEHAM

IND POL : Alcan Aluminium (UK) Ltd  
July '82

21 OCT 1982





CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

Prime Minister



JF1753

Secretary of State for Industry

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB  
TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

J.S.T. Colledge  
20.10/82

20 October 1982

M Scholar Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1

Dear General,

ALCAN

We understand that Mr Peyton, who is a non-Executive Director of Alcan is seeing the Prime Minister tomorrow on another matter. He may well mention that the company is contemplating making a cash bid for British Aluminium, on an agreed basis because BACO cannot survive on its own. From an industrial policy point of view this move has everything to commend it. A stronger, though inevitably smaller, UK industry should emerge, supported entirely by private funds. My Secretary of State is sure that the Secretary of State for Trade will look at the proposition sympathetically, and he is asking the Secretary of State for Energy to get the Coal Board to resolve the question of their coal contract with Alcan as soon as they can.

2 As Mr Peyton will no doubt mention, the present position is extremely delicate from the point of view of the Stock Exchange rules and will remain so until the companies make an announcement, which is expected in about ten days.

3 Copies of this letter go to Jeremy Clayton (D/Energy) and to John Rhodes (D/Trade).

Yours ever,

Caroline Varley

CAROLINE VARLEY  
Private Secretary



Ind. P. 1  
E. J. V.

2 m/s

Caxton House Tothill Street London SW1H 9NA F

Telephone Direct Line 01-213.....6400.....  
Switchboard 01-213 3000

The Rt Hon Patrick Jenkin  
Secretary of State for Industry  
Department of Industry  
Ashdown House  
123 Victoria Street  
LONDON  
SW1E 6RB

19 October 1982

D. Pakarik.

ALCAN ALUMINIUM (UK) LTD

You sent me a copy of your letter of 13 October to Nigel Lawson about the difficulties currently facing Alcan Aluminium.

I agree that Alcan and the NCB should be left to try to reach a settlement by normal commercial negotiations. If these fail the Government should not be committed to intervene as we were prepared to do in the case of Invergordon, but it would be wise for Ministers to review the matter before the irrevocable decision was taken.

If it proves impossible to renegotiate the coal contract it will be difficult for the NCB to explain why it is against the interests of the coal industry for some of its immense stocks to be sold, even at a reduced price. What is more Ministers will find it even more embarrassing when they are asked to explain why they will not do for Northern England (Lynemouth) and South Wales (Rogerstone) what we were prepared to do so recently for Scotland. I do not believe, as paragraph 20 of the official paper seems to expect, that those affected by closures in England and Wales entailing nearly three times as many redundancies as Invergordon will be prepared to agree that the problems of the Highlands are "unique". Rather would I expect all the cries for a Minister for the North (ie another territorial spending machine) to be created.

It follows that in my view some defensive briefing should be prepared without delay so that we can meet the criticisms that will be advanced if Alcan and the NCB are unable to reach a settlement. At that stage it will no longer be possible for us to "decline to give any explanation", as the official paper puts it.



No doubt Nigel Lawson will have a view on the potential effects of a closure announcement upon the miners dispute.

I am copying this letter to the Prime Minister, members of E Committee, George Younger and Nicholas Edwards, and also to Sir Robert Armstrong and John Sparrow.

*J. Norman*

2nd Pd Alan Alomman

118 OCT 1982



EX 50



MINISTRY OF DEFENCE  
WHITEHALL LONDON SW1A 2HB  
Telephone 01-218 6621 (Direct Dialling)  
01-218 9000 (Switchboard)

3 pps

Minister of State  
for Defence Procurement

D/MIN/TT/1/6

19 October 1982

Prime Minister (2)

Three letters

in Alan. Mr Tebbitt's  
is particularly apt.

Ms 19/10

*ms*

Dear Pativoch

ALCAN ALUMINIUM (UK) LIMITED

In your letter of 13th October to the Secretary of State for Energy, copied to John, you asked for our comments on your proposals on the future of Alcan.

From the defence point of view, we would not dissent from your judgement that there are no compelling industrial or defence reasons for the Government to intervene. I should, however, draw to your attention the strategic significance, to British Aerospace in particular, of the quality assured plate plant at Kitts Green, Birmingham. The Study Group report concludes that, whatever the future of Alcan, this plant is likely to survive. I hope this is so. If closure of Kitts Green was likely, then we would like an opportunity to reconsider the position.

B. 7. 7.

I am sending copies of this letter to the Prime Minister, members of 'E' Committee, the Secretaries of State for Scotland and Wales and to Sir Robert Armstrong and John Sparrow.

*Yours  
John*

Trenchard

The Rt Hon Patrick Jenkin MP

**CONFIDENTIAL**

Alcan Aluminum - 9th Rd

*cc J*

SECRETARY OF STATE FOR ENERGY  
CHAMBER HOUSE, SOUTH  
MILLENNIUM LONDON SW1P 4QJ

01-211-6402

The Rt Hon Patrick Jenkin MP  
Secretary of State for Industry  
Ashdown House  
London SW1

18 October 1982

*Dear Secretary of State,*

ALCAN ALUMINIUM (UK) LTD

Thank you for your letter of 13 October.

Like you, I accept officials' conclusion that there is no case for the Government to intervene and that Alcan and NCB should negotiate as a normal commercial matter over future coal supplies to the smelter at Lynemouth. We must, of course, accept the possibility that negotiations will fail to bridge the gap between the two sides.

I shall certainly write or speak to Norman Siddall. The NCB will indeed have to balance many factors and I am sure that they will not want to lose a major customer. But I shall make it clear to him that the Board must take their decision within existing financial constraints and policy objectives.

I am sending copies of this letter to the other recipients of yours.

*[Handwritten signature]*  
*J.P. Curran*

// NIGEL LAWSON

*(Approved by the Secretary of State and signed in his absence)*

Ind. Pol., Alcan., July '82



*Ind Pol*  
*Prime Minister* (2)



Y SWYDDFA GYMREIG  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switsfwrdd)  
01-233 6106 (Llinell Union)

*Ms 18/10*  
WELSH OFFICE  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switchboard)  
01-233 6106 (Direct Line)

*Oddl wrth Ysgrifennydd Gwladol Cymru* The Rt Hon Nicholas Edwards MP *From The Secretary of State for Wales*

CONFIDENTIAL

15 October 1982

*- Dan Nigam*

ALCAN ALUMINIUM (UK) LTD

*attached*

I have seen a copy of Patrick Jenkin's letter to you of 13 October.

I agree that it is right the Government should stand back and allow Alcan and the NCB to try to settle their dispute through normal commercial negotiations. But I also very much share the concern expressed by Patrick about the political implications of what would be very large scale closures indeed. As you may know I visited the headquarters of Alcan Aluminium Ltd in Montreal on 1 October and I had a very full and frank exchange of views with senior management there. I am circulating with this letter a copy of the record of that meeting which you and colleagues will wish to see.

I was left in no doubt in my discussions about the seriousness with which the Canadian parent company views the position of Alcan in the UK. And I have no reason whatsoever to believe that there is any element of bluff in the threat to close the Lynemouth smelter if the negotiations between the company and the NCB cannot be satisfactorily concluded. In addition to the 1140 employed at the Lynemouth smelter this would of course have obvious implications for employment at the NCB's Lynemouth colliery as well as for Alcan's downstream operations in UK and particularly for the 1400 employed at the sheet mill at Rogerstone, Gwent, the closure of which seems virtually certain to follow if the Lynemouth smelter closes. As Patrick says, the consequences of shutdowns on this scale in areas where unemployment is already running at very high levels are considerable.

The Rt Hon Nigel Lawson MP  
Secretary of State for Energy  
Department of Energy  
Thames House South  
Millbank  
LONDON SW1

/...



Incidentally, although I do not wish to labour the point about Invergordon, I simply want to note that we ought to recognise that that is an argument which will cut no ice at all at Lynemouth, Rogerstone and other communities which would be affected by large scale redundancies if the Lynemouth smelter were to close.

I do urge you to speak to the Chairman of the NCB along the lines proposed by Patrick.

I am sending copies of this letter to the recipients of Patrick's.

*Finer*

*Nick*

Record of the Secretary of State for Wales' visit to Alcan  
Aluminium Ltd, Montreal October 1 1982

Those present:

Secretary of State

Mr Harold Corrigan, Vice President of  
Corporate Relations  
of Alcan Aluminium  
Ltd

Mr Lintorn Simmons  
Consul General  
Montreal

PS/SofS

Mr David M Morton President and Chief  
Executive Officer of  
Aluminium Company of  
Canada

(Former Head of Alcan's UK Plant)

Mr John Purkis Assistant to Senior  
Vice-President of  
Alcan Aluminium Ltd

Mr Thor Suchoversky Vice President,  
Research and  
Operations  
Technology of Alcan  
International Ltd

(Former Head of Alcan's European  
Operations)

At Mr Corrigan's request, the Secretary of State opened up the meeting. He was aware of Alcan's current difficulties with their UK operations. He had visited the Rogerstone mill last year, and had recently had a visit from Mr George Russell and Mr John Peyton MP. He was thoroughly familiar with the broad issues and difficulties confronting the aluminium industry in the UK today. His particular aim in the current meeting was to hear Alcan's thinking on the contract with the NCB and on the interrelation between the Lynemouth smelter and the Rogerstone mill.

Mr Morton said that it was extremely difficult to forecast demand and therefore levels of profitability in the aluminium industry. This made it the more important that Alcan's essential cost base should be fully competitive with other producers. Provided that was so, he was completely confident of Alcan's ability to ride the waves and be profitable in the long term, even though the effect of the current recession on the world aluminium industry had been cataclysmic. It had resulted in the virtual demise of aluminium smelting in Japan, which had had an annual capacity of 1.6m tons per annum. It looked as though Japanese plants in regular production would henceforth produce no more than 400 k tons per annum - based on hydro-electric power. World demand had fallen from a peak of 13+m tons to only 10m tons last year from primary producers in the western world. The price per lb for ingots in the first quarter of 1981 had been upwards of 70¢ per lb; this had now fallen to 48 ¢. As a result, the industry, which had been operating at 95% capacity was now down to an average of 74%. However, supply was now coming more into line with demand, and surplus inventories should begin to fall soon. The good news was that despite new plants

/coming ...

coming on stream (such as Alcan's Grand Baie in Quebec) net capacity for smelting worldwide was forecast to remain static or decrease slightly over the next few years. The hurdle which newcomers to the industry would have to overcome was now extremely high: the minimum viable size of a new smelter was 200 k tons per annum, which on a greenfield site would require a capital investment of \$0.75 billion. The bad news however concerned the likely level of demand for aluminium. The remarkable growth in demand in recent years had been largely fuelled by the use of aluminium in substitution for other metals eg in cans. Now there was a counterwave and plastics in particular were beginning to fight back. For example, in Germany 5 years ago window-frame production had been 100% aluminium: now it was 40% plastic. The growth of demand generally was therefore likely to be at best sluggish compared with the recent past. Alcan in particular were now heavily dependent on cans for the North American market (they reckoned however to have won the war so far as the prospective renaissance of tinplate was concerned).

Mr Suchoversky pointed out that a number of Governments were now supporting aluminium smelting directly or indirectly. Even Japan, with 80% of its power production based on imported oil, had retained some 400 k.r.p.a of capacity, equivalent to some 30-40% of domestic demand. Smelting capacity in Britain was already down to that sort of level. He assumed the UK Government would want to retain some smelting capacity.

The Secretary of State said that that was clearly a strategic decision which the UK Government had to take. Energy pricing policy had to accord with economic reality. The zero option could not therefore be ruled out in advance.

Returning to the Secretary of State's query about the relationship between the smelter and downstream capacity, Mr Suchoversky pointed out that nowadays major mill operations were universally integrated with smelting. There were no independents left in the rolling business in the UK, Europe or North America, save of course for small volume specialist applications.

The Secretary of State said that the need for Rogerstone to be fed from Lynemouth had been put to him by Mr George Russell primarily in terms of a technical requirement for ingot quality, shape, and size. He wondered whether this were really determining factors which would make it impossible for a modern rolling mill to operate by buying its feedstock on the open market.

Mr Suchoversky pointed out that a rolling mill in Britain buying ingots from the continent would find its feedstock prices fluctuating markedly because of the fluctuating exchange rate for the DM and the Franc. This would make it difficult to plan operations and pricing policy. Moreover the rolling industry in Britain was already in a less than healthy state. In the 1960s rolling-mills had had a capacity of 30-50 k tons p.a. A modern mill had a capacity of 120-150 tons p.a. The bulk of the product went to sophisticated applications such as can stock where fine tolerances were required. It had to be said that by and large the modernisation of rolling mills in the UK had been done poorly. In his view, 2 mills in the UK were "already dead but don't know it". Alcoa had tried hard but had committed technical blunders. The generally poor restructuring of the UK rolling industry left it vulnerable vis-a-vis fierce competition from France

/and ...

and Germany. Alcan had done their best to update Rogerstone and had succeeded at a cost of some £20 million to the extent of making it the 3rd or 4th best mill in Europe. It was now the only competitive mill in the United Kingdom. However physical limitations made it impossible to modernise Rogerstone to the standards of a new greenfield plant.

Mr Morton confirmed Mr Russell's point that there was a technical competitive advantage in close liaison between mill and smelter: it was obviously easier to obtain feedstock meeting the mill's optimum technical requirements.

Reverting to the viability of smelting operations in the UK, Mr Suchoversky said that obviously the UK could not compete with say Korean energy prices. But it was a minimum requirement for the UK aluminium industry that UK energy costs should compete with European rates.

Mr Morton reiterated that Alcan UK could not stay in business unless it had a competitive cost basis. Alcan had invested relatively heavily in Lynemouth, Rogerstone and Kitts Green: the smelter and mills were competitive insofar as it lay in Alcan's power to make them so. But to compete in the European market, Lynemouth had to have reasonable energy costs. Alcan could not possibly go to £33 per ton for coal, said to be NCB's production cost at the Lynemouth pit. Alcan's total UK employment of 3200 stood at risk as did 1000 jobs in the Lynemouth pit, since he did not believe the coal could be sold elsewhere.

The Secretary of State pressed Mr Morton for a clear indication of what Alcan saw as the maximum coal price which would secure viability, but Mr Morton declined to quote a figure, saying that it was George Russell's responsibility as Managing Director of Alcan UK to decide on the crunch point.

Summing up, Mr Suchoversky said that any increase in the coal price right now was bad news in the short term since Alcan UK was losing money. However, a modest increase in the coal price was sustainable in the longer term when demand for aluminium picked up. But a coal price anywhere near the NCB's "opening gambit" would simply result in the closure of Alcan UK on a short or long-term view. Even though Rogerstone was the only fully competitive rolling mill in the UK and was now in the black, Alcan did not need Rogerstone on its own. It had hitherto been Alcan's preferred policy to have a rolling mill in each major EEC country but that might have to be revised. The output of the German mill could be expanded to make up for the loss of Rogerstone.

The Secretary of State said that he was grateful for a frank and informative discussion. Clearly there were difficult issues which would require collective Ministerial discussion and Alcan would understand that he could give no indication of what the Government's decisions might be.

A E PEAT  
Private Secretary

7.10.82

Ind Pol, July 82, Alcan.  
Aluminaum

U.S. POSTAGE  
OCT 1982

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3 2 1



**CABINET OFFICE**  
*Central Policy Review Staff*

With the compliments of  
John Sparrow

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



51

CABINET OFFICE  
Central Policy Review Staff

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

Qa 06092

From: John Sparrow

CONFIDENTIAL

The Rt Hon Patrick Jenkin MP  
Department of Industry  
Ashdown House  
SW1

15 October 1982

*Dear Patrick,*

Alcan Aluminium (UK) Ltd

Thank you for sending me a copy of your letter of 13 October 1982 to Nigel Lawson.

I am sure you are absolutely right to emphasise that the NCB must decide about the renegotiation of the Alcan contract on the basis of its own commercial advantage, within the framework of the objectives which the Government has set for it. I recognise the political implications of the possible closure of Alcan facilities. But I regard it as of paramount importance that nothing is said or done in this context which could deflect the NCB from the very difficult objectives for profitability and supply/demand balance, as well as for cash, which it has now been set. It may be that in the short term a continuation of the Alcan contract at a low price of coal could help the NCB with its cash objectives, but it seems to me doubtful whether a contract for as long as 5 years ahead would be consistent with the medium term profitability objective.

Provided that Nigel is satisfied that NCB is interpreting its objectives correctly, it seems to me that the actual decision on the terms on which NCB would be willing to provide coal after December 1983 should be left with the Board itself, without any guidance which it might interpret as pressure from the Government to be more lenient to Alcan than its own commercial judgement would suggest.

I am sending copies of this letter to the Prime Minister, members of E Committee the Secretaries of State for Scotland and Wales, and to Sir Robert Armstrong.

*Yours sincerely,*  
*Jan.*

John Sparrow



CONFIDENTIAL

cc Mr. Mount  
Mr. Vereker

102 89

MR. SCHOLAR

PA

ALCAN ALUMINIUM UK LIMITED

The letter of 13 October from Secretary of State for Industry to Energy is, I believe, quite satisfactory and does not need the Prime Minister to intervene. Essentially, Industry argue that it is best to leave the National Coal Board and Alcan to negotiate the price of coal. NCB knows it needs the market, and of course also know that Alcan will only pay a certain price.

However, I can well see that at the negotiated price there will still be the threat of closure of Linemouth. This will then undoubtedly come to E Committee.

The main consideration is employment. Alcan accounts for 7,000 or more jobs.

Yet, in the Report by the interdepartmental study group there is no mention at all of wage rates. (Yet these must amount to a wage cost of approximately £70 million a year. Not a trivial item.) Whereas coal costs only account for 12% of Linemouth's smelter production costs, or about £13 million a year.

*No action  
reqd - we  
are not  
intervening*

I think this is a case where typically we should insist on Alcan putting its own house in order. They can do that by negotiating much lower pay rates or pay increases. Ideally they should negotiate no increases at all until the business becomes profitable again.

This consideration doesn't seem to have entered the discussions at all of the interdepartmental committee. You might think it is worth while reminding them that there are costs other than those of coal. At least this aspect of it should be covered before it eventually finds its way, as it must, to E Committee.

14 October 1982

ALAN WALTERS

CONFIDENTIAL

JU932  
JU932

Secretary of State for Industry

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RBTELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

13 October 1982

The Rt Hon Nigel Lawson MP  
Secretary of State for Energy  
Department of Energy  
Thames House South  
Millbank SW1Prime Minister (2)Mr Jenkin is notproposing any intervention

MUS 15/10

Dear Nigel,

ALCAN ALUMINIUM (UK) LTD

Following representations by Alcan Aluminium (UK) Ltd in July, you and other colleagues agreed with my proposal that the time had come for the Government to take stock of the difficulties the company is facing.

2 I attach a report by officials. The main points are:-

a Alcan is weak financially. It forecasts losses of around £30 million this year following losses of £26 million in 1981.

b Its problems stem from weak demand and low prices for aluminium and aluminium products, with no immediate prospect of a strong recovery; with the UK company's borrowing capability largely exhausted, the Canadian parent company, also weak for the same reasons, will have to decide whether it can continue to sustain UK operations until recovery takes place.

c A major factor in the decision is that Alcan's Lynemouth smelter, an important source of investment cash and metal for down-stream operations, faces the prospect of higher coal prices under a contract with the NCB, which could make it uneconomic compared with European primary aluminium smelters.

d Alcan have proposed a new 5-year "rolling contract" for coal supplies to be renewed annually as long as NCB coal stocks stay high. The price would start at £15 per tonne (compared with the £10.77 a tonne they pay at present). Alcan claim that this is near to the NCB's lowest export price, after adjustment for quality and would save the cost of stockpiling.



e Based on the NCB's average export prices (£30 per tonne) adjusted for quality and making an allowance for the cost of stocking, it seems unlikely that the NCB could regard a figure near Alcan's offer as an acceptable commercial proposition or one which is compatible with the objectives set for it by the Government, without direct financial assistance. There are legal constraints on the NCB's powers to offer preferential or non-commercial tariffs.

f If Lynemouth were to close, the Rogerstone sheet rolling mill in Gwent is also likely to close because it could not afford to pay premia for the grades of metal it needs for some uses. But alternative UK or imported sheet could be obtained. However the strategically important plate plant at Kitts Green, Birmingham seems likely to survive.

g Closures would raise significantly the already high unemployment around both Lynemouth and Rogerstone.

3 Officials have concluded that there are no compelling industrial or defence reasons for the Government intervention, that intervention on regional and employment grounds would not be consistent with Government policies and that Alcan and the NCB should be left to negotiate commercially, as is happening between Anglesey Aluminium and the CEEB. Only the parties can assess fully where their interest lies.

4 I agree that there are no grounds for us to repeat the exceptional offers of assistance made earlier this year by the Scottish Office to try to keep the Invergordon Smelter open. However, none of us can ignore the political implications of closures of important industrial capacity in areas of high unemployment, although I recognise that any course of action other than straight commercial negotiation between the NCB and Alcan has very obvious dangers. But it will be difficult for anyone, most of all the NCB, to explain satisfactorily, either to its employees or to the public generally, why a coal contract cannot be renegotiated, when the Board is known to be cash constrained, and has large stocks of coal it cannot sell, and indeed has no hope of reducing for several years. In telling the Chairman of the NCB that it is for the Board to resolve their contractual difficulties with Alcan, and that the Government will not take any overt action by way of subsidy, you may think it right to identify with him privately the complex of factors, including those mentioned above, which he will have to balance in deciding the commercial advantage of the NCB.



5 Because of the urgency of the problem I should be grateful for any comments by 18 October.

6 I am sending copies of this letter and enclosures to the Prime Minister, members of E Committee, the Secretary of State for Scotland, the Secretary of State for Wales, Sir Robert Armstrong and John Sparrow.

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ALCAN ALUMINIUM (UK) LIMITED

REPORT BY AN INTER-DEPARTMENTAL STUDY GROUP

### Issue

Alcan faces a serious situation. Because of reduced demand and the prolonged slump in prices for aluminium products brought about by the recession, its financial situation has deteriorated rapidly (Annex A). The company lost £26m in 1981, forecasts losses of some £30m in 1982, and is approaching the limits of its borrowing capability. It is taking steps to reduce the rate of losses but, until there is a strong and sustained increase in the prices of its products, losses will continue. Its prospects for a return to profitability are clouded by the threat, under a break clause in its contract with the NCB at 31 December 1983, of a large increase in the price of coal used in generating electricity for its Lynemouth (Northumberland) smelter. Lynemouth is the main source of metal for Alcan's other UK operations and, with the benefit of cheap coal, has until recently provided most of the company's profits and investment funds. Alcan's Canadian parent, which is itself in a weakened financial position because of the depressed market, will have to decide shortly whether to inject funds to sustain UK operation on their present scale (7,000 jobs), or to close all or part of the UK operations to stem the cash drain. With the prospect of higher coal prices, Lynemouth (1,140 jobs) and the Rogerstone (Gwent) sheet rolling mill (1,400 jobs) - Lynemouth's main customer - are particularly at risk. In response to representations from the UK company, the Secretary of State for Industry agreed to discuss the situation with colleagues after officials had studied the problem.

### Background

2 Alcan is a vertically integrated business, with smelting capacity at Lynemouth designed to produce 120,000 tonnes of aluminium per annum, and with downstream operations producing semi-finished aluminium products. Its financial performance depends on the competitiveness of the Lynemouth smelter, which in turn is largely related to the cost of electricity used in smelting. At the currently favourable price of coal for its power station, Lynemouth's electricity costs are approximately average for a Western European smelter. If the price were to double, Lynemouth would cease to be competitive.

3 Lynemouth was built in the late 1960's, when total UK primary aluminium capacity was considerably enlarged. In using electricity from its own coal-fired power station, Lynemouth differs from the other two smelters built at about the same time (Anglesey and Invergordon) which were designed to use electricity from the grid at prices linked to the expected costs of particular nuclear power stations. Alcan received no "comfort letter" from the Government of the day, nor does it have rights to a capital payment on premature termination of the NCB contract. Invergordon closed in December 1981 with the loss of 890 jobs despite offers of Government assistance,

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because it could not survive in the depressed aluminium market in the face of mounting electricity costs and a legal dispute with NSHEB. Discussions about a possible renegotiation of Anglesey's contract with the CEGB, which provides cheap electricity, are about to begin.

### Alcan/NCB Contract

4 The contract was drawn up in 1968 and amended in 1970 and 1976. The Government is not a party. It is an agreement under which the NCB has undertaken to supply coal for 25 years to Lynemouth from the colliery next door. A summary is at Annex B. The contract provides for coal supplies up to 1.3 million tonnes per annum. The NCB gave notice on 7 January 1980, in accordance with termination provisions, of their intention to cease supplying coal for Stage I (0.9m tonnes) with effect from 31 December 1983.

### Coal Costs

5 Coal currently accounts for 12% of the Lynemouth smelter's production costs or about £13m a year. This cost is increased by £1.2m for every £1 increase in the price per tonne. The current price paid by Alcan to the NCB is £10.77 per tonne compared with the present national average NCB production costs of £41.50 per tonne and the NCB's average pithead realisation from exports from the North East coal-field of approximately £30 per tonne. Taking into account lower calorific value and ash content, the NCB says £27-28 is the corresponding figure for coal now supplied to Alcan.

### Alcan's Proposal

6 Alcan have proposed in opening discussions that in place of the 13 year remaining period under the present contract, there should be a rolling 5 years contract, to start on 1 January 1984 and to be renewed yearly for as long as the NCB's undistributed coal stocks do not fall by 2½m tonnes in a year. Even if the NCB's stocks fell to their target level Alcan suggest they should not pay more than the NCB lowest pithead realisation for exports, (details in Annex C). Alcan say they need at least 5 years notice of termination of the contract to justify the regular capital expenditure required at a smelter to maintain operations. They say that, provided there is some recovery in aluminium prices, £15 per tonne is the maximum coal price at which the smelter could break even and remain reasonably competitive with other European smelters. Against the background that the NCB cannot sell on the domestic and export markets as much coal as they are producing and that current pithead stocks are high (22m tonnes), Alcan argue that it is to the NCB's and Government advantage (as financier of the NCB's losses) to have an assured market in Alcan rather than to hold coal in stock with an eventual prospect of world market prices at best. They argue that the NCB could not, even in 1984, sell the additional 1m tonnes a year for a return greater than Alcan can pay; they believe that to obtain an export market without stocking, the NCB would have to cut its price very severely and that if the NCB stock the coal until they can secure a higher price, they incur substantial stocking and capital charges and deterioration costs.

7 The key issues for Alcan seem to be the assurance of price stability for 5 years ahead and the starting price. We do not know

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what negotiating latitude Alcan has in these figures; our own assessment is that the costs of holding stock even for long periods, eg up to 7 years, would go nowhere near closing the gap between Alcan's opening figure of £15 a tonne and the NCB's present average export realisation adjusted for quality. The proposal that the price should in no circumstances rise higher than the NCB's export realisations presupposes continuing excess production by the NCB to the end of the century. It is clear that in putting forward this proposal, Alcan recognise that importing alternative supplies of coal is not an economic option.

### Legal and Financial Implications for NCB

8 At Annex D we identify potential legal implications for the NCB of giving undue preference to Alcan and of supplying coal at non-commercial prices.

9 Ministers' firm policy for the NCB is that it should return to financial viability as soon as possible, and should bring its productive capacity into line with its long-term, profitable, share of the market. Current coal demand prospects suggest that, if the supply to Alcan continued for 1-2 years beyond 1983, NCB could make sales which they would not otherwise achieve in those years. In the very short term, in 1984, to 1985, there might therefore be a PSBR saving, though NCB's losses, and claims for deficit grant, would be increased. If the NCB fulfil their objectives, they would thereafter, and on Alcan's proposal until 1999, make heavy losses on the supply with additional cost to the PSBR. The provision of coal at preferential prices to Alcan under new arrangements would increase the NCB's vulnerability to pressure from other industrial customers also seeking supplies at advantageous prices.

### Industrial Effects of Closure of Lynemouth

10 Alcan have repeatedly stressed the financial and metal supply relationship between Lynemouth and their semi-fabricating plants, particularly Rogerstone (Annex E). It seems likely that if Lynemouth were to close, alternative metal supplies for some uses could be obtained without difficulty, but because of the technical constraints others would only be available at premium prices. Rogerstone historically has been a poor performer and despite recent considerable productivity improvements may not be able to afford to pay premia for some of its metal. The other plant which would be affected particularly is Alcan Plate, Kitts Green, Birmingham; its closure could have serious strategic implications for BAe, for whom there is no immediate alternative supplier of quality assured plate for aerospace purposes. Plate for military vehicles could be purchased in France. On balance however it seems that Kitts Green would survive, because it is a unique facility in Alcan's worldwide operations, although considerable capital investment would be needed in order to process metal bought from alternative suppliers.

11 It is difficult to predict the effects of closure of Alcan plants on competitors and on imports. In theory BACO's Falkirk rolling mill, as the only UK competitor for Rogerstone's high added

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value sheet should benefit but it too has been a poor performer and might not be able to take advantage of Rogerstone's closure. Alcan might simply withdraw from the market, or more likely might supply from their European sheet and extrusion plants, where there is currently overcapacity, without losing customers. Experience suggests that Alcan's UK competitors would not take full advantage of the situation unless they were very efficient, and that business would be lost to imports (Annex F).

### Employment Implications of Closure of Lynemouth and Rogerstone

12 Lynemouth (1,140 employees) is in the Travel-to-Work Area (TTWA) of Morpeth which has Development Area status and a current unemployment rate of 16.8%. If the smelter were to close, but not the Lynemouth colliery, the total TTWA unemployment could rise to about 19.6%. If the Lynemouth colliery also closed, the total unemployment for the area could rise to about 20.9%. These unemployment rates compare with current average for Special Development Areas of 19.4%.

13 Rogerstone currently has 1,750 employees (although it has been announced that 350 workers will become redundant on 1 November this year) and is in the Newport TTWA which has Development Area status. Closure would also affect the Bargoed TTWA (Special Development Area). It is likely that the unemployment rate for Newport would rise from 15.9% to about 17% and for Bargoed from 22.9% to around 24%.

### Assessment

14 Alcan's immediate problem is to persuade its parent company to finance continuing losses until the price of aluminium and aluminium products recovers sufficiently to restore profitability and reverse the cash drain. With operating losses running at the rate of £25m per annum on turnover of little more than £300m, it will take a very substantial increase in the price of primary aluminium and in processing margins to restore profitability to acceptable levels. Alcan, Canada will have to take a view on the timing and extent of recovery in prices and decide whether it can afford to sustain UK operations on the present scale until that recovery takes place. There is as yet no indication of any general recovery in the international aluminium industry. The Canadian company's view will also be strongly influenced by the prospect of an increase in the price of coal to Lynemouth, which will reduce the profit potential of aluminium smelting, historically the most profitable activity within Alcan.

15 Alcan believe the lowest current pithead export price for coal to be £23-25 a tonne and that there would be an adjustment downwards of some £6 a tonne to reflect the low quality of the Lynemouth coal. There would be further costs if the coal were stockpiled. In Alcan's view the viable price to the NCB is close to Alcan's offer.

16 On the other hand the average NCB export price during the last year of £30 a tonne suggests, according to the NCB, a value for this



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coal, after adjustment for quality of £27-28 a tonne, at least in the medium-term, though currently export prices are falling below this. There is a wide gap between this figure and the £15 a tonne proposed by Alcan. The NCB's stocks of coal are high and may even increase in the short-term. However our calculations (discussed at Annex G) suggest that the economic cost of holding stocks could not by itself justify a reduction of more than about £4 a tonne. Further the NCB's present export realisations reflect a depressed world coal market and world prices are expected to rise somewhat in real terms after 1984. If they did so the economic cost of deferring sales would be reduced. Although we have not examined the NCB's commercial position in detail, our general assessment is that they are not likely to be willing or able to move close to Alcan's figure of £15 a tonne unless they are assured of additional Government support for the purpose. There might also be legal difficulties for the Board.

17 There is much uncertainty about the NCB's future market. Ministers' firm policy is set out in para 9 above. It is not yet clear how quickly the objectives can be achieved but it would be against Ministers' policy for the NCB's present surplus of coal to last indefinitely.

18 Alcan appear to have scope for increasing the price they pay per tonne of coal through capital investment, reduced manning and further sales of electricity to the North Eastern Electricity Board. At £19 a tonne for example, Alcan would still have power costs lower than one third of the European aluminium industry; some of the remainder is thought to be subsidised although details are not usually available. As an indication of the limit of Alcan's possible flexibility it has recently been announced that they are to close their Ludwigshafen smelter in Germany; they have told us in confidence they could not accept the electricity price offered equivalent to about £23 per tonne of Lynemouth coal, compared with a previous price equivalent to rather less than £15 per tonne.

19 There are pressures on both Alcan and the NCB to settle the issue. There are no compelling industrial or defence reasons for the Government to intervene. Similarly, although the regional and employment implications of closure would be serious, in the light of the Government's policies these are not grounds for intervention. In a commercial situation nobody except the contesting parties can make a full assessment of his own interests. If the Government implied to either party that it might be prepared to offer financial assistance, the outcome of the negotiations would be prejudiced.

20 If there are serious negotiations between Alcan and the NCB, both sides will lobby the Government and in public in their own interests. There has already been public discussion of the issue in the press. If the Government declines to become involved, it will be pressed to explain why its decision on Lynemouth differs from its decision on Invergordon, where subsidies were offered towards reopening the plant. The circumstances are not the same. The offer of Government assistance for Invergordon (Annex H) was wholly exceptional and was made because of the unique importance

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of the smelter for the local economy and the rest of the Highlands. However the Government will not wish to say that Lynemouth is of inferior importance and should publicly decline to intervene or to give any explanations, even though heavy pressure, including from local interests, can be expected. To get involved in any way would prejudice commercial negotiations between Alcan and the NCB.

21 A decision not to intervene would be consistent with the stance adopted by the Secretary of State for Energy towards forthcoming negotiations between Anglesey Aluminium and the CEGB, which the parties are to be left to negotiate commercially and where heavy pressure to intervene can also be expected.

Recommendation

22 Officials recommend that Ministers should not intervene in the dispute between Alcan and the NCB, and leave it for settlement between the parties by normal commercial negotiations.

7 October 1982

## ALCAN ALUMINIUM (UK) LIMITED: FINANCIAL POSITION

Alcan Aluminium (UK) Ltd is a wholly-owned subsidiary of Alcan Aluminium Limited of Canada.

2 In 1981 Alcan (UK) reported a pre-tax loss of £25.7m on a turnover of £307m. The figures for the first half of 1982 were a pre-tax loss of £13.2m on a turnover of £156m. Before 1981 profits roughly halved each year from a peak of £24.8m (pre-tax) in 1977 as prices of aluminium products, though rising, failed to keep pace with costs. The heavy losses of 1981 were brought about by a 4% reduction in realised value per tonne of aluminium sold by Alcan due to the effects of the recession.

3 1981 and 1982 losses to date have raised the company's "gearing" (debt/equity ratio) to 134% compared with 83% at end of 1977, despite additional equity of £11.8m provided by the parent company in 1981. Falling interest rates will ease the interest burden, but the level of debt is far beyond what an independent company could sustain.

4 Alcan, Canada is experiencing similar problems of declining profitability and increasing debt. Net income attributable to shareholders fell from a peak of \$542m in 1980 to \$264m in 1981 and \$17m in the first half of 1982. Borrowings increased by 66% in 1981, and gearing rose from 43% to 69%, which is at the normal limit of acceptability to North American banks.

5 Alcan, Lynemouth has been the mainstay of the UK company's profitability but it is now only breaking even. Despite armslength trading between its operating companies, of the £69.4m pre-tax profits reported for the Lynemouth smelting operation since 1977, all but £2.3m have been lost on down-stream plants. The major loss contributor with £39.3m losses since 1979 has been the Alcan Sheet plant at Rogerstone; only Alcan Plate, Kitts Green and the Luxfer gas cylinder plants (based in Nottingham and the USA) have been successful on the past 5 years' performance.

6 Alcan, Lynemouth's profitable performance has been largely due to a favourable coal price under the contract with the NCB, and to sales of surplus electricity to the North Eastern Electricity Board.

ALCAN/NCB COAL CONTRACT

This note summarises the main provisions of the contract between Alcan Aluminium (UK) Limited and the National Coal Board (NCB) for supplies of coal to the Alcan power station at Lynemouth. It is a summary, not a legal interpretation.

2 The original heads of agreement were drawn up in April 1968 and were subsequently revised in 1970 and 1976. This summary describes the existing state of the contract taking account of these revisions. The provisions described appear in the original heads of agreement unless otherwise stated.

Purpose of the Agreement

3 For Alcan to build and operate an aluminium smelter at Lynemouth with the capacity of 120,000 tonnes per annum using electricity generated at their own power station from coal supplied by the NCB from the Lynemouth colliery.

4 If Alcan wish to extend the smelter by up to 120,000 tonnes per annum capacity, they must give priority to NCB coal for generating additional electricity requirements, provided that the cost is less than that of alternative sources of electricity. NCB are to supply the additional coal necessary, at the same price as that supplied under the original contract, subject to availability and to the requirements of existing customers. Alcan must give three years notice to NCB of an increase in their requirements due to extension of the smelter.

5 In addition to using power generated in their own power station, Alcan may supply power to and draw from the North Eastern Electricity Board (NEEB) under an agreement between Alcan and NEEB, (provision inserted 1970).

Quantity of Coal

6 Up to 1.3 million tonnes per annum of coal from 1 January 1975 (revised in 1970). (Note this supply covers the requirements of both Stage I of the smelter, which was commissioned in 1971, and of Stage II, commissioned three years later. The smelter has not been extended as envisaged in paragraph 4 above.)

Price

7 3.5p/therm from 1 January 1978, indexed equally to movements in the Wholesale Price Index (WPI) and the Aluminium Virgin Ingot Price Index (AVI). The price is never to exceed 68.3% of the average pithead price paid by the CEGB in any calendar year (revised 1976).

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### Duration

8 The contract runs 25 years from the commissioning of Stage I of the smelter but may be extended by agreement.

### Assignment

9 Neither party may assign all or part of the agreement nor may Alcan re-sell coal supplied without NCB's consent.

### Force-Majeure

10 Both NCB and Alcan may withdraw from the contract in the event of unforeseen disaster, although both parties are obliged to take all possible steps to remedy such a situation.

### Revision and Modification

11 The contract may be revised, by agreement of the parties, in the event of any material change of circumstances, including changes in prices, costs, market considerations (but excluding normal inflation).

### Termination

12 Either party may terminate the contract by giving at least 3 years notice to take effect for:-

- i Stage I, not earlier than 31 December 1983, or, thereafter, at the end of a calendar year;
- ii Stage II, not earlier than 31 December 1987, and thereafter at the end of a calendar year;
- iii in the event of the extension envisaged under paragraph 4 above, not less than 13 years from the commencement of supply.

Both parties are to share equally:-

- iv additional costs incurred by Alcan if NCB terminate the contract under this clause and Alcan are compelled to take a direct supply of power or to use fuels other than coal produced by the Board for the generation of electricity;
- v any financial advantage accruing to Alcan if they terminate the contract under this clause and turn to alternative supplies, as in iv above.

13 NCB may terminate the contract if Alcan go into receivership or liquidation.

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Disputes

14 Any disputes under the agreement should be referred to an arbitrator.

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ALCAN'S PROPOSALS FOR CONTINUING LYNEMOUTH COAL SUPPLIES

Alcan has proposed a "rolling contract" formula intended by the company to provide some assurance that Lynemouth power costs will be controlled within limits competitive with European aluminium smelters over a 5 year period, and which would allow continuing capital investment to maintain operations.

2 The principle is that the contract is extended each year for 5 years as long as the NCB's stocks (at present 22m tonnes) do not decline at an agreed rate. Alcan suggest that a desirable level may be about 10m tonnes. The details are:-

a Alcan would pay an increased price for Stage I supplies for a 5 year period from 1 January 1984, subject to the existing contractual escalation mechanism. The price for Stage II supplies would be calculated in the same way as for Stage I supplies, from January 1988;

b For each year in which the stocks fail to decline to a required level, continuity of coal supplies to Alcan priced by this mechanism, would be extended by 1 year beyond the end of 1988;

c If year-end undistributed stocks reach the required level, the NCB may, subject to D/Energy and Department of Industry agreement, give 5 years' notice of termination;

d If during the 5 year notice period, the year-end level of undistributed stocks again rises, the termination notice would be cancelled, and supplies to Alcan guaranteed for a new 5 year period, subject to continued operation of the existing price escalation mechanism. In addition a new figure for rate of decline would be established;

e The initial price for coal would be £15 per tonne;

f Even after expiry of the period of termination, Alcan would be entitled to take NCB coal at the lowest price being obtained by NCB for exports of coal, until 1999.

LEGAL IMPLICATIONS FOR NCB

The Coal Industry Nationalisation Act 1946

The CIN Act 1946, S1(1)(c) states that the NCB has a duty to make supplies of coal available, at such prices as may seem to further the public interest in all respects, including the avoidance of any undue or unreasonable preference or advantage.

2 The appropriate interpretation of the Act in relation to the supply of coal to Lynemouth is uncertain. If, however, low priced supplies to Alcan under a new contract are made from 1984, it seems likely that the legal position would need to be carefully considered.

NCB Deficit Grant

3 The Joint Opinion of the Law Officers, 3 December 1981, concerning industrial electricity pricing, implied that if the supply of coal to Alcan at a lower than commercial price was an undue preference, it would be ultra vires for the Secretary of State for Energy to provide deficit grant to fund the Board's losses arising in respect of that supply.

ECSC Requirement

4 The ECSC Treaty and Commission Decision 528/76 on assistance to the coal-mining industry would probably allow the alignment of prices paid by Alcan with the latest price at which imports were obtainable or exports made. There is a wide disparity between Alcan's suggested price of £15/tonne and the NCB's average export price (adjusted for quality) for the NE of £27-28 per tonne.



## THE LYNEMOUTH/SEMI-FABRICATING PLANTS RELATIONSHIP

Constraints on Alternative Sourcing

Alcan contend that their semi-fabricating plants, particularly Rogerstone, are technically and commercially dependent on metal produced by Lynemouth.

2 The main technical constraints are metal purity (freedom from dissolved metals such as iron) which depends on raw material selection, on close control of the smelting process, and metal cleanness (freedom from undissolved non-metallic inclusions) which depends on close control in the handling, treatment and casting of the molten metal. Another constraint lies in the technical know-how necessary to achieve sound metal with uniform properties which also requires close control of the casting process. These constraints are not absolute as the major international producers generally use the same technology and trade metal to some extent. Semi-fabricators are able by remelting pure aluminium (at a cost of £50-£100 per tonne) to produce their own alloy ingots for subsequent fabrication.

3 Commercial constraints lie in the premium prices commanded by particular grades and the ability and will of international competitors to supply material on long-term contracts. Imports of metal from Alcan's Canadian plants or other dutiable sources would cost about £100 per tonne in duty and transport charges.

4 The Rogerstone sheet mill which absorbs about 50-60% of Lynemouth production could use remelting ingot for more than half its 70,000 tonnes per annum out-put although remelt material would have to be available at competitive prices. It would, however, be unlikely to be able to secure an alternative supplier for the 25,000 tonnes per annum of high grade lithographic plate material which provides a substantial contribution to profits. The Kitts Green plate mill (approx 15% of Lynemouth production but growing) was manufacturing high quality plate before Lynemouth material was available although standards have risen in recent years. It would need considerable capital investment in remelt facilities to become self reliant, but unlike Rogerstone it owes its place in the market to its own technology and efficiency rather than that of its suppliers. The Banbury extrusion plant (approx 10% of Lynemouth production) could readily use alternative sources for most of its requirements but this would also require remelt investment.

Assessment

5 Alcan's claims about the difficulties of alternative sourcing are generally realistic. Under suitable market conditions half of the metal at present supplied by Lynemouth for downstream operations could be obtained at little additional cost from other sources, and a quarter could be obtained at premium prices. Alternative sourcing of the remainder would be commercially impracticable. The main burden of additional costs and supply constraints would fall on

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Rogerstone which is already a substantial loss maker but which currently provides a valuable outlet for Lynemouth material.

6 Closure of Rogerstone would be likely to follow that of Lynemouth but closure of Banbury would not be likely given some improvement in the market. Kitts Green seems likely to continue if Lynemouth closes, either under Alcan, who have no other plate plants, or under another company, because of its importance in the market (see Annex F).

## INDUSTRIAL IMPLICATIONS OF CLOSURE OF ALCAN'S UK PLANTS

Alcan is an integrated aluminium company (7,000 employees) with a smelter supplying metal for plate, sheet, foil and extrusion operations. A breakdown of subsidiary companies' employment at main sites is at Appendix 1 to this Annex. Alcan's shares in 1981 of UK despatches and consumption for primary metal, rolled products, and extrusion and tube products are shown in Appendix 2.

## 2 Probable effects of closure of Alcan's main plants are:-

Primary aluminium - If Lynemouth were to close, remaining UK capacity for primary aluminium would be some 160,000 tonnes, (Anglesey Aluminium 112,000 tonnes, BACO Lochaber/Kinlochleven 48,000 tonnes), approximately 50% of 1981 consumption, further increasing UK (and EEC) dependence on imports of primary metal. Although there is currently surplus world production, there could be short-term difficulties in obtaining top quality metal; in the longer-term low-grade metal would probably still be available, but higher grades might be scarce.

Sheet and foil - Rogerstone accounts for over half the UK capacity with British Aluminium, Falkirk, accounting for the bulk of the remainder. British Aluminium could probably increase output by about 20-25,000 tonnes per annum but this could require some investment in remelting facilities. The remaining 50,000 tonnes per annum could fall to imports which already account for about 50% of the UK market particularly if Alcan were to switch production of their more profitable Rogerstone products to Alunorf, the largest rolling mill in Europe with cold rolling capacity of 450,000 tonnes per annum, which they operate jointly with VAW, the major German producer.

Plate - Alcan Plate Ltd, Kitts Green, is a facility unique in the UK and in Alcan's world-wide operations. The only EEC competitors are Kaiser, West Germany and Pechiney, France. Alcan Plate's main customers are British Aerospace and Alvis (armour for fighting vehicles), who together take almost half of production; much of the remainder is exported. BAe, who buy 75-80% of their aircraft plate requirement from Alcan, regard the Kitts Green plate as strategically important. They could possibly, in the present depressed aerospace market, obtain light-alloy plate materials from overseas sources, but probably not in the longer-term when demand for aerospace products rises again. Even if Alcan Plate did not close, particular problems could arise in the late 1980's, when some 40% of air-frame structural design will require materials based on super-purity aluminium. BAe say it would be commercially unrealistic to rely on imported material, with risks to security of supply and price instability. Furthermore, even if other aluminium manufacturers were willing to invest in aerospace plate production the capital cost would be high and it would be a considerable time - probably well over a year following establishment of the plant - before quality could be properly assessed and full production achieved.

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3 There are no current alternative UK sources of supply to Kitts Green for armour plate. An alternative approved source for armour plate up to 76mm thick is Pechiney of France; approval for thicker plate (up to 120mm) is still under assessment and it will take some months before full approval will be obtained. Approval from scratch of a second UK-based source for armour plate could take at least 12 months and possibly longer.

4 Finally, it should also be noted that Kitts Green are collaborating with MoD R&D establishments in the development and evolution of some new aluminium alloys. Closure of the plant could mean the premature termination of this important work.

5 Extrusions - Alcan are less dominant in this market having a number of UK competitors who could absorb the bulk of their output but some alternative sourcing from Alcan's German interests is possible.

EMPLOYEES AT MAIN SITES

(\*Assisted Areas)  
(End March 1982)

<u>COMPANY TITLE</u>	<u>MAIN LOCATIONS</u>	<u>PRODUCTS</u>	
Alcan Lynemouth Ltd	Ashington*	Primary aluminium	1139
Alcan Sheet Ltd	Rogerstone*(2)	Sheet, Coil, Circles, Extrusions & Foil	1755
Alcan Plate Ltd	Kitts Green	Plate, Sheet, Painted Sheet & Foil	993
Alcan Extrusions Ltd	Banbury Skelmersdale(1)*	Extrusions (plain, anodised & painted	951
Alcan Foils Ltd	Wembley	Foil and Laminates	297
Alcan Polyfoil Ltd	Amersham	Household & Catering Foil, dishes, plastic films and bags	129
Alcan Metal Centres Ltd	Tipton	Metal Stockists	391
Alcan Transport Products Ltd	Norwich Lancing	Vehicle Bodies	245
Luxfer UK Ltd	Nottingham	Gas Cylinders	211
Alcan Building Materials Ltd	Worcester	Roofing & Building Products	79
Alcan Design Products Ltd	Weston-Super-Mare	Domestic replacement windows, double glazing & patio doors	186
Alcan Windows Ltd	Leeds	Commercial & domestic doors, windows, shopfronts & screens	183
Alcan Wire Ltd	London	Wire	53
Serco-Ryan Ltd	London (3)	Engineering Stockist	74
Alcan Safety Glass Ltd	Leeds	Glass Products	106
Administration, R & D etc			502
UK GROUP TOTAL			7294

(1) Due to close November 1982 (202 employees)

(2) 350 Redundancies announced 14 September 1982.

(3) Sale of company announced on 4 October 1982.  
Data supplied by Alcan

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(000 TONNES)

ALCAN (UK) SHARE (%)

<u>PRODUCT</u>	<u>ALCAN UK</u>		<u>UK INDUSTRY</u>		<u>UK IMPORTS</u>	<u>UK CONSUMPTION</u> <sup>(1)</sup>	<u>UK CONSUMPTION</u>	<u>UK INDUSTRY DESPATCHES</u>	
	<u>DOMESTIC</u>	<u>EXPORT</u>	<u>DOMESTIC</u>	<u>EXPORT</u>				<u>DOMESTIC</u>	<u>EXPORT</u>
PRIMARY <sup>(2)</sup> INGOT	91.2	33.4	213.9	119.5	116.8	330.7	27.6	42.6	27.9
ROLLED PRODUCTS	64.2	20.5	129.2	41.0	104.2	233.4	27.5	49.7	50.0
EXTRUSION AND TUBE PRODUCTS	23.9	2.2	121.0	7.1	19.5	140.5	17.0	19.7	31.6

(1) UK domestic despatches derived from consumption minus imports.

(2) Invergordon smelter (BACO) closed at end December, 1981.

Data supplied by Alcan from European Aluminium Association statistics and Lynemouth production data.

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THE VALUATION OF COAL SOLD TO ALCAN

Alcan have argued that in the short-term the only alternative to selling the Lynemouth coal to the smelter is for the NCB to stockpile this coal. Alcan's assumption is that the colliery will continue for the foreseeable future to produce this coal, and that the NCB are likely to have to stockpile for some years before they can export. On this basis it is possible to calculate what increased price to Alcan would be equivalent (in net present value terms), to the alternative of initially stockpiling the coal and then exporting it.

2 A number of key factors have to be decided before calculations of this sort are possible:-

a because costs and revenues occur over a number of years it is necessary to discount everything back to present day value; the Nationalised Industries Required Rate of Return (5%) has been used for this purpose;

b a key consideration is the export price which it would be reasonable to assume the NCB could achieve for the low-quality coal which Lynemouth uses. Whatever price is chosen must be adjusted back to a pithead price to take account of transport and other costs involved in exporting. If Lynemouth coal produced the same pithead realisations, adjusted for lower quality as the average of the NCB's present exports of power station coal from the NE, it would be valued at £27-28 per tonne. In view of the lower figures suggested by Alcan and by way of sensitivity the figures equivalent to a range of other coal values have also been calculated;

c it is unlikely that the NCB would be able to export the extra quantity of coal immediately after termination in 1984, and there is uncertainty about the period before export sales occur. A 2 year initial stockpiling period before exports begin has also been assumed throughout the calculations and provision has been made for normal levels of stockpiling costs and small losses of value due to reduction of calorific content during storage.

3 A shorter basic appraisal period than 5 years would be inconsistent with the operational requirements of aluminium smelting and a much longer period would add considerably to the uncertainties in the calculations. If disposal to exports on a straight-line basis over 5 years after the initial two is assumed, the following combinations of netted-back export prices and equivalent Alcan prices are obtained:-

Notional Export and Alcan Prices of Equal Value to NCB

(Exports in years 3-7)

Export Price (Netted-back to pithead) (£ per tonne)	Alcan Price (£ per tonne)
<hr style="width: 80%; margin: auto;"/>	<hr style="width: 80%; margin: auto;"/>

21

17.67

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<u>Export Price (Netted-back to pithead) (£ per tonne)</u>	<u>Alcan Price (£ per tonne)</u>
23	19.45
25	21.23
27	23.00

4 An alternative assumption is that the total quantity of coal could be exported over three years after the initial two. This means that Alcan would have to pay slightly more to equal the present value of exports:-

Notional Export and Alcan Prices of Equal Value to NCB

(Exports in years 3-5)

<u>Export Prices (Netted-back to pithead) (£ per tonne)</u>	<u>Alcan Price (£ per tonne)</u>
21	18.95
23	20.83
25	22.71
27	24.60



ASSISTANCE OFFERED TO INVERGORDON (BACO)

During negotiations with BACO, to enable the Invergordon smelter to continue in operation the Government were prepared to offer the company an annual subsidy towards power costs of £16m for 3 years only and with no assurances about escalation in power costs. BACO felt unable to continue operations on this basis and the smelter closed in December 1981. Under the terms of the settlement reached between BACO and NSHEB, the company's rights under the contract to purchase electricity from Hunterston B to the year 2000 were valued at £79,328m. From this sum the Board deducted £47.049m in settlement of disputed charges. Of the remaining £32.279m, the company paid £4.488m to the Board in respect of current debts for electricity supplies and £12.279m to the Secretary of State for Industry in part payment of loans made in 1968 and 1975. To reduce the threat to the company's other activities, the remainder of the loans, totalling £21.248m was waived with the approval of the Treasury.

2 BACO agreed to maintain the smelter in a usable condition for 6 months while the Scottish Office, in conjunction with the "Locate in Scotland" Office and the Highlands and Islands Development Board made efforts to find a purchaser. Prospective operators were offered an annual subsidy up to £20m a year on average for 5 years. Despite this offer of assistance and a number of enquiries, no firm purchaser came forward. The Government therefore made available a special extra allocation of funds of £10m over the next 3 years to the Highlands and Islands Development Board to undertake special measures to provide new employment opportunities. In addition, it was decided to locate a new Enterprise Zone in the Invergordon area.

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Ind. Rel., July '82, Alcan Aluminum

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Mr. John Patrick Gorman MP  
Secretary of State for Industry  
Department of Industry  
Ashdown House  
125 Victoria Street  
London SW1

*JH* August 1982

*Dear Secretary of State*

ALCAN ALUMINIUM (UK) LIMITED

Thank you for your letter of 28 July.

I agree that the time has come to take stock of the decisions and problems for Government arising from Alcan's situation. I therefore welcome your proposal of a study. No doubt Mr Binning will contact my officials in due course.

I am copying this letter to recipients of yours.

*Yours sincerely*  
*E. H. H. H.*

Approved by the Secretary of State  
and signed in his absence



SCOTTISH OFFICE  
NEW ST. ANDREW'S HOUSE  
ST. JAMES CENTRE  
EDINBURGH EH1 3SX

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Wm  
7/8

Jonathon Spencer Esq  
Private Secretary to The Secretary of State for Industry  
Department of Industry  
Ashdown House  
123 Victoria Street  
LONDON  
SW1E 6RB

August 1982

Dear Jonathon

ALCAN ALUMINIUM (UK) LTD

My Secretary of State has seen the letter of 28 July from Mr Jenkin to the Secretary of State for Energy. Mr Younger, who is now on leave, has asked that in view of the parallels with the British Aluminium closure at Invergordon, his officials in the Scottish Economic Planning Department should be fully involved in any proposed study of Alcan's problems. It may not be necessary for them to attend all the meetings of the proposed working group but he suggests that they should see any papers prepared for the group and be able to contribute or attend as necessary.

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

*A Muir Russell*  
A Muir Russell  
Private Secretary

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Y SWYDDFA GYMREIG  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switsfwrdd)  
01-233 6106 (Llinell Union)



Prime Minister (2) *Juddel*  
*W JL*

*Ms 30/7*

WELSH OFFICE  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switchboard)  
01-233 6106 (Direct Line)

*Oddi wrth Ysgrifennydd Gwladol Cymru* The Rt Hon Nicholas Edwards MP *From The Secretary of State for Wales*

*Nigel*

*28<sup>th</sup> July 1982*

*[Signature]*

ALCAN ALUMINIUM (UK) LTD

I have seen a copy of Patrick Jenkin's letter of 28 July to you following his meeting with John Peyton and George Russell of Alcan Aluminium (UK) Ltd. I saw them 24 hours earlier and I was left with a considerable feeling of concern about the future of Alcan's operations in the UK in general and of the plant at Rogerstone in Gwent (which employs 1750) in particular. I confess that I had not previously fully appreciated the degree of interdependence between Lynemouth and Rogerstone.

*attached*

I asked George Russell to let me have a detailed paper setting out the full facts of the situation as he sees it. This might well serve as a basis for the study by officials which Patrick has suggested and which I fully agree with. Because of the considerable implications for Wales in this matter I would certainly wish my Department to participate in the study.

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

*[Signature]*  
*Nigel*

Rt Hon Nigel Lawson MP  
Secretary of State for Energy  
Department of Energy  
Thames House South  
LONDON SW1

30 JUL 1982



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JF1281

Secretary of State for Industry

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

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

28 July 1982

Prime Minister (2)

After Invergordon -----

MUS 28/7

The Rt Hon Nigel Lawson MP  
Secretary of State for Energy  
Department of Energy  
Thames House South  
LONDON  
SW1

Dear Nigel,

ALCAN ALUMINIUM (UK) LTD

I saw John Peyton, a Director, and George Russell, Managing Director, Alcan Aluminium (UK) Ltd this afternoon at their request, and they impressed on me the difficulties which the Group as a whole is facing. The financial position is very weak and losses so far this year are running at about the same level as in 1981 when they reached some £26m.

2 There are two major problem areas - the Lynemouth smelter and the Rogerstone rolling mill. The company claim that both are major contributors to the losses. The Canadian parent company is likely to be unable to continue to sustain the Group's losses and will have to take a decision soon on remedial action including the possible closure of the whole of the UK operation.

3 The crux of the matter appears to be the interdependence of Rogerstone and Lynemouth. The company argue that if Lynemouth closes, Rogerstone will for technical reasons also have to close because the necessary quality and shape of aluminium for rolling operations could not be obtained at an economic price from other sources. As you know, Lynemouth faces the prospect of losing at the end of 1983 half of its present cheap coal supplies under its contract with the NCB, and the remainder in 1986. So far the company and the NCB have been unable to reach any agreement on a price acceptable to both sides for continuation of coal supplies.





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4 As with BACO last autumn, we are now approaching the time when the Government must take stock of Alcan's situation, and decide what should be done. I would therefore suggest that we ask officials to undertake an urgent study of the problems facing Alcan, to identify the costs of the various options open to the company, the NCB and the Government, including closures. I will ask Mr Binning of my Department to take the lead with a view to producing a preliminary assessment for colleagues to consider <sup>in</sup> September.

very early

5 I am copying this letter to the Prime Minister, other members of E Committee, the Secretaries of State for Scotland and Wales, Sir Robert Armstrong and John Sparrow.

Yours  
Patel

