



Prime Minister

George Younger and

I spoke about this last week.

MUS 10/12

PRIME MINISTER

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

BRITISH ALUMINIUM CO LTD: INVERGORDON SMELTER

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

Background

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

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





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

#### Main issues

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

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

#### Closure or continuing subsidy

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





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

#### Terms of settlement

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

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





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

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

#### Support for the Invergordon area

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

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





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

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

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

P J

10 December 1981

Department of Industry



Rd

B/c: Mr Ingham  
Mr Duguid

10 DOWNING STREET

*From the Private Secretary*

14 December, 1981

British Aluminium Co Ltd: Invergordon Smelter

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

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

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

M. C. SCHOLAR

I K C Ellison, Esq  
Department of Industry

CONFIDENTIAL

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Secretary of State for Industry

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11 December 1981

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

Dear Michael

BRITISH ALUMINIUM COMPANY LIMITED

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

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

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

Copies of this letter go to the recipients of yours.

Yours ever

Ian

I K C ELLISON  
Private Secretary



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