



CONFIDENTIAL

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

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

P. ✓ *P.A.*
24 December 1981

Dear Mr Scholar

BRITISH ALUMINIUM

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

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

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

Yours sincerely
Morgan Stewart

MISS M STEWART
for Private Secretary

FOR ISSUE ON TUESDAY 29 DECEMBER 1981

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

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

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

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

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

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

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

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

URGENT

SERIAL NO 134

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

PRO 0900

29 DECEMBER 1981

BRITISH ALUMINIUM'S INVERGORDON SMELTER

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

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

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

FINANCIAL SETTLEMENT

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

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

FOR FURTHER INFORMATION CONTACT:

J C ARMSTRONG
ASSISTANT MANAGING DIRECTOR
01 839 8888

FOR INTERVIEWS IN SCOTLAND CONTACT:

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

Original
3 Dec No. 10
6/6

27582 CABOFF G
727301 NSCOTO G

TELEX NO. 140 29.12.81

PRIORITY

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

TERMINATION OF POWER CONTRACT

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

DETAILS OF THE SETTLEMENT

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

SCOTTISH OFFICE INVOLVEMENT

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

TERMINATION OF POWER CONTRACT

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

DETAILS OF THE SETTLEMENT

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

SCOTTISH OFFICE INVOLVEMENT

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

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

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

(TTS NEAR THE BEGINNING)

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

727301 NSCOTO G
27582 CABOFF G

original to Press Office
3 Dec No. 10
File

✓
MAD

V
27582 CABOFF G
777883 SEPDGW G

URGENT
=====

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

SERIAL NO 137

1. WHY IS THE SMELTER CLOSING?

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

2. WHAT ARE THE TERMS OF THE SETTLEMENT?

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

3. WHAT WILL BE THE EFFECT ON INVERGORDON?

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

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

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

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

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

7. SINCE MANY SMELTERS OVERSEAS HAVE CHEAP HYDRO POWER,

WHY NOT ALLOCATE A HYDRO SCHEME TO INVERGORDON?

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

8. WHAT IS THE COMPANY LOSING AT IVERGORDON?

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

9. WHAT WILL HIBD DO WITH THE £10M?

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

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

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

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

UK SMELTERS?

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

12. DO THE OTHER SMELTERS BENEFIT FROM SUBSIDIES?

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

13. DOES THIS CASE NOT SHOW THAT UK INDUSTRIAL ELECTRICITY

PRICES ARE TOO HIGH?

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

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

SMELTER?

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

15. ARE THERE ANY LOANS OUTSTANDING ON THE SMELTER?

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

16. WHAT ASSISTANCE WILL BE PROVIDED TO THOSE MADE REDUNDANT

AND THEIR FAMILIES?

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

+++++

TOD 1205 291281 JD

27582 CABOFF G
777883 SEPDGW G

T
27582 CABOFF G
727301 NSCOTO G

SEC

RCVD OK TK SM