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10 DOWNING STREET

From the Private Secretary

25 January 1982

Invergordon

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

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

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

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