



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Mike Pattison Esq
Private Secretary
No 10 Downing Street
LONDON SW1

25 January 1982

Dear Mike,

I refer to your letter of 22 January and attach a briefing note for the Prime Minister's meeting with Mr Hamish Gray MP. We have now agreed that this will be held at 4 pm tomorrow and that my Secretary of State will attend.

Mr Younger has asked me to say that he considers that the effect of the closure of the smelter has been so great - not just in the Invergordon area but throughout Scotland - as to justify the Prime Minister agreeing, exceptionally, to meet the local authority deputation. In considering this it is also important to bear in mind, as the briefing note makes clear, that the major issue which has now to be faced is policy on energy prices not just for Invergordon but for the other smelters at Anglesey and Lynemouth.

*Yours,
A. Muir Russell*

A MUIR RUSSELL
Private Secretary

INVERGORDON SMELTER: PRIME MINISTER'S MEETING WITH MR HAMISH GRAY MP

1. The Prime Minister will recall the consideration which was given to the future of the smelter in December. Official level discussions began in October 1981 and the Secretary of State for Scotland met the Chairman of the company at the beginning of December, when it was made clear to him that the company's financial position was such that closure of the smelter by the end of the year appeared inevitable, otherwise there was the risk that the company would go into liquidation. Intensive efforts were made involving officials including the CPRS to identify a basis on which the company's operations at Invergordon could continue and it became clear that the cost to Government would be £16m per annum and that the company would require that support at this level should be guaranteed until the end of the century. Ministers agreed on Friday 18 December that, on these terms, the cost of keeping the smelter open would be too great and negotiations were then opened with BACo on the financial details of the closure settlement.

2. The key features of the closure settlement were that the company was paid £79m for its share of Hunterston B nuclear power station. Out of this it met disputed electricity charges of £47m. Of the remaining £32m the company paid £4½m to the Hydro Board in respect of current debts for electricity and £12m in part repayment of a loan outstanding to the Department of Industry. The balance of the loan (£21m) was written off leaving the company with £15.5m. It was judged that a settlement of this generosity was necessary to improve the company's overall financial position and reduce the threat to its other operations (including 2,700 jobs in Scotland).

3. The company announced the closure of the smelter on Tuesday 29 December and the Secretary of State for Scotland issued a statement almost simultaneously. Reaction to the closure in Scotland has been enormous. It has produced a greater effect on public opinion throughout Scotland as a whole than other major closures including those, such as Linwood, involving substantially greater job losses. There has been no serious challenge to the Government's decision that the terms worked out with BACo for keeping the smelter open were too heavy to be borne. But there is no doubt that all shades of opinion are looking to the Government to do everything possible to secure the re-opening of the smelter. No one at present seems prepared to contemplate that this large and relatively new asset should be scrapped.

A deputation from Highland Regional Council and Ross and Cromarty District Council met Mr Younger and Mr Fletcher in Edinburgh on 12 January. (Mr Fletcher had already met the authorities in Inverness and Dingwall on 5 January. Mr Gray was present on 5 January and for part of the meeting on 12 January.)

4. At the meeting on 12 January the authorities pressed Ministers -

- (a) to allow the HIDB or some other public body to acquire the plant quickly from BACo and re-start it, to prevent BACo obstructing the re-opening of the smelter by bargaining over the terms of sale to a new operator; and
- (b) to undertake that any new operator could be offered terms for power which were internationally competitive.

Mr Younger told the deputation that he could not ask HIDB to run the smelter but that acquisition of the plant and site was a possibility. On power terms he said he believed the Government and the electricity boards would be able to offer a price which would be internationally competitive.

5. Discussions between the Scottish Office, BACo and HIDB about the plant and site have taken a new direction as the result of the intervention of a potential new operator from the USA - Alumax - which held exploratory talks with the Board and the Scottish Office today (25 January). These talks were of preliminary nature and it is plain that the critical factor will be the price of power. Scottish Ministers are considering circulating to colleagues for discussion in E Committee a paper about a possible new power contract.

6. There are two broad approaches to bridging the gap between the standard industrial electricity price of around 2.5p per unit and the price of 1.2-1.4p which seems likely to be needed to attract a new operator. One would involve hypothecating a cheap power source - probably hydro-electric stations - for the smelter, and the other would involve the Government making up the Board's losses. The former would push up to some extent the cost of meeting the requirements of other consumers, leading to higher borrowing by the Boards or higher prices for other consumers and would probably also necessitate amendment of the provision in the Board's statutes which prevents "undue preference" being given to an individual consumer. The latter course would require new legislation to empower

the Secretary of State to reimburse losses.

7. A particular point of concern to which the local authority deputation drew attention was the apparent security of the other smelters at Lynemouth and Anglesey. They argued that comparable terms for power should be available at Invergordon. The Opposition raised this on several occasions during Thursday's Supply Day debate and alleged that the prices charged at other smelters were 1p and 1.3p respectively. In fact we understand the current price charged by the CEEB at Anglesey is around 0.5p, although it may rise to around 1p when Dungeness B is commissioned. At Lynemouth Alcan generates its own electricity from coal supplied at around £10 per tonne - around 25% of the price currently charged to the electricity boards by NCB. The first stage of the Alcan contract has to be re-negotiated by the end of next year and it seems likely that unless a price below £20 per tonne (possibly around £15) can be agreed, Lynemouth will be closed. To provide competitive power for Invergordon from surplus coal-burning power stations in Scotland would similarly require a supply of coal at around £15 per tonne.

SCOTTISH OFFICE
25 January 1982



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10 DOWNING STREET

State Secretary

22 January 1982

BF 25/1/82

I mentioned to you on the telephone that Mr. Hamish Gray, M.P., had asked to speak to the Prime Minister about Ayr Gordon before a reply goes to the Highland Regional Council, responding to their request to the Prime Minister to receive a deputation which would also represent the Ross and Cromarty District Council.

As we discussed on the telephone this afternoon, you will now hold your reply on the Prime Minister's behalf to the Regional Council. I expect the Prime Minister to see Mr. Gray at 1530 hours on Tuesday 26 January. The Prime Minister may well wish to have a Liaison Office Minister present, and we will arrange this as soon as possible. It would be helpful to have a short brief, prepared in the name of the Prime Minister's involvement in discussions before Christmas, by close of play on Monday 25 January.

Wilson, Esq.,
Office.

M. A. PATTERSON

GT

From: HAMISH GRAY, M.P.
Ross & Cromarty



HOUSE OF COMMONS
LONDON SW1A 0AA

a.l.g. 22/1/82
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R22

Prime Minister

This is being
arranged for Tuesday.

Would it be helpful to
have a Scottish Office Minister with you?

21st January, 1982

Yes - George
Zander
please
not

M.P.

Dear Prime Minister,

I have been sent a copy of a letter from Highland
Regional Council who write also on behalf of
Ross & Cromarty District Council, who both wish
to send a joint deputation to meet you regarding
the Invergordon Smelter.

E

I would be most appreciative if you could spare
me a few minutes for a brief discussion on this
matter before a reply is sent to the Local
Authority.

Yours ~~sincerely,~~ *yes,*

Hamish

The Rt. Hon. Margaret Thatcher M.P.
The Prime Minister,
10 Downing Street,
London SW1

From: HAMISH GRAY, M.P.
(Ross & Cromarty)



HOUSE OF COMMONS
LONDON SW1A 0AA

cc IG ✓

18th January, 1982

(19)

Dear Prime Minister, *PH*

You will be aware of the catastrophic impact of the closing of the Invergordon Smelter in my constituency. I am enclosing a letter which was sent to my Constituency Chairman by Mr. W.B. Dewing, Managing Director of the Royal Garage, Invergordon and a Director of a number of other local companies. He reflects the view of many small business and not so small business voters in my constituency and I can confirm from meetings I have had with various groups that a state of alarm has existed in the area for some time and now has reached a climax as a result of the smelter closure.

This is a supporter who has never taken an active part at Branch or Association level, but at every election contributes a most handsome donation to my fighting fund.

I would be most grateful if you could write me a short note commenting on some of the points which he makes, which I could then enclose with my own reply.

Yours sincerely,

Your's
Hamish

The Rt. Hon. Mrs. Margaret Thatcher M.P.
The Prime Minister,
10 Downing Street,
London SW1

Mr J A Douglas-Menzies
The Chairman
The Ross & Cromarty Conservative Association
Fernside
Mill Street
DINGWALL

5.1.82

WBD/JM

Dear Hamish - Please return to me when you have finished it. I have written to Bill about more or less on acknowledgment from John.

Dear John

When I told you on Sunday that it was my opinion that the sitting member, Mr Hamish Gray, would get between 500 and 1000 votes were an election to be held at the present time you were angered and disbelieving, and I am therefore writing to you to convince you that I was not speaking hastily, that my views were carefully considered, and that they are shared by many Conservative voters who would find difficulty in expressing those views. I was for instance told on the day after the last General Election by a Conservative voter that "if Mr Gray failed to bring development to the area he would lose his deposit next time" so there is nothing new about my statement.

The reasons for this remarkable loss of confidence in the Conservative Party are both national and local, and the weight that individual voters put on each of the following reasons will vary according to circumstances, but there are very few Conservative voters who have not been bitterly disappointed by the Government's failure to fulfill their election promises.

In particular the main plank of Mrs Thatcher's campaign was that "she would put the economy right", and after three years very few people in Easter Ross would accept that she has been successful. The loss of three thousand five hundred jobs in the area in four months, with a further thousand job losses forecast, is hardly an indication of economic recovery.

It was claimed that the Conservatives would support and encourage small and family businesses. The deliberate inflation of interest rates, which gave the initial impetus to the international raising of rates which has subsequently prevented their reduction, has been particularly harmful to such businesses, as you, a farmer will know. It has been said in the last few weeks that the average farmer has trebled his overdraft since this government came to power and that if this trend continues at the present rate, with land prices falling, every farm from Fife to Caithness will be effectively owned by banks or finance houses before the next General Election, making the nationalisation of land a practical proposition for -/

for the first time in our history should a left wing government come to power.

The high interest rates, which have been clawed back by the immoral and retrospective windfall tax on the banks, have been a direct tax on small and medium businesses.

A further tax burden has been placed on such business, among other people, by the withdrawal of a substantial portion of the rate support grant. This has inevitably meant a substantial increase in rates, a tax which is not related to profitability and which is particularly hard on business in a recession, as it tends to increase in inverse ratio to the prosperity of an area. Whilst everybody accepts that local government spending must be brought under control it cannot be done by transferring the financial burden from central government to local businesses who often have no vote at all in local government elections, and who certainly have no vote in proportion to their financial liability.

Thus a party which was elected on a tax cutting manifesto has vastly increased the taxation on the very type of business that they promised to support. Indeed the present government, who practically doubled VAT in their first budget, has increased taxation generally more than any other government in history in direct contravention of their election manifesto.

Many young people voted Conservative because they believed that it would help them to buy their own home, and those who have been able to buy their council house have been rewarded. However many people have little wish to own a badly sited council house and those who wish to build or buy their own house have seen prices rocket beyond their means, with the cost of borrowing forced to unprecedented levels by Government action, allied with a collapse of private building.

The Government's fight against inflation is of vital importance but it is being fought largely at the expense of private businesses who are faced with bills from nationalised industry and services which have doubled during the life of this Government. Small businesses and medium businesses are only able to pay their managers and staff at rates which are rapidly falling far behind those paid in local government, in the Health Service, in the Police, in the British National Oil Corporation, or in the Services, and in particular the inflation linked pension schemes, which are far beyond the ability of private companies to buy, cause intense anger. As an example, whilst it can be accepted that Police pay was too low three years ago the present pension levels paid to men with fifteen years of useful work ahead of them are so different to those provided by private pension schemes that urgent action must be taken.

As long as those in government service who control inflationary pressures and government spending are themselves protected from its effects they are never going to accept or know how devastating a scourge inflation is.

Thus the national scene is one of economic recession, vast unemployment and a substantial variation in security and reward which bears too low a relation to merit to be accepted as being justified. No longer are the unemployed out of work because they are lazy and incompetent, or the well paid secure and comfortable because they are intelligent and hard working, and unless this unfair state is corrected there will be anger, and in the extreme cases riot and insurrection.

As far as the local area is concerned the prospects both for the area and for the Conservative Party have become unbelievably bleak when compared with the high hopes of only a year ago, when Mr Gray, in his capacity as Minister of State for Energy announced a firm Government commitment to build the gas gathering pipeline in the North -/

Sea. This project would undoubtedly have brought substantial prosperity to the Cromarty Firth area, which would have provided the base area for much of the work involved, and it might have brought with it the petro-chemical development which would have absorbed the labour force working on the BNOG tank farm at Nigg and provided continuity of employment for four to six years at least.

As we all know, this whole project was abandoned in September. Whether it was right or wrong to abandon it is debateable, but what is certain is that the two main reasons for the failure of the scheme were the Government's failure to reach agreement with the Norwegians to buy their gas reserves and secondly the scale of the Government's tax on the oil companies who were expected to finance the scheme, which left them with an inadequate financial return. Mr Gray's department was thus intimately involved in all the negotiations with the Norwegians, with the Oil Companies and with the other Government departments, and must accept the blame for their failure. It is known that Mr Gray was bitterly disappointed, but it remains undeniable that the abandonment of this project has left the Government with no policy for the development of the North Sea reserves after three years in power, other than to tax the output to excess. The result is that the Government that was elected to expand and develop the North Sea has proved to be even less successful than their labour predecessors.

The effect on the Invergordon area has been the loss of two thousand five hundred jobs but at the same time many local businesses had gone ahead with substantial expansion plans acting on the Minister's statement of intent, and are thus doubly hit by the failure to establish any new oil related developments in the area.

Finally the closure of the British Aluminium smelter will deal a devastating blow to Easter Ross and in particular to Invergordon and Alness. The timing of this closure which appears to have been designed to avoid paying earnings related unemployment benefit, will leave a bitter memory of the meanness and pettyness of those who have taken advantage of a loyal workforce.

This Government has during the last two years abandoned the policy of regional development supported by successive Conservative governments. The pulp mill at Fort William, Linwood, and the Bathgate complex are all the products of Conservative policies and the smelter was founded in accordance with such plans, and its closure is a breach of faith with the many families who moved north in accordance with government plans to encourage the mobility of labour. The new policy is entirely contrary to Mr Gray's firmly stated opinions in the past, and it appears to have been implemented without regard for the consequences in accordance with a bigoted theory which has been conspicuously unsuccessful elsewhere.

We are far too close to ~~the~~ close to the closure to forecast the effects accurately but they will undoubtedly be devastating, and will result in de-population, in the eventual closure of up to eighty percent of businesses in Invergordon and Alness and in dereliction and distress.

The effects on power supplies in Scotland, on the railways and roads in the Highlands on the Highland Regional Council who will not only lose the direct rates paid by British Aluminium but who will also be left with empty and derelict housing, and on the morals of those who thought that they had a steady job for life are all incalculable. None of these consequences are acceptable, all of them will remind those who stayed that they have been betrayed by an English Conservative Party which has learnt nothing from the mistakes of the last two hundred years.

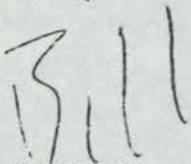
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The history of Ireland, of Wales, of the Highland Clearances, and of many of the Colonies show the dangers which stem from the narrow minded pursuit of the policies adopted by the present Government, and they must be changed before it is too late to repair the damage being done.

As you know, I am English and no advocate of Scottish Nationalism, which I would consider a disaster were it to succeed, but I can imagine no circumstances more likely to encourage the growth of militant nationalism than those being forced on the Easter Ross area.

I hope you will pass this letter on to Mr Gray, and to any other Conservative party members or officials who may be interested in my views. I am well aware of Mr Wilson's statement that " five minutes is a long time in politics " but it is my opinion that unless immediate and substantial action is taken on a scale far greater than that so far envisaged the financial consequences in Easter Ross will be disastrous and the electoral consequences will be permanent and devastating. Those who say there is no alternative will not be forgiven.

Yours sincerely
for WILLIAM MUNRO (INVERGORDON) LIMITED


W B DEWING
Managing Director

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

20 January 1982

I attach a copy of a letter the Prime Minister has received from Mr. R.H. Stevenson, the Chief Executive of the Highland Regional Council about the closure of the British Aluminium smelter at Invergordon.

The Ross and Cromarty District Council and Highland Regional Council have claimed on the telephone to us that your Secretary of State has given them some support in their request that the Prime Minister should receive a joint deputation from them. I do not know what substance there is in this, but the Prime Minister thinks that it would be better if Scottish Office Ministers saw them, and hopes that your Secretary of State will reply to their letter.

Muir Russell Esq
Scottish Office

CONFIDENTIAL

PRIME MINISTER

The Chief Executive of the Highland Regional Council asks you to receive a joint deputation from the Highland and Ross and Cromarty District Councils about the Invergordon closure.

They have claimed on the telephone to us that Mr. Younger has given them some support in this. He may possibly have touched upon this when he discussed Invergordon with you today. But once you accept a delegation - other than a constituency M.P. - over a specific closure, however calamitous, you open the flood gates to this type of meeting. And in practice, if there is anything that Government can do to help in a particular case, or to mitigate the effects of closure, it must be for the Departmental Minister to pursue the point.

May we therefore ask the Scottish Office to handle Mr. Stevenson and his colleagues? -1

am already in close

touch with them

check it - and

Hannish Gray is

then member.

19 January 1982

Yes not

MJF

not

(C/F File:- PM's Meeting with Lord Plowden)
Dec. 81



Highland

Chief Executive
R.H. Stevenson, M.A., LL.B.

Highland Regional Council
Regional Buildings
Glenurquhart Road
Inverness IV3 5NX

Telephone (0463) 34121
Telex No. 75313

Please ask for Mr. Stevenson

Our ref RHS/DJM

Extension No 201

Your ref

Date 15th Jan., '82.

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
House of Commons,
LONDON SW1A 0AA.

Dear Prime Minister,

INVERGORDON - CLOSURE OF BRITISH ALUMINIUM SMELTER

I wish to submit a formal request, on behalf of this Council and Ross and Cromarty District Council, that you receive a joint deputation from the two authorities in connection with the effects of the Invergordon smelter closure and the action which, in the view of the two Councils, must be taken to re-start the smelter.

I would suggest most respectfully that there is no real need to rehearse in this letter the basis for our request that a joint deputation be received. The closure is sheer catastrophe for the Ross and Cromarty District and for the Highland Region as a whole. Its effects will be calamitous not only for the 900 work-force involved but also in the implications for medium and small businesses of all descriptions; for the local authorities; and for other public services. It can be said with complete confidence that never in modern times has one issue so united, in their determination to reverse these tragic events, all sections of the northern community including the work-force, the local authorities, the public agencies, the business community, the voluntary sector and the public at large.

The two Councils, who are pledged to act in concert with one another, are alert and ready to travel to London to meet you at the briefest of notice.

In view of what is at stake, the Councils are confident that they will receive from you a positive response to their request.

I am,
Your most obedient servant,

CHIEF EXECUTIVE.