

SUSPECT

cc Marki.

FILE DS
bcc: Mr. Gow
Mr. Ingham

10 DOWNING STREET

From the Private Secretary

26 January, 1982.

Dear Muri,

Invergordon

The Prime Minister had a meeting this evening with Mr. Hamish Gray, as constituency MP for Invergordon. Your Secretary of State was also present.

The Prime Minister said that it was normally an inflexible rule with her not to see local councillors and other deputations in closure cases. She was prepared, however, in the present case, to see the Highland Regional Council and the Ross and Cromarty District Council, and would explain this decision on the grounds that Mr. Gray, as a member of the Government, was unable to make his case on the floor of the House. Mr. Gray said that he thought there would be little point in her seeing them now; it would be better to say that she was prepared to see them at a later stage when there was a prospective purchaser for Invergordon in sight. The Prime Minister agreed to write a holding reply to the councillors on these lines, making it plain that Mr. Gray had kept her in touch with events throughout.

Your Secretary of State said that it would be intolerable if the closure of Invergordon were thought to result from more onerous electricity prices for Invergordon than those which applied to the two other smelters at Anglesey and Lynemouth. There were at present two possible prospective purchasers, one a US company which Mr. Ian MacGregor had interested in a possible purchase. The Government would have to try to ensure that any potential purchaser secured an electricity price contract no less favourable than those on which Anglesey and Lynemouth operated.

The Prime Minister said that the problem lay with the electricity supply industry. It was inefficient, and this inefficiency had killed Invergordon. Was it not possible for a potential purchaser to buy a source of power supply at the same time as purchasing the smelter? Your Secretary of State explained that this would be very expensive, but if the sale price of the smelter was low, it might be possible. An alternative would be to earmark the supply of hydro-electricity in Scotland for use at Invergordon; this would be a device for reducing the cost of electricity to the plant. The consequence would be higher prices for other consumers in Scotland.

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He thought this consequence tolerable, given the general unemployment position in Scotland, and given that the low electricity price at the other two smelters was similarly subsidised by consumers elsewhere.

The Prime Minister commented that this approach would be awkward if the favourable terms for power supply at Anglesey and Lynemouth were at some later date reversed. She wondered whether the NCB Scotland could be asked whether they could produce coal at £10-15 per tonne, to match the supply at Lynemouth: and to preserve jobs in Scotland. Your Secretary of State pointed out that the poor quality of the coal seams in Scotland might make this difficult.

Your Secretary of State said that, with hindsight, it would have been desirable to have secured the British Aluminium Company's agreement at the end of December, to transferring ownership of the site at a suitably low price; this would be around £5m for the scrap value of the plant plus about £1m for the surrounding 300 acre farm. It was for consideration whether the Government should approach Lord Plowden in order to secure this agreement at some stage. The Prime Minister commented that there was a risk if the Government itself took an option on the site, that it would seem to be taking responsibility for keeping the smelter going. Your Secretary of State acknowledged this risk, and said that the next step was for Scottish Ministers to discuss the terms of a power contract with potential purchasers of the plant, so as to explore what might be negotiable. If such discussions got anywhere (and he was not at all confident that any of the potential purchasers would prove serious enough for this to be the case), he would bring the matter to colleagues.

B/F / I should be grateful if you would take account of this discussion in framing your draft reply for the Prime Minister to send to Mr. R.H. Stevenson of the Highland Regional Council.

Yours sincerely,

Michael Scholar

A. Muir Russell, Esq.,
Scottish Office.

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