



10 DOWNING STREET

From the Private Secretary

5 March 1982

Dear Muir,

INVERGORDON SMELTER

As you know, the meeting of E planned for yesterday afternoon was postponed until Monday morning. The Prime Minister, nevertheless, had a preliminary discussion yesterday afternoon with the Ministers most closely concerned: the Secretaries of State for Industry, Scotland, Wales, Energy, the Chief Secretary, Treasury, Mr. Mellor (PUSS, Energy), Dr. McCrone (Chief Economic Adviser to the Secretary of State for Scotland) and Mr. Ibbs.

Your Secretary of State said that the closure of the smelter at Invergordon had provoked great bitterness in Scotland, and was having very far-reaching repercussions, both political and economic. British Rail expected to lose nearly £3 million a year in revenue; NCB were losing sales of 750,000 tonnes of coal a year; and the total job losses including indirect effects were of the order of 1500. Scotland had the cheapest indigenous electricity in Britain; yet it was the smelters at Anglesey and Lynemouth and not that at Invergordon which were still in operation, enjoying low priced energy. There were four possible purchasers of the smelter; but their interest could only be taken further if a new power contract were available on terms which were competitive for the aluminium industry internationally. He had examined, as his E paper made clear, a number of different possibilities. His conclusion was that a coal-based power contract offered the best prospect of re-establishing the smelter on a viable basis, and that discussions should proceed with the NCB with the aim of making coal available at a price which would permit electricity to be produced at a target cost of 1p to 1.2p per unit.

The Prime Minister said that she had reservations about this approach. She believed that the arrangement your Secretary of State was envisaging positively entrenched the NCB habit of averaging the price of coal and therefore perpetuating the life of the less economic pits. She considered that if that habit could be broken and a variation in pithead prices be secured and passed on to the consumers, we should be on the way to a more efficient coal industry and cheaper coal. The Prime Minister said that, whatever the shortcomings of this approach or of your Secretary of State's approach, some way forward had to be found; she accepted that the existing situation arising out of the closure of Invergordon was not politically tolerable.

/ In discussion,

SUBJECT

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David Moore
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cc Master

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In discussion, the following points were made:

- (i) If a cheaper source of coal was earmarked for Invergordon, these supplies would not be available for other industrial users, and would unjustifiably raise the price of coal or electricity for them. Some of these were large employers of labour, in areas of high unemployment.
- (ii) If it was accepted on political grounds that Invergordon must be kept running, it would be better to pay an explicit subsidy on regional policy grounds rather than distort, with serious general economic consequences, the Government's energy pricing policies; there were, on the other hand, serious EEC objections to a regional subsidy on these lines.
- (iii) There was at present a substantial surplus of coal in Scotland, and no immediate practicable possibility of pit closures to reduce this surplus. The coal was therefore available, and it made little sense to export it and so to supply cheaper energy which we were denying ourselves to our overseas competitors.
- (iv) The output of privately-owned open-cast mining operations, which could produce coal at around £18 per tonne, might be earmarked for Invergordon; if ownership of these operations were transferred to the owners of Invergordon, the EEC objections to an energy subsidy might be overcome.
- (v) It had to be recognised that one of Alcan's motives in considering the purchase of Invergordon might be to push the Government into subsidising energy for its Lynemouth smelter when the present arrangement there expired. Certainly, if a subsidy were now set up to re-start Invergordon, there would be increased pressure to perpetuate the present subsidised arrangements at Anglesey and at Lynemouth.
- (vi) There was a case for limiting any subsidy to Invergordon's energy to a period of three years; on the other hand, once the smelter was re-started there, it would in practice be politically difficult, or impossible, to cease the subsidy at the end of the three year period. Furthermore, it seemed most unlikely that a potential purchaser would clinch the deal unless there were guarantees of a continuing subsidy well beyond three years' duration.

Summing up, the Prime Minister said that the Department of Energy, in consultation with the Scottish Office, should examine urgently the practicability of earmarking for Invergordon the output, perhaps through a purchase, of suitable open-cast mining operations in Scotland. They would need to ascertain the size of the grant which would be necessary to finance such a purchase;

/ the price at

the price at which coal could be provided for Invergordon from this source; the size of the coal subsidy which would be required to permit viable smelting at Invergordon; and whether the arrangement would be consistent with the NCB's statutory responsibilities. One of the advantages of the arrangement, if it proved practicable, would be that the miners at the open cast operations would have an incentive to provide coal at the lowest possible price in order to preserve jobs at Invergordon. Departments should make as much progress as they could over the weekend, and E Committee would return to these matters on Monday morning.

I am sending copies of this letter to the Private Secretaries to the members of E Committee, to the Secretary of State for Wales, to the PUSS at the Department of Energy, to your Secretary of State's Chief Economic Adviser, to Mr. Ibbs (CPRS) and David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

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