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Prime Minister

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PRIME MINISTER


INVERGORDON: OPENCAST COAL

At Thursday's meeting you asked my Department to explore the possibility of dedicating the coal from Westfield or some other suitable Scottish opencast site to the smelter at Invergordon.

2. The Westfield site in Fife is the lowest cost opencast site in Scotland which could supply the necessary 750,000 tpa of coal. It produces 1 mtpa; at present its production costs are just below £20/t before interest. The present site will be exhausted in about 3 years, but coal will then be available from a nearby successor site where, however, the costs will be a little higher. Although, therefore, enough coal will be available, even before interest the cost would be 80% higher than the price which Alcan now pay. Further, because the coal has a low calorific value, the effective price of heat would be higher than these figures suggest. There would therefore be a substantial margin to be covered in order to bring the coal price down to what Alcan are likely to be willing to pay.

3. The dedication might be carried through in a number of ways. One way would be a sale of coal from Westfield by the NCB at cost. I am less confident than the Lord Advocate that it would be easy to reconcile such an arrangement with NCB's obligations on undue preference or with Community Law under either the Treaty of Paris or the Treaty of Rome.

4. Alternatively, the site could be transferred to Alcan who would then have the opportunity of reducing their coal costs by more efficient operation. However, primary legislation would be needed. At present all coal reserves in the UK are vested in the NCB. Private sector mines require a licence from the Board in exchange for payments of royalties on the coal produced, and the Board are forbidden by Statute from including in a licence a deposit of more than 25,000 tonnes total reserves. This limit could only be removed by primary legislation, which would inevitably be controversial especially on the question of compensation to the NCB. The NUM would be extremely hostile, since they would see such a move as the first step to the privatisation of the coal industry. (My paper E(DL) (82)3 deals with the general issues involved in the possible privatisation of opencast).

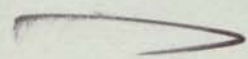

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5. Further, it is not clear what the position of Alcan's smelter at Lynemouth would be under such a scheme. As I understand it, Alcan's proposal is to use the two smelters in tandem. If so, the new arrangement now proposed would nominally relate to Invergordon alone but make it practically impossible for us to escape supporting Lynemouth as well. We must keep in view the costs of supporting both.

6. Economically these schemes would be disguised subsidies to Alcan. All the objections set out in my minute of 3 March would apply. The fact is that attempts to support Invergordon by manipulating energy prices do not in any way reduce the cost of government support: but they do raise legal complications and pressures for favourable treatment to other energy users whose costs could be enormous but which it would be difficult to resist politically. If we accept the social and regional case for reopening Invergordon alone, we should act directly and be ready to justify our action on those grounds, where the case is strongest. I repeat the suggestion in my previous minute that the Scottish Office should pay a direct grant to the smelter operators sufficient to keep the smelter in operation, taking new powers if necessary. This grant might be subject to arrangements which would secure for the Exchequer a share in any subsequent profits from the plant.

7. In addition I should be prepared to press the NCB to supply coal for the smelter's use at a price which would give them the same revenue as if the coal had been exported but only for 5 years or as long as we foresee NCB's current excess production continuing. This course risks pressure for similar concessions to others but I believe that we and the NCB together could resist it in most cases.

8. I am sending copies of this minute to the other members of E Committee, the Lord President of the Council, the Secretaries of State for Scotland and Wales, the Chief Whip, the Lord Advocate, Sir Robert Armstrong and Mr Ibbs.

3.12. 

Approved by the Secretary of State for Energy
and signed in his absence

5 March 1982



10 DOWNING STREET

Prime Minister

Invergarden

2 new papers since Thursday:

(i) my note of Thursday's
meeting - which E colleagues
should have had in their
weekend boxes;

(ii) Nigel Lawson's minute on
the open cast option (the Scottish
Office were involved in this).

No further papers or work is
under way.

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