



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

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CONFIDENTIAL

I don't think  
there would

Prime Minister (2)

PRIME MINISTER

INVERGORDON ALUMINIUM SMELTER

Mr Younger's office have been  
discreetly enquiring of me whether there  
would be any point in his returning  
to E, to seek authority to make a  
higher offer than £20m p.a. or for longer  
than 5 years. On the strength of this minute  
that would be premature  
- even if it  
would ever be acceptable

In his letter of 14 June my Private Secretary informed yours that I would be writing shortly with details of our discussions with potential operators of the Invergordon aluminium smelter.

Discussions have been concluded with all but two of sixteen companies with which my officials have had contact and none of the fourteen is prepared to undertake the task of re-opening the smelter within the terms on offer. The companies contacted were substantial international companies and several of them were anxious that their names should be revealed only if a definite proposal emerged for them to restart the smelter; for this reason I do not refer to individual companies by name.

Of the fourteen companies with which discussions have been completed, a number said that they would be interested if the terms were different. Most companies were reluctant to give an exact definition of the improvements which they considered necessary but a typical response was that a longer period was needed (eg at least ten years) and that Government (ie not the Electricity Boards) would have to be more specific about the power price and escalation factors. Two companies were more specific:

One company said that their three key requirements were a minimum length of ten years for financial support; annual financial support in the order of £15-20m; and an acceptable escalation clause on power costs - for example that a proportion of the power price should be adjusted in line with variations in a price index and with variations in the price of aluminium.

15. 11

A second company concluded that to break even over the five-year period they would need a subsidy of £130m (with a probable annual profile of 55, 25, 20, 20, 10). Even the break even situation had many elements of risk and therefore they felt unable to submit a proposal because of the short term nature of the offer and its inherent risks. They said that if a long term energy price could be more closely linked to international energy pricing for aluminium smelters they would wish to reconsider their position. They would also like to reconsider their position if there was any question of the longer term power price being related to the international price for coal.

Of the two companies with which discussions are incomplete one is very interested and following exploratory talks with my officials they have had talks with BACo (as owners of the plant) and have had a first look at the smelter. These preliminary discussions have convinced them that further investigations are worthwhile and they are assembling a team of experts who will be flying to London later this week for further talks with my officials, BACo and the Scottish Electricity Boards. The second company was later than the remainder in expressing an interest and discussions with that company are still at an early stage. Discussions with both these companies are of course being taken forward as urgently as possible in the hope that a final decision can be taken before the end of the month.

My officials have also spoken to and corresponded with BACo over their decision to dismantle the plant at the end of June unless they either have a direct statement of genuine interest from a company or the Government are prepared to reimburse BACo for its expenditure on maintenance and the interest on the capital tied up in Invergordon. My officials have emphasised to BACo that it is in their interest to maintain the smelter in working order as long as there is the possibility of finding a new operator. I cannot be certain however that BACo will be willing to agree to a short delay even if these discussions are continuing with some chance of success - the Company needs cash quickly and has adopted a pessimistic public attitude about the chances of attracting a new operator. I may therefore find it essential to make BACo a payment to cover their costs of keeping the plant available. BACo's first estimate for this is £150,000 a month.

If there appears to be some possibility of success in finding a new operator and discussions have not been completed by the end of the month it is, I believe, politically imperative that we should not allow BACo to move in and begin to break up the smelter before negotiations are complete. If this happened we would lose much of the credit which we have gained from our willingness to make such sustained and serious efforts to find a new operator. I would regard a payment to BACo as a last resort if other measures of persuasion of the company fail - and we will of course appeal strongly to their self interest using the arguments outlined above. I do however seek Treasury approval to reimburse BACo's maintenance and interest costs, if necessary by an ex gratia payment. This would be subject to scrutiny of BACo's costs by officials and would be for a short period, no more than a month in the first instance. My officials are writing separately to the Treasury about this.

Finally, as will be apparent from this minute, there is a real risk that at the end of the day we will be unsuccessful in the search for a new operator. If this proves to be the case we will have to consider what the next step should be.

I am copying this to Geoffrey Howe, Nigel Lawson, Patrick Jenkin, Sir Robert Armstrong and John Sparrow.

L4.

Scottish Office  
22 June 1982

G.Y.

1018



22 JUN 1982  
6 11 12 1 2 3 4 5 6 7 8 9 10 11 12



c.c. Mr. Vereker  
Mr. Ingham

to

pm

10 DOWNING STREET

*From the Private Secretary*

28 June, 1982.

Invergordon

The Prime Minister noted without comment your Secretary of State's minute of 22 June; and also the Chief Secretary's minute of 25 June about the same subject.

I am sending copies of this letter to John Kerr (HM Treasury), Julian West (Department of Energy), Jonathan Spencer (Department of Industry), David Wright (Cabinet Office), and Gerry Spence (CPRS).

**M. C. SCHOLAR**

Muir Russell, Esq.,  
Scottish Office.

CONFIDENTIAL



CC JV  
B-1.

Prime Minister (2)

Ms 25/6

PRIME MINISTER

INVERGORDON

with P.M

I have seen George Younger's minute to you of 22 June.

2. I would hope that it does not prove necessary to subsidise BACO to maintain the smelter in an operable condition. It is as much in their interests to find a purchaser for Invergordon as it is in our's. But, if absolutely necessary, I can agree to BACO being paid £150,000 to maintain the smelter until the end of July.

3. However, I think it is important that we are quite clear in our own minds why we wish to purchase this one month's breathing space. I believe it is reasonable to make this effort to facilitate a proper appraisal by the one company that George has identified as interested in reopening the smelter on the basis of the sort of subsidy that was agreed at E: ie. a fixed sum of up to £20 million a year over 5 years from the Highland and Islands Development Board. I do not believe it would be reasonable to buy time in the hope that some other potential operator might materialise or that we might be able to offer even more generous terms than those we have already agreed to.

4. I am copying this to George and to recipients of his minute.

T. Matakos

for LEON BRITTAN  
25 June 1982

Approved by the  
Chief Secretary  
and signed in  
his absence



Prime Minister

Prime Minister (2)

You were asking about this.

SCOTTISH OFFICE M/S 15/6  
WHITEHALL, LONDON SW1A 2AU

cc. J.V.

CBI

COMMERCIAL - IN CONFIDENCE

Michael Scholar Esq  
Private Secretary  
10 Downing Street  
Whitehall

ms

14 June 1982

Dear Michael,

INVERGORDON SMELTER

Following the Prime Minister's meeting on the previous evening your letter of 27 May said that my Secretary of State should explore with potential operating companies the possibility of re-opening the Invergordon aluminium smelter on the basis of a £20m annual grant through HIDB for five years without any direct coal or electricity subsidy. In exploring the possibility the Scottish Office has written to 13 aluminium companies of whom 10 have replied and an additional 3 companies have contacted us following reports in the press.

Of those companies that replied or contacted us for further details we have had meetings with 4, a further meeting is arranged for 15 June and 2 companies are still considering the proposition. At present however only one company has expressed real interest to the extent of contacting the owners of the plant, British Aluminium Company (BACo), to have preliminary discussions about the acquisition of the plant. The remaining companies have either said that they have no interest or that they might be interested if the terms were different - in particular if the offer covered a much longer period than five years.

From these various responses and initial discussions we are not optimistic about a successful outcome. The main stumbling block is undoubtedly the length of time for any support arrangement. We are fairly confident that we could attract two or three bidders who might come within the subsidy limits for a first five-year period, possibly including some tapering, but only if there was a guarantee of lower power prices in the longer term. However we will of course continue our discussions under the terms agreed by Government.

Whether or not we are successful in finding a genuinely interested company my Secretary of State may have to approach colleagues very urgently in the middle of June to establish his next course of action. We have had discussions with BACo and they intend to begin dismantling

the plant at the end of June unless they either have a direct and reasonably firm indication of interest from another company or are assured that the Government are prepared to pay for the further maintenance of the plant. Their first estimate of this cost is £150,000 per month.

I am copying this letter to Julian West (Energy), Jonathan Spencer (Industry), Terry Matthews (Treasury) and to Michael Buckley (Cabinet Office).

*Yours sincerely*

*John Wilson*

JOHN S WILSON  
Private Secretary