

CONFIDENTIAL

cc Mr. Mount
Mr. Vereker

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MR. SCHOLAR

PA

ALCAN ALUMINIUM UK LIMITED

The letter of 13 October from Secretary of State for Industry to Energy is, I believe, quite satisfactory and does not need the Prime Minister to intervene. Essentially, Industry argue that it is best to leave the National Coal Board and Alcan to negotiate the price of coal. NCB knows it needs the market, and of course also know that Alcan will only pay a certain price.

However, I can well see that at the negotiated price there will still be the threat of closure of Linemouth. This will then undoubtedly come to E Committee.

The main consideration is employment. Alcan accounts for 7,000 or more jobs.

Yet, in the Report by the interdepartmental study group there is no mention at all of wage rates. (Yet these must amount to a wage cost of approximately £70 million a year. Not a trivial item.) Whereas coal costs only account for 12% of Linemouth's smelter production costs, or about £13 million a year.

*No action
reqd - we
are not
intervening*

I think this is a case where typically we should insist on Alcan putting its own house in order. They can do that by negotiating much lower pay rates or pay increases. Ideally they should negotiate no increases at all until the business becomes profitable again.

This consideration doesn't seem to have entered the discussions at all of the interdepartmental committee. You might think it is worth while reminding them that there are costs other than those of coal. At least this aspect of it should be covered before it eventually finds its way, as it must, to E Committee.

14 October 1982

ALAN WALTERS

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