



FILE

HZ

cc: D/N
D/Ind

10 DOWNING STREET

THE PRIME MINISTER

12 April, 1983

Dear John,

Thank you for your letter of 1 March with which you enclosed a memorandum by British Alcan.

I am sorry that it has taken us a little time to consider this complicated problem. Nigel Lawson is now writing to Norman Siddall suggesting that discussions with British Alcan about the terms of supply of coal to the Lynemouth power station be resumed. I suggest that the next step is for British Alcan to arrange a meeting with the National Coal Board.

I am sending copies of this letter to Patrick Jenkin and Nigel Lawson.

Lawson
Raymond

The Rt. Hon. John Peyton, M.P.

RM



10 DOWNING STREET

lanj

This is agreed with
Patrick Jenkin & Nigel Lawson
as to the PM's signature now.
Please see the advice at Stage A
about the PM seeing Mr Wilver.
Can you deal with this
request or should something be
added to the PM's letter, please?

Mes 31/3

John PEYTON, MP



da

~~14/3~~

Chased 14/3.

BU extended 21/3

10 DOWNING STREET

From the Private Secretary

1 March 1983

Chased D/Ind. 21/3. S/S Energy has become involved. Draft will be delayed a couple more days.

Willie

I chased industry again today. The S/S has asked the Divisions concerned to revise the draft - hopefully it will be here by Thursday next 21/3. Kay

16/3

Kay

OK

WM 16/3

I enclose a copy of a letter to the Prime Minister from Mr. John Peyton M.P., about the difficulties faced by the aluminium industry in this country.

I should be grateful if you could provide a draft reply for the Prime Minister to send to Mr. Peyton, to reach us by 11 March.

I am sending a copy of this letter and enclosure to Julian West (Department of Energy).

MCS

Jonathan Spencer, Esq.,
Department of Industry.

ls



da

10 DOWNING STREET

From the Private Secretary

1 March 1983

I am writing on behalf of the Prime Minister to thank you for your letter of 1 March. I will place this before her and you will be sent a reply as soon as possible.

mcl

The Rt. Hon. John Peyton, M.P.

ls

The Rt. Hon. John Peyton, M.P.



HOUSE OF COMMONS
LONDON SW1A 0AA

CONFIDENTIAL

1st March 1983

cc: 15
(2)

Prime Minister

We will let you

have a draft reply.

MMS 1/3

Dear Prime Minister

You are, I know, already aware of the difficulties which the aluminium industry in this country has had to face as a result of the recession and of the efforts which it has been making to overcome them.

The recent merger of Alcan Aluminium (UK) and British Aluminium was brought about and implemented at a cost to Alcan's parent company of £150 million. While it represents an important step forward, the shadow of a steep increase in energy costs still hangs over the new company. This has been caused by the Coal Board's unilateral decision to end the contract under which it supplies coal to the Lynemouth smelter.

George Russell, the Managing Director, and I have been at some pains to keep Ministers informed of our problems and of the consequences of a failure to solve them. David Culver, President of Alcan Aluminium Ltd. (our parent company) and Patrick Rich, President of Alcan Aluminium (Europe) S.A. and Chairman of British Alcan Aluminium Ltd. are aware of this approach to you. Both would be willing to come to this country at any time, if you or your colleagues thought that discussion with them would contribute to mutual understanding of future prospects as well as to a solution of our present problems.

I am sending you the enclosed memorandum on behalf of the Chairman of British Alcan, in order to stress the urgency which we attach to the settlement of our energy problem. Copies will go to all Ministers with whom we have been in touch.

John Smith
John Smith

The Rt. Hon. Margaret Thatcher, M.P.

BRITISH ALCAN

(This memorandum updates, and should be read in conjunction with, George Russell's letter of 17 December to the Secretary of State for Industry)

For most of 1982, three factors stood in the way of survival for the U.K. aluminium industry: fierce and damaging competition in a home market not big enough to sustain both Alcan UK and BACO; the possibility that future energy costs might cause the Lynemouth smelter to go the same way as Invergordon: prices depressed by recession and further weakened by cheap European imports. No matter how desirable, it was not possible in the time available and in the circumstances prevailing last Autumn for Alcan to take more than one step at a time.

Alcan and BACO had between them lost in 1981 and 1982 £50 million and £40 million respectively. BACO's losses led directly to the closure of Invergordon; they also caused severe pressure for Tube Investments, which owned 60% of the shares. In November 1982, Alcan Aluminium (UK) Ltd., with the support of its parent company, took over BACO at a cost of £100 million; implementing the merger has cost a further £50 million. No Government support was either asked for or offered: but the Government did accept the merger as a necessary and inevitable step and decided not to refer it to the Monopolies and Mergers Commission.

In the seven months prior to December 1982, 1,000 people had left the two companies. The new Company, British Alcan Ltd., announced on 8 February that it had made some 1,300 people redundant in Falkirk, Rogerstone and Kitts Green. In the previous week it announced the closure of its foil plant at Wembley involving some 300 people. Those measures have done no more than clear the decks; they have given the Company the opportunity to look at the crucial problem of energy prices.

Alcan's original contract with the National Coal Board is obscure in its detailed provisions. Its broad purpose, however, was to provide low cost energy until the year 2001. One term in the contract, which the N.C.B. has tended to overlook, provides that in the event of the Board withholding supply it would be obliged to pay half the additional cost of purchase from an alternative source. Alcan had already paid, prior to the merger, a total of more than £25 million above the prices provided for in the contract. The new Company is now prepared to increase the price by a further 50%; there remains however a gap of some £6 million p.a. between the figure which the N.C.B. have in mind and what the Company could pay without making the smelter hopelessly unprofitable.

The Lynemouth smelter is of particular importance: it processes metal in shapes and to a quality essential in the downstream operations. Moreover, its closure at this juncture would result in such a diminution of the assets as to put the Company in breach of its borrowing covenants: its survival would then require a substantial financial restructuring, something which the parent company could not and would not accept. Thus, closure of the smelter would bring to an end the whole of the downstream activities: redundancies would be of the order of 10,000, principally in the North East, South Wales, the West Midlands and Scotland.

Metal prices have been deeply depressed: they fell from nearly 2,000 dollars a tonne in 1980 to something under 1,000 dollars a tonne in 1982. U.K. prices have been further weakened by cheap imports made possible by the high value of the pound. Moreover, other European Governments have been determined to sustain their industries more or less regardless of cost. A separate note giving examples of such activities is attached.

British Alcan believes that the merger, achieved at considerable cost to its parent company, marks an important step towards the establishment in the U.K. of a strong, permanent and profitable aluminium industry. Further progress depends upon the Company having a firm base in its own home markets. Its efforts to achieve this could be undermined either by a continuing flow of imports from Europe, made cheap by subsidies, or by some sudden surge in energy costs. It now sees an early settlement of its post 1983 coal prices as being essential. If it cannot achieve such a settlement by the end of next month, it will have no alternative but to embark upon the closures indicated.