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E(82) 7th Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
MONDAY 8 MARCH 1982 at 10.15 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for
the Home Department

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon James Prior MP
Secretary of State for
Northern Ireland

The Rt Hon Michael Heseltine MP
Secretary of State for the
Environment

The Rt Hon John Biffen MP
Secretary of State for Trade

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

The Rt Hon Lord Carrington
Secretary of State for Foreign
and Commonwealth Affairs

The Rt Hon Sir Keith Joseph MP
Secretary of State for
Education and Science

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

The Rt Hon David Howell MP
Secretary of State for Transport

The Rt Hon Baroness Young
Chancellor of the Duchy of Lancaster

The Rt Hon Norman Tebbit MP
Secretary of State for Employment

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The Rt Hon Cecil Parkinson MP
Paymaster General

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson
Mr D J L Moore

SUBJECT

INVERGORDON SMELTER

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INVERGORDON SMELTER

The Committee considered Memoranda by the Secretary of State for Scotland (E(82) 19) and the Central Policy Review Staff (E(82) 21). Their discussion and conclusions reached are recorded seperately.

Cabinet Office

8 March 1982

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX
E(82) 7th Meeting Minutes
MONDAY 8 MARCH 1982 at 10.15 am

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INVERGORDON SMELTER

Previous Reference: E(81) 39th Meeting

The Committee considered memoranda by the Secretary of State for Scotland (E(82) 19) and the Central Policy Review Staff (CPRS) (E(82) 21), and a minute of 5 March from the Secretary of State for Energy to the Prime Minister, on the possibility of reopening the aluminium smelter at Invergordon.

THE SECRETARY OF STATE FOR SCOTLAND said that the closure by the British Aluminium Company of their aluminium smelter in Invergordon had provoked great bitterness in Scotland. 890 jobs had been lost directly and the total loss of jobs in this remote area was likely to be at least 1,500. This would raise unemployment to 25 per cent with no prospect within the foreseeable future of those laid-off finding employment elsewhere in the area. The Government was being blamed for the closure: management and industrial relations at the plant had been good and the root of the problem was the terms of the power contract; it was considered that the Invergordon smelter could have been viable if electricity had been supplied on terms similar to those for the two other United Kingdom aluminium smelters, at Anglesey and at Lynemouth in the north east of England. A number of companies had shown interest in taking over the Invergordon plant provided they were offered a power contract which could make its operation viable. The most promising possibility was for Alcan to buy the Invergordon smelter and to buy or lease a coal-fired power station which was at present largely surplus to the requirements of

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the South of Scotland Electricity Board. Alcan would then contract to purchase coal from the National Coal Board (NCB) for the Invergordon smelter as well as their smelter at Lynemouth. On the assumption that for a viable smelting operation Alcan would not pay more than £15 a tonne for coal, and that the NCB's price would be based on the coal export prices, his Department had estimated that the subsidy for the two Alcan smelters would be £22.5 million a year. On realistic assumptions on the timetable of pit closures in Scotland it was clear that surplus coal would be produced for a number of years and, rather than sell it in export markets, it would be reasonable to use some of it for supplying power to the Invergordon smelter. It was known in Scotland that four companies had shown interest in reopening the Invergordon smelter and the Government would be severely criticised if this policy came to nothing because of unwillingness to consider a new power contract. He sought the Committee's authority for further discussions on the possibility of reopening the Invergordon smelter on the basis of a scheme on the lines set out in E(82) 19.

MR IBBS said that the CPRS considered that there was not a sound case on economic grounds for reopening the Invergordon smelter as proposed. It would be difficult to limit a major and continuing subsidy to Alcan; other high energy users, including Anglesey Aluminium, would claim similar treatment. If subsidies of energy costs were to be made available there were other energy intensive industries in the United Kingdom which deserved higher priority, on industrial grounds, than the aluminium industry.

THE SECRETARY OF STATE FOR ENERGY said that his Department had explored the possibility of dedicating the coal from the Westfield site in Fife, or some other suitable Scottish opencast site, to the smelter at Invergordon. Although opencast sites were efficient there would still be a substantial difference, which would have to be subsidised, between the coal price and what Alcan were likely to be willing to pay. Primary legislation would be needed before an opencast site could be transferred to Alcan. This would inevitably be controversial,

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especially on the question of compensation to the NCB, and the National Union of Mineworkers would be extremely hostile since they would see such a move as the first step to the privatisation of the coal industry; the Sub-Committee on Disposal of Public Sector Assets (E(DL)) would shortly be discussing a memorandum he had circulated on the general issues involved in the possible privatisation of opencast coal operations. Subsidies to enable the reopening of the Invergordon aluminium smelter by the manipulation of energy prices would raise legal complications and pressures for favourable treatment to other energy users whose costs were high, including Alcan at their Lynemouth plant. To avoid such repercussions he recommended that, if the Committee accepted that there was a social and regional case for reopening the Invergordon smelter, the right course was for the Scottish Office to pay a direct grant to the smelter operators sufficient to keep the smelter in operation. In addition he would be prepared to press the NCB to supply coal for the smelter's use at a price which would give the Board the same revenue as if the coal had been exported, but only for five years or as long as it was foreseen that the NCB's current excess production would continue. This would risk pressure for similar concessions to others but he believed that the Government and the NCB together could resist it in most cases.

In discussion the following were the main points made -

- a. It would be very difficult to draw a ring fence round a subsidy to the Invergordon aluminium smelter on the lines proposed by the Secretary of State for Scotland. Other high energy users - for example, in the chemical and steel sectors - could mount a strong case for similar treatment. It would be difficult to limit repercussions by basing a subsidy to Invergordon on grounds of regional policy. The smelters at Lynemouth and Anglesey were both in areas of high unemployment to which it was difficult to attract new jobs. Favourable treatment for Invergordon, on regional and social

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grounds, would lead to pressure for similar treatment in areas such as the Medway towns which had been affected by Government decisions on closures.

b. It had been possible in towns such as Corby, which had suffered from major plant closures, to set up agencies which had been successful in creating new employment. Such measures were, however, most unlikely to offer a solution for Invergordon or other remote areas. It might be possible to compensate the former workers at the Invergordon smelter by high redundancy payments but there would be very limited opportunities for them to use this money in setting up new enterprises in the area; and special redundancy payments by the Government would be seen as a precedent for other areas and closures.

c. In spite of the continuing high subsidies paid to the NCB, and the considerable investment in the nationalised energy industries, many efficient manufacturing companies in the United Kingdom were still placed at a competitive disadvantage by high energy costs. In practice jobs were being retained in the coal industry at the expense of jobs elsewhere. There was a good case for considering further the possibility of dedicating coal from an efficient pit to a particular industrial user. It would be a mistake, however, to introduce such an approach with a scheme involving the aluminium smelter at Invergordon; even with coal from a highly efficient pit, Alcan would need a substantial subsidy if they were to match the prices charged by their overseas competitors who benefitted from much lower energy costs.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that a subsidy, on the basis proposed by the Secretary of State for Scotland in E(82) 19, was unacceptable in that it would lead to claims for subsidies, which would be difficult to resist, from other industries with high energy costs and from other areas facing problems of substantial closures. Any help to prospective purchasers of the Invergordon aluminium plant would have to be such as to avoid the risks

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and costs of such widespread repercussions. It seemed doubtful whether an offer which avoided these disadvantages would be sufficiently attractive to the companies which had expressed interest in reopening the smelter; it might however be desirable for the Government at least to make some offer to the companies. The Secretary of State for Scotland should now consider, in consultation with the other Ministers directly concerned but not with parties outside Government, the possibility of hypothecating the Scottish hydro-electric system for use in supplying power to Invergordon and also the possibility of an approach based on the suggestion by the Secretary of State for Energy in paragraph 7 of his minute of 5 March for supplying coal at export prices for a limited period. The review of these possibilities should cover, among other things, the amount of the likely subsidy needed and the scope for limiting and tapering it; the likely implications for the costs of energy charged to other industrial users; the risks of claims by other industries or areas for similar subsidies; and any legislative or European Community problems which might arise. The Committee would consider further, in the light of the report on these issues, the possibility of offering some form of assistance to enable negotiations on the reopening of the aluminium smelter at Invergordon to go forward.

The Committee -

Invited the Secretary of State for Scotland, in consultation with the Secretary of State for Industry, the Chief Secretary, Treasury, and the Secretary of State for Energy to consider further the two possibilities for offering assistance to enable the reopening of the aluminium smelter at Invergordon and their implications, as indicated by the Prime Minister in her summing up of their discussion, and to report.

Cabinet Office

8 March 1982