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Please ask Mr. Stevenson

Our ref RHS/DJM

Extension No 201

Your ref

Date 5th March, 1982.

The Rt. Hon. Mrs. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
LONDON. S.W.1.

Dear Prime Minister,

INVERGORDON ALUMINIUM SMELTER

This Council and Ross and Cromarty District Council were pleased to be informed by Mr. Hamish Gray, M.P., that you had agreed to meet the joint deputation from the authorities in connection with the Invergordon situation.

The two authorities are continuing to act in close concert, and have prepared a joint statement consolidating and expanding their views on the Invergordon situation and a copy of the statement is enclosed herewith.

The two authorities do hope that it will be possible for the meeting to be arranged as quickly as possible.

Yours sincerely,

CHIEF EXECUTIVE.

Enc:

HIGHLAND REGIONAL COUNCIL
ROSS AND CROMARTY DISTRICT COUNCIL -
JOINT STATEMENT OF OBSERVATIONS ON
INVERGORDON ALUMINIUM SMELTER.

EFFECTS OF CLOSURE

1. More than two months have passed since the fateful announcement of 29th December, 1981 and still the future of the smelter is in doubt. It is appropriate therefore for the two Councils to express their continuing concern at the impact of this untimely closure. The Councils also place on record their deprecation of the action by the Company whose failure to forewarn the labour force and the Local Authorities, was both cavalier and disdainful of their responsibilities to the Highland community.
2. Closure of this major industry is a crippling blow to the economy of the Highland Region; all the more so as it follows the recent closure of the Corpach Pulp Mill and the Government's decision on gas gathering. All these events and circumstances, compounded by the continued uncertainty for nuclear power generation at Dounreay, diminish the confidence that should prevail for the Highlands. As a result, prospects for continued growth and expansion are seriously prejudiced. It is a major setback to the achievements of the last decade.
3. The difficulties are compounded by the circumstances already prevailing in the Highlands. At the time of closure there were already 11,479 unemployed in the Region (14.5%). Of this 2,361 were in the Cromarty Firth area, i.e. 17% of the local work force. Closure raises this latter figure immediately to over 20% and during the ensuing few months, the "knock on" effects will raise the figure even further to 3,000, i.e., over 22%. These statistics compare unfavourably with the current Scottish average of 15.2% and 12.6% for Great Britain as a whole.
4. /

4. Moreover, even before closure, the recent MacDowall/Begg Report reasserted the findings of the Council's Structure Plan that many new jobs would have to be created during the early and mid eighties to retain the new labour force created by recent population growth. This task is compounded by the closure and it is now the case that the aggregate factors of existing unemployment, closure and growth in the labour supply, create a need for some 4,000 new jobs in Ross and Cromarty by 1990 only to retrieve the situation that existed in 1976. This obviously makes no allowance for growth in the local economy but even so, against the background of continuing economic depression and receding opportunity, it is a formidable task.

5. The impact of closure severely prejudices both the social and economic interests of the community. This manifests itself in a variety of ways that can not have been properly considered by the Government. If they had been, the decision would not have been so clearly influenced by financial considerations. Impact on the local community will occasion a total job loss of approximately 1,500 and will have a substantial impact on local services. The main elements of impact can be listed as follows:-
 - (1) Direct unemployment of 890.
 - (2) Loss to subcontracting and other services.
 - (3) Recession in local trading and business.
 - (4) Recession in the building industry, particularly in relation to private house building.
 - (5) Increased demand on social welfare and other Local Authority services.
 - (6) Reduced income to the Water and Sewerage Authority (£64,000 per annum).
 - (7) Loss of rate revenue up to £1 million per annum.

6. Loss is not confined to the local community. Value added in Scotland to the material processed at Invergordon amounted to about £38 million per annum. A large share of this total accrued /

accrued directly to the Cromarty Firth area. The smelter accounted for some 20% of Hydro Board units sold, and for many £ millions per annum of revenue. Smelter traffic was also valuable to British Rail, and its loss might contribute to further reduction of rail services in Highland Region. If it does not result in retrenchment, the loss will have to be offset by subsidy. As for rate income, it is small consolation to the Highland community that the loss of around £1 million per annum will be spread over all Scottish ratepayers via Rate Support Grant.

7. Normal commercial dictates would suggest that the loss of £30 million revenue to the generating boards would be of particular concern. In the event, however, the area of concern seems to shift ominously. If the Government is correct in its assertion that such losses will be offset by savings in generating costs, there are serious implications within certain sectors of the power-producing industry. Output capacity of 10,000 megawatts by the two Scottish Boards is already far in excess of demand. According to the Secretary of State for Scotland this means that the more expensive coal-burning stations at Cockenzie and Kincardine and the oil burning station at Inverkip will be used less frequently, in which event the coal mining industry could be severely prejudiced with up to 2,000 direct job losses. Worse still, given the normal multiplier effect of such heavy industry, a further 1,000 redundancies could be occasioned by the "knock on" effect.
8. In aggregate, therefore, closure of the smelter could lead to 3,000 - 4,500 redundancies throughout Scotland, at a cost to the Exchequer in the range of £15m. - £20m. (Based on a parliamentary reply on 28th October, 1981) By comparison, the Government's offer of assistance to the Company was £16 million.

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9. Turning to social impact, it is of note from the preliminary results of the 1981 Census, that the recent population growth in the Highland Region does not reflect the general trends of the rest of Scotland. This is a direct result of successful campaigning for new job opportunities in major industries such as the smelter and it has led to settlement expansion and major investment in infrastructure particularly in the Cromarty Firth. The prospect of economic recession and enforced migration will have serious repercussions, primarily illustrated by the inability of the depleted community to amortise the major capital investments committed. Hardship will be occasioned in a variety of ways not least, for example, by further depression in the private housing market where there has been substantial investment of late in local settlements. In this regard, closure is a loss of faith to local people and those who have been attracted to the area because of new opportunity and growth prospects. The initiative that the people have shown, their commitment and personal investment will have been wasted. This could rebound too on the Local Authorities in terms of housing, social and other services at a time when general recession already strains their limited resources.

10. In total, the circumstances arising from closure have a material and adverse effect on the social and economic welfare of the District, the Region and throughout the country, and it is the clear and unambiguous view of both Councils that the Government must therefore give high priority to retrieval of economic stability in the Region by restarting the operation of the smelter.

ISSUES AFFECTING RE-OPENING

11. The two Councils welcome the endeavours of the Highlands and Islands Development Board and the Workers Action Group to obtain a restart of operations. The Councils will collaborate to the full in supporting these endeavours. It is the Councils' belief /

belief, however, that restart can only be achieved if economic viability is assured. This is dependent on a number of issues:-

- (1) An economic power contract.
- (2) Availability of premises and plant.
- (3) Operational efficiency (manpower and plant).
- (4) Market conditions.
- (5) Securing a user.

These issues are examined in the ensuing paragraphs (Nos. 12 - 20).

12. An analysis of previous production costs shows that power represented nearly 40% of the total. This compares unfavourably with European competitors where it is believed that power costs equate to 25% and even less in Norway and Canada where hydro electric power is comparatively cheap. For 1981/82 the charges provisionally notified to the Company are reputed to equate to 1.67 pence per unit of consumption. To secure viability, however, it is the Councils' understanding that unit costs must be substantially reduced to approximately between 1 pence and 1.2 pence. This the two Councils believe could be pursued from various bases:-

- (1) Firstly; on the basis of hydro power generating costs of 0.8 pence per kwh.* This would be entirely equitable as a benefit deriving to the Highland Region which is a low cost, energy producer.
- (2) Second; on the basis of the surplus generating capacity existing in the rest of Scotland, it should be possible to make power available at more favourable rates, the more so given the special needs of this power intensive industry. Continued consumption of power should be of material benefit to the Scottish coal-mining industry which provides nearly two-thirds of the generating board's fuel. It is particularly relevant that the coal-fired Kincardine power station has an output capacity of 225 megawatts, almost equivalent /

*Pro rated from 0.7 pence per unit stated in NSHEB Annual Report 1979/80.

equivalent to the 250 megawatt demand of Invergordon smelter.

It also bears consideration that the Hydro-Electric Board was originally established with a Social purpose in addition to its economic function. This was to bring benefit to the Highlands. It is paradoxical therefore that while the low cost production of energy has been achieved, it is the imposed tariff that militates against the survival of high energy-consuming industries. Surely the principle of discount for bulk consumption should apply particularly to the Highlands which already markets its abundant power resources and can offer reserves for the future, variously from nuclear, oil, gas and other untapped resources.

13. The Councils believe that a negotiated power contract should take account of the smelting industry as a whole. In effect, a standard "smelter" tariff should be considered and applied, for example, to the operation at Holyhead (Anglesey) and Invergordon. This would be appropriate and equitable for two smelters which were established as part of a Government scheme and which do not have their own power generation. The logic of a smelter tariff is to reflect the economy of scale and it avoids dependence on the efficiency (or inefficiency) of any particular power station.
14. Publicity has been given to a conventional generating cost of 1.9 pence per unit implying an uneconomic gap which could not be reconciled even by the most optimistic forecasts of efficiency improvements or rise in aluminium market prices. The Government should, however, clarify how much of this stated generating cost represents "fixed" or "capital" costs, so that only the true "variable" costs are used to determine the basis of tariffs for the smelter. Thus it is the Councils' belief that the gap between generating cost and tariff may be more favourable than hitherto suggested.
15. /

15. The premises and entire area of land holding must be released by the Company and made available intact (and without burden) to the Government for development by one of their Agencies. This would be an appropriate course of action because:-
- (1) It shows positive intent and commitment by the Government.
 - (2) It secures the best means of promotion and control.
 - (3) It avoids the imposition of restrictions by the Company or any other prejudice.
 - (4) It provides for flexibility to consider a variety of options and/or diversification.
16. Furthermore, the Councils believe that transfer of ownership should be effected at nominal cost to a Government agency so as to create the most favourable circumstances for promotion and restoration. This would be entirely appropriate given that restoration costs will already be substantial; it would also be equitable given that the Company ceased operations on the most favourable terms agreed with the Government. The Councils would expect absolute co-operation in this regard considering that continued operation was a liability to the Company. In the event of resistance compulsory acquisition should be pursued.
17. The Councils have no way of assessing the operational efficiency of the existing works. They would submit however that in seeking improvement, manpower adjustments should be nominal only, given that the benefits to production costs would be marginal. The cost of power exceeds the aggregate of all other factors and it is this that will determine economic viability or otherwise.
18. Informed opinion suggests that the aluminium market will recover its present recession by 1984 or '85, as a result of recovery in the mainstream industrial economies. Best opportunity for recovery and increase in capacity will however exist in countries with low cost and abundant power supplies. But it is for consideration /

consideration that the U.K. and more particularly, the Highland Region, comes into such a category: this, and the high quality "up-market" product should secure competitiveness in the arena of world markets, and in the view of the two Councils, further need for importation of aluminium to the U.K. should be inconceivable.

19. The search for a new user should continue with vigour. BACo should be invited to tender individually or in consortium with others and consideration should be given to equity holding by the power generating authorities. This would secure their commitment and avoid the problems of the past. Such arrangement need not prejudice management by those who are best suited for the job.
20. Although two months have already passed since closure search for a new user must continue at least for one year. To this effect, the Government should require the present Company to maintain and retain the plant intact for that time. The original six month undertaking is inadequate.

IN CONCLUSION

21. The Councils support the actions of the workers who have demonstrated the quality of the labour force which exists in the Highland Region. People want to live and work here and they should be encouraged to do so. The Government should note that it is the Councils' policy to bring jobs to people; it is not accepted that emigration should be forced on the Highland community particularly at this point in time and following the achievements of stability and growth during the last two decades.
22. The Councils welcome the special study by the Highlands and Islands Development Board in association with Scottish Economic Planning Department and they welcome the opportunity to contribute /

contribute. They welcome too the assistance of £10 million offered by the Government to the Board for the purposes of special measures to create new job opportunity. It is the view of the two Councils however that this investment is a palliative and falls to be considered only as complementary to the strategy for retrieval of the smelter operation. It is not an alternative. Nevertheless, the Councils wish to collaborate with the Board to determine the most cost-effective investment programme and seek ways and means to enhance the assistance offered, not least by affording the area "Special Development" status. This is one way by which corporate endeavour can be marshalled to secure economic prosperity and growth in the Highlands.

23. Finally, it is appropriate that the Councils remind the Government of the provisions of the approved Structure Plan. Employment is the key issue and given the opportunities that exist, deriving from the natural and manpower resources, there is a "strong presumption that industry is welcome" in the Region. The particular opportunity and potential of the Cromarty Firth is also identified as a key issue and there is presumption that large scale, labour intensive industry should be encouraged where manpower and servicing requirements can be met. This is endorsed in the Adopted East Ross and Invergordon Local Plans and in total such policy represents commitment by the local community. Equal commitment by the Government should be demonstrated in the most tangible way - by the "restart" of the smelter.

5th March, 1982.



10 DOWNING STREET

From the Private Secretary

11 March, 1982

Invergordon Aluminium Smelter

I am writing on behalf of the Prime Minister to thank you for your letter of 5 March, with which you enclosed a copy of the joint statement by your Authority together with Ross and Cromarty District Council about the Invergordon situation.

The Prime Minister was glad to have this joint statement. She looks forward to meeting the joint deputation from the two authorities on Monday next.

M. C. SCHOLAR

R H Stevenson, Esq

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