



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

PRIME MINISTER

INVERGORDON ALUMINIUM SMELTER

In my minute of 22 June I reported on the progress of discussions with potential new operators for the Invergordon aluminium smelter. It was subsequently agreed that we should reimburse the additional costs incurred by British Aluminium in keeping the plant in usable condition until the end of this month.

I now have to report that the companies with whom discussions were incomplete at 22 June have concluded that they are unable to re-open the smelter on the basis of the terms we have offered. Two companies have expressed a late interest and discussions will not be completed until Monday 26 July. At present I doubt if these will lead to a favourable outcome and because of the pressure of business next week I am minuting before these discussions are completed. I will of course inform you immediately if prospects improve.

One of the companies referred to in my earlier minute has put a figure of £33m on the annual subsidy it would require for a five year period which is comparable with the estimates from other companies quoted in my previous minute. The reason why companies are estimating a requirement for such a large subsidy is undoubtedly the very low state of the international aluminium market over the last six months. An indication of this is that in January 1982 the spot price for aluminium on the London Metal Exchange was £588/tonne and this week stands at £552/tonne. In addition to this the restriction of the period of support to five years and the risk companies were expected to take on inflation and the escalation of energy prices were reasons which companies gave for their lack of interest or inability to work within our terms.

Prime Minister

①

Agree to this statement

Yes - ~~the~~ comment being made?

Agree, subject to colleagues' views, to the Special Enterprise Zone proposal?

Yes

MUS 23/7

I now accept that I must make a statement announcing our failure to find a new operator and would propose to do this on Wednesday 28 July during Scottish business. A draft of my proposed statement is attached. I intend to make it clear that we were prepared to go to exceptional lengths to attract a new operator in order to demonstrate our commitment to the Highlands and I propose to give details of our terms to make it clear that we were prepared to match, for a new operator, the offer we were prepared to make to BACo last December.

It was agreed at the time of the smelter closure that an additional £10m should be made available to the HIDB over the next three years to assist them in providing alternative employment in the Invergordon area. I have studied a report by the Scottish Office and HIDB on how best this cash could be used and have concluded that in addition to the measures identified in the report, the provision of a Special Enterprise Zone in the area would be the best way of making a credible response. This would be without prejudice to the one additional Enterprise Zone for Scotland which will be mentioned in the Chancellor's announcement in Tuesday's debate. This Special Enterprise Zone would be limited to approximately 100 acres in size and its cost within the first 3 years would be accommodated within the £10m agreed for HIDB. It will not have escaped colleagues' notice that the failure to attract a new operator avoids expenditure of £100m over the next five years and I hope Leon Brittan can agree that in recognition of this additional resources can be found to cover the cost of the Enterprise Zone over the remainder of its 10-year life. I realise that this proposal may cause difficulties for Michael Heseltine, Nick Edwards and Jim Prior in dealing with other crisis areas, but I hope they will agree that the circumstances of Invergordon are so exceptional as to justify this special treatment.

I would be grateful if you could give sympathetic consideration to my announcing the Special Enterprise Zone and for your agreement to the

E.P.
terms of the draft statement. I am copying this minute to the other members of E Committee, to John Biffen, Michael Jopling, Sir Robert Armstrong and John Sparrow.

J.S. Wilson

Approved by the Secretary of State
and signed in his absence

Scottish Office

23 July 1982

DRAFT STATEMENT ON INVERGORDON

Mr Speaker, with permission I wish to make a statement about the Invergordon smelter. The House will recall that the British Aluminium Company closed its Invergordon smelter last December. The smelter employed some 900 people. The closure took place after intensive negotiations between the company and the Government. During these negotiations the Government had been prepared to offer the company a package of assistance which included writing off some £47m of disputed power charges and an annual subsidy towards its power costs of £16m for three years. In my statement to the House on 18 January I said that the company had undertaken to maintain the smelter in a usable condition for six months and that the Scottish Office, in conjunction with Locate in Scotland and the Highlands and Islands Development Board, would make every effort to find a new operator. I also said that the Government had agreed, in the event that no new operator came forward, to provide a special extra allocation of funds for the HIDB, amounting to up to £10m over the next three years.

I am sorry to tell the House that despite the extensive efforts which have been put into the search and the company's agreement to maintain the plant for a further month no new operator is prepared to take over the smelter.

The details of the Government's discussions with the parties who have expressed an interest in acquiring the plant must obviously remain matters of commercial confidentiality. The House will however wish to know what level of assistance the Government was prepared to offer to prospective operators. As hon members know, the level of power costs is crucial to the economics of aluminium smelting. We therefore

offered prospective operators an annual subsidy on power costs for each of 5 years of up to £20m. [We recognised that the matter would have to be reviewed at that stage because it would have been wholly irresponsible to agree to an open-ended long-term power contract which could turn out to involve massive costs for the taxpayer.]

Could we delete this. It sounds as if we were paid to conduct the construction. That could be laid for 10 years

The Scottish Office has searched far and wide for possible operators and has been in contact with a total of 16 companies. My hon Friend and I have personally met several of the companies who have expressed an interest. Some companies have visited the plant and held discussions with the Scottish Electricity Boards. Despite this wholly exceptional offer of assistance, which we were prepared to make because of the unique importance of the smelter for the local economy and the rest of the Highlands, no company was prepared to acquire and operate the smelter. Even if we were to take steps to maintain the plant in usable condition for a further period I see no prospect of a purchaser coming forward.

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I very much regret that the great efforts which have been made to find a purchaser have not been successful. The deciding factor has been the very depressed state of the aluminium industry throughout the world. The price of aluminium is at very low levels, in real terms well below what it was fourteen years ago when the smelter project was announced. Many major companies are making substantial losses. Last week Alcan announced the deferment of a huge new smelter project in Australia, and that is only the most recent in a long series of such announcements. In these circumstances it is understandable, although deeply disappointing, that no company is prepared to make the necessary investment at Invergordon.

The Government will of course now make available to the HIDB the additional funds promised in January.

The Board and the Scottish Office have completed a joint report on the impact of the closure and the action which might be taken to offset the effects on employment. The Board has already appointed a local development officer and opened a new local office to deal with development enquiries. It will also be providing additional small factory space. Locate in Scotland has already joined with the Board to draw the area to the attention of potential investors and the Scottish Office will do everything possible to bring new developments to the area. [In addition to these efforts I am designating an area at Invergordon as a Special Enterprise Zone which will be in addition to the Enterprise Zone for Scotland announced by my rt hon Friend the Chancellor of the Exchequer yesterday.]

I will be meeting very shortly with the local authorities in the Invergordon area and representatives of the smelter workforce to discuss these initiatives and to consider a future strategy for the area.

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15 JUL 1953
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ENGLAND



PM

2 MARSHAM STREET
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My ref:

MUS 27/7

Your ref:

27 July 1982

See below

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I have seen George Younger's letter about an additional Enterprise Zone at Invergordon. I understand that the Prime Minister has said that she is content, subject to colleagues views.

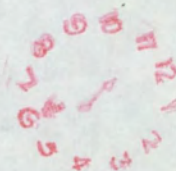
I would have no objection to the proposal on the clear understanding that your announcement would make it clear that there would still be 7 Enterprise Zones in England.

I am copying this to those who received copies of George's letter.

Yours ever

MICHAEL HESELTINE

27 JUL 1982





E Committee:-

HO NIO LPO CSO
FCO MOD DI CDL
HMT MAFF DT Energy
DES DOE DTrans Emp

EU
PM

10 DOWNING STREET

GRS
CO
Cmp office

From the Private Secretary

26 July, 1982

INVERGORDON ALUMINIUM SMELTER

The Prime Minister has seen your Secretary of State's minute of 23 July, to which was attached a draft oral statement on Invergordon.

The Prime Minister agrees to your Secretary of State making this statement as proposed. She has suggested that the final sentence of the top paragraph on page 2 should be deleted, since it might give the impression that the Government has been prepared to contemplate the continuation of the power contract beyond five years. The Prime Minister has commented that such an implication would be unfortunate, particularly if at some later stage the operators of other aluminium smelters request the Government to make the same offer to them.

The Prime Minister agrees, subject to the views of colleagues, to your Secretary of State's proposal for an additional special Enterprise Zone at Invergordon.

I am sending copies of this letter to the Private Secretaries to the members of E Committee, David Heyhoe (Lord President's Office), Murdo Maclean (Chief Whip's Office), David Wright (Cabinet Office) and Gerry Spence (CPRS).

M. C. SCHOLAR

J S Wilson, Esq
Scottish Office

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cc: Press Office

PRIME MINISTER

INVERGORDON ALUMINIUM SMELTER

The danger in making a Statement on Wednesday is twofold. First we will be criticised for delaying it until after the Unemployment Debate. Second the outcome of the negotiations may well become public on Monday evening or on Tuesday. This argues for an earlier statement. The arguments against an earlier Statement are that one on Tuesday would be an unfortunate start to the Unemployment Debate, and that one on Monday may not be possible if the discussions with the Companies concerned drag on.

I think we must leave the judgment on when to make this Statement to Mr. Younger and the business managers, in the light of developments. But you should be aware of the problems.

LM

23.7.82