Aluminium (UK) Limited

17 December, 1982

The Rt. Hon. Patrick Jenkin, M.P.,
Secretary of State for Industry,
Ashdown House,
123 Victoria Street,
London SW1E 6RB

Dear Secretary of State,

I would like to thank you on behalf of John Peyton and myself for arranging the meeting between ourselves, yourself and the Secretary of State for Energy on December 7.

You will recall that at that meeting I agreed to write to the Secretary of State for Energy pointing out the area within our coal contract which may not have been given full consideration by his department and the National Coal Board. A copy of that letter is attached. I also agreed to write to you following the formation of British Alcan Aluminium Limited, to give our up to date strategic views showing our potential with the Lynemouth Smelter remaining as a viable entity running at full capacity, and also the down-side position with the smelter partly or wholly closed.

As we said at the meeting, our parent company has made a very considerable commitment of faith to the U.K., by making available £100 million of its resources in order to produce a strong, permanent and profitable aluminium industry here. That very large amount of cash will, however, be wholly used up in acquiring the shares of British Aluminium, in paying for the physical rationalisation of the many businesses in the U.K., and in meeting the losses which are bound to occur in the short term. Thus little or no cash will be available from our parent for further expansion, and in the circumstances it would, in my view, be wholly unreasonable to seek to obtain further funds from them.

Your Department is well aware of the significance to our company of the Lynemouth smelter. The recent study carried out by both the Departments of Energy and Industry confirmed the statements made in correspondence between yourself, myself and John Peyton earlier this year. Certainly Alcan was well aware of the importance of this facility, for the future business and I do not believe would have invested further in the U.K. (nor could I have recommended them to do so) if they had believed that there was a serious risk that

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the smelter would have to close. Except in times of quite phenomenal low demand for aluminium, or in the case where the energy costs of smelting aluminium at Lynemouth rose dramatically and not in proportion to energy price rises elsewhere in Europe, the smelter is, and always has been, a major cash generator. Its continued operation would, therefore, enable the downstream activities in the U.K. to be supported and expanded without making further demands for cash on our parent company. Moreover, the Lynemouth facilities process aluminium in shapes and to a quality which is essential if the U.K. industry is to remain competitive, and which would otherwise have to be imported from Canada or from elsewhere in Europe.

As we also said at the meeting, we very much welcomed the new Energy Bill which would permit us, we believe, to ship power across the grid. This would enable British Alcan to work out an integrated energy policy both for its smelters and for its rolling facilities and would, for example, permit increased production at both Lochaber and Kinlochleven, from the existing facilities, which are currently constrained by the hydro-electric supply. More generally this ability to transfer power across the grid optimally for our own plants would enable us to be completely competitive in energy with European competitors, and fully match them in the second largest item of cost in the semi fabrication of aluminium.

On the assumption, therefore, that the question of the coal supply to Lynemouth can be satisfactorily resolved very soon, it will enable the company to embark on a strategy in the U.K. which will have very significant effects indeed in Scotland, Wales and England. First of all, we will need to reorganise the manufacturing facilities and this by itself will lead in the short term to some redundancies and a write off which will cost us at least another £50 million. However when that is complete after about a year, we believe we will have a viable rolling business at both Welsh plants, a secure defence plate business in the Midlands, three interlinked smelters, including two in Scotland, producing more than ever before, foil and extrusion divisions able to withstand the strongest European competition, and a series of small speciality businesses located across the U.K., demand for whose products is counter-cyclical. If this plan can be satisfactorily implemented we see a possibility for the non-reduction plants at Invergordon (though not for the smelter) as a world wide supplier of anodes, cathodes, cryolite and, if imagination can be shown on the part of the Government Departments and agencies, the private sector and the company itself in developing a suitable financial package, a basic carbon calcination plant also, supplied with Scottish oil. I indicated to you at our meeting that we were already taking practical steps to work out this strategy, and a team jointly composed of Canadian and U.K. experts is already studying these possibilities in Scotland.

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In addition, you may know that we have been working for the past two years with British Leyland on the development of their new aluminium-based car. Technology resulting from the collaboration between us, and involving improved rolled products, has produced a car which we believe will be able to do 100 m.p.g. at 30 m.p.h. This development could well be critical to Rogerstone in the longer term, or provide a base load for a new Falkirk facility. However, if the rolled product business were to be put at risk because of a high cost base, it would be virtually impossible for BL to carry this major development forward on its own, and even if it did, the economic advantage to the U.K. as a whole would be substantially reduced.

I cannot emphasise too strongly, therefore, the significance in our thinking of the Lynemouth Smelter, and the need to resolve the question of the coal supply quickly in order that we can get on with the hard work of implementing our strategy in the U.K., and thus securing a large and viable business with enhanced and more soundly based employment opportunities in Scotland, Wales and England. The downside risks, if the future operation of the smelter is put at risk, are very simply stated, either:

(a) If the smelter had to be half closed in 1984, we do not believe it would be possible to maintain production of rolled products. This would mean at least the closure of half of Lynemouth (500 jobs) two rolling mills in Wales (2000 jobs) and the stockist company (500 jobs). In addition another 500 or so jobs in other areas of the company which are dependent on our ability to optimise energy supplies to our plants would also inevitably disappear. Moreover there could be no question of any activity remaining at Falkirk if it were still in operation by the end of 1983, much less of any new business being established there. The National Coal Board tell us that in these circumstances there will also be a loss of 1000 mining jobs, giving a total job loss in excess of 5500.

(b) The worse scenario, but by no means an improbable one, would be that the smelter is totally closed by 1984, on the grounds that it is not economically viable to run it at half capacity. This would precipitate a major financial crisis for the company, since it would not be able to stand a write off of a further £60 million, in addition to the write off of the assets of the rolled products group. In those circumstances, the only way to stave off financial collapse would be to obtain parental support on a massive scale, larger indeed than the investment which Alcan has made this year. There could be no conceivable commercial grounds why our parent company should make such an investment. In these circumstances the job losses would be between 10,000 and 15,000 depending on the impact on National Coal Board activities.

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I fear that would not be the end of the matter, however. Your Department is also aware of the uncertain legal position under the contract, and that the obligations of both parties to the contract continue until 2001 even if the National Coal Board withdraw the supply of coal. A major lawsuit would be inevitable, involving the public discussion of many of the points I have put to you in this letter, and with no possibility of the taxpayer emerging the winner. I am sure that all parties, the company, the National Coal Board and the Government have the strongest possible interest in achieving a positive result and we strongly urge you to do what you can to secure it.

Yours sincerely,

Geo Russell

George Russell
Managing Director

STEPS TAKEN BY EUROPEAN GOVERNMENTS TO SUSTAIN AND SUPPORT THEIR ALUMINIUM INDUSTRIES

1. France

The French Government recently announced a grant to Pechiney (Government owned monopoly producer) of F.F. 2.4 billion to cover the company's losses in 1982.

Electricité de France has been "persuaded" to give Pechiney a 25% reduction from F.F. 0.16 per K.W.H. to 0.12 or even 0.10. It is likely that Electricité de France will, in order to make this respectable in European eyes, take shares in Pechiney. The arrangement is intended to be long term.

2. Germany

The German Government has recently intervened with a temporary financial bridging arrangement (to be replaced during the year be something more permanent) costing D.M. 8 million in 1983, in order to keep open Alcan's smelter at Ludwigshafen. This smelter, which is in Kohl's constituency, is a small one with a 40,000 tonne capacity; West Germany's total smelting capacity being of the order of 750,000 tonnes. The energy costs of the much larger smelter at Hamburg now stand at about half of that agreed for Ludwigshafen.

3. Italy

It is expected that the Italian Government's support for its aluminium industry in 1983 will amount to U.S.$1 billion. This will be used to provide oil-based power to the major smelter at something substantially below the cost of production.

4. Spain

The Government intends to keep energy costs for smelting down to a level equivalent to the average of the costs in all E.E.C. countries.