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CC NO

From the Minister of State for Industry

Norman Lamont MP

Rt Hon Peter Rees QC MP  
 Chief Secretary  
 HM Treasury  
 Parliament Street  
 London SW1

Prime Minister  
 Agree to Norman Lamont's proposals, subject to colleagues? SL's record hardly entitles it to strong public support.

28 October 1983

AT 28/10

Treasury admin please

Dear Peter

BRITOil CONTRACT AT SCOTT LITHGOW (SL)

Cecil Parkinson wrote to George Younger on 14 September about this contract.

Cecil warned that, if Britoil went ahead and sought to cancel the contract, as seemed likely at that time, SL would probably close early next year.

Britoil have now offered to re-negotiate the contract in a way that is, on the face of it, much less financially onerous than their previous proposal.

What they are now proposing is a re-negotiation that would require payment by results, plus damages for late delivery at a daily rate of £17,000 from the contract delivery date (adjusted for force majeure) until whenever delivery takes place.

- This could go on for years

BS have informed us that the cash implications of re-negotiation, as against the cancellation option, are as follows:-

|                | 83/4 | 84/5                      | 85/6 | 86/7 | Total 83/4-86/7 |
|----------------|------|---------------------------|------|------|-----------------|
| Re-negotiation | 39   | 21                        | 6    |      | 66              |
| Cancellation   | 106  | -15 (resale of materials) |      |      | 91              |

I am writing now to seek your view about how I should respond to this information.

.../...





The underlying 'strategic' considerations remain the same. SL has performed appallingly badly. This rig was originally due for delivery in April 1984. The above figures for negotiation assume that the delivery will take place in June 1986 - more than two years late. They make no allowance for further slippage due to the fact that this would be the last vessel in the yard, so the re-negotiation costs are very much minimum estimates.

SL's poor performance is not confined to this contract. The BP rig now being built in the yard will be delivered at least a year late, and BS expect to lose £32m on it, against a selling price of £78m.

SL's market credibility is damaged beyond repair. The Britoil rig, even if completed on re-negotiation, would be the last order SL takes - which means that we would, if the contract were re-negotiated, be postponing closure to 1986 or even 1987.

In terms of BS' strategy, therefore, there is a strong case for their seeking to extricate themselves from SL now, in recognition of the fact that the yard has no realistic future.

On the other hand, the costs of this course of action are appalling. The additional cash need in 1983/4 would amount to £106m, and, as you know, we have already agreed to E(NI) earlier this year, that BS' cash needs in other parts of its business will be greater than expected. (I am writing to you separately about the EFL consequences of this for 1983/4.)

BS' own inclination is to proceed with cancellation, although they recognise the extremely serious cash consequences of this. However, they have avoided stating this, and are clearly looking for a steer about how their negotiation should proceed.

My view is that the right way forward in this difficult situation is for us to make it clear that the BS board must now negotiate to a solution that is in the Corporation's best commercial interest, as they see it. We should, however, recognise that this could mean that BS would need anything up to £106m extra cash in the current year.

However, I believe that this may eventually be the cheapest way out. And it avoids our getting into a similar situation in 1986/7.

I recognise Peter Walker's concern (expressed in his letter of 27 September to Cecil Parkinson) about the completion of the BP rig. and the need to seek ways of trying to get the Britoil rig completed elsewhere. And I have noted Michael Heseltine's concern about the SOV that SL are building for MoD (his letter of 4 October).





We shall take what steps we can to safeguard these interests, if BS do move towards cancellation.

For the present, however, I am seeking your agreement to:

- my telling the Chairman of BS that he is free to negotiate with Britoil according to what appears to BS to be their commercial interest;
- accepting that whatever happens on Britoil will mean that BS will incur extra cash costs this year;
- accepting that these extra cash costs could, if the contract was cancelled, amount to £106m in 1983/4.

I should be glad of your views as soon as possible, as events are moving rapidly. Whatever happens, Britoil are likely very shortly to issue a '30-day notice', requiring BS to demonstrate ability to complete the rig by the contractual drop dead date (February 1985). The issuing of this notice does not preclude either the re-negotiation or the cancellation option.

As you and other colleagues will readily appreciate, there would be considerable highly adverse comment if this contract were cancelled. We should be perceived as having 'allowed' BS and Britoil between them to precipitate the closure of a BS yard. I do not think that the possibility of this sort of reaction should deflect us: but it is right for me to warn you and colleagues of the strength of public reaction, if the Britoil contract is cancelled and, as a result, Scott Lithgow has to close.

I am copying this letter to the Prime Minister, Michael Heseltine, Peter Walker, George Younger and Sir Robert Armstrong.

Norman Lamont

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28 OCT 1983

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