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SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

The Rt Hon Peter Rees QC MP  
Chief Secretary  
HM Treasury  
Treasury Chambers  
Parliament Street  
LONDON

November 1983

*Dear Peter,*

BRITTOIL CONTRACT AT SCOTT LITHGOW

I have seen a copy of Norman Lamont's letter of 28 October to you about the above contract. *- with AT*

I accept that there is something to be said for simply urging BS to use their commercial judgement in deciding whether to renegotiate or cancel. But the issues here are of immense importance - not merely in terms of public expenditure but of the effects on the local community. It is clear from Norman's letter that Graham Day is looking for a steer from Government. I do not think we can duck this request: and I am clear that we should advise in favour of renegotiation.

I accept that Scott Lithgow's performance on cost and delivery has been appalling and that it cannot be defended. It is true that the yard has been trying to undertake a series of very complex orders demanding exceptional technical expertise. But however excusable the delay on BP's "Iolair" may have been as an exceptionally sophisticated prototype there has been a most disappointing failure to redeem the situation since. British Shipbuilders having decided to withdraw this yard from merchant shipbuilding in 1979 to concentrate on offshore work have failed to bring about the change successfully and until recently they have not supplied the leadership which was necessary to get the workforce to respond. It is tempting therefore to write the whole place off, but particularly in the light of the changed situation described in Norman's letter I believe that that would be a mistake. In coming to this conclusion I am influenced by the following:

- i. BS have at last, since the early summer, got much stronger management in the yard. The new Chairman and Chief Executive have impressed me with their determination to redeem the yard's reputation on the Britoil contract and Britoil themselves believe that

the new management has brought about a marked improvement. I believe they should be given a chance.

- ii. It is ridiculous that the country with the largest offshore oil industry in Europe has not taken more advantage of the opportunities to construct semi-submersible rigs. Scott Lithgow and Cammell Laird are the only yards in this market and it would be a tragedy to hand it over to foreign competition.
- iii. Norman's letter demonstrates that the cost of cancellation for British Shipbuilders is nearly £30m more than renegotiation with £106m falling in the current year. Even these figures assume a benefit of £15m from re-sale of materials in 1984-85 which it seems to me must be open to question.
- iv. The community of Greenock and Port Glasgow, despite the outstanding success of IBM and National Semiconductor, still remains more heavily dependent upon shipbuilding than any other community in Great Britain. It is difficult therefore to exaggerate the scale of the disaster if the shipyard closes completely. Total unemployment in the Greenock area is already (September '83) 17.5%, with male unemployment 19.9%: if Scott Lithgow were to close these figures would rise to about 27% and 35%.

What has so far failed to happen and what is so urgently required is the kind of change in attitudes and efficiency which have already been demonstrated at Govan on the Upper Clyde (now one of British Shipbuilders best yards) and in UIE at Clydebank. I believe that the new management are capable of bringing this about, and that we should support them, at least to the extent of encouraging BS to think in terms of renegotiation rather than cancellation. They would in their turn have to make it clear to the workforce that further support is conditional upon acceptance of the survival plan including the total elimination of any remaining restrictive practices.

In my view this is the right course of action. It would make it possible for valuable facilities for the offshore oil industry to be retained, and could ensure the completion of the three important contracts for BP, Britoil and the Ministry of Defence SOV, all of which would be at risk, in varying degrees, if the yard were to shut down now.

If, despite these considerations, BS were to decide to go for cancellation and closure with our support, or at least tacit acceptance, I really do not see how we could defend this in the House and in the country particularly when it became known that the higher cost option had been chosen.

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

Yours was,

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