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Treasury Chambers, Parliament Street, SW1P 3AG

Norman Lamont Esq MP
Minister of State for Industry
Department of Trade and Industry
1 Victoria Street
LONDON
SW1H 0ET

7 November 1983

Dear Minister

Thank you for your letter of 28 October about the Britoil Contract and Scott Lithgow. You will have seen George Younger's letter of 1 November and Alick Buchanan-Smith's letter of 3 November.

The new figures for the relative costs of terminating or completing the Britoil contract only give part of the picture as I understand it. The fact is that SL have lost £32 million on the BP rig on a selling price of £78 million; and, even if one believes the new figures, will lose £66 million on the Britoil rig on a contracted selling price of £90 million. These are staggering losses.

BS top management consider the SL's credibility is damaged beyond repair and that SL will not take any further orders. I must say this judgement seems to me to be crucial (as well as right).

We are not therefore talking about whether SL could have a future. It does not have one. The issue for BS management is whether to close now or wait until the Britoil rig is finished in 1986 or whenever.

What chance is there of the rig being finished within the present estimates of time and cost in these circumstances? In my view it must be very little. As the workers perceive that no further orders are likely to be taken - which they must do sooner or later - they will have every incentive to spin the work out and hang on in the hope that the next general election will bail them out.

We shall be in an intolerable position, not dissimilar in many ways from the position we found ourselves in on Ravenscraig before the last election. I do believe most strongly that if the yard has to be closed, it needs to be done earlier than later, when it may well become impossible.

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I am also concerned that if, in spite of the enormous losses, the decision is taken to continue with the work at SL, the Government's position on BS and indeed all the loss-making nationalised industries will be widely misconstrued. We are all agreed that Mr Day's task is to take firm action to put BS to rights and to take it early on. It would be a major set-back if any contrary impression were to gain currency and the effect on BS management itself could be devastating.

As regards the public expenditure implications, I cannot of course deny that a saving of £67 million this year would be helpful. But I suspect that these savings will prove to be illusory. We have been budgetting for some time now for the full £106 million cost of closure to arise this year. If the contract were continued, I believe there would be substantially higher costs in future years, starting in 1984-85, and rising as the effects of the "last ship" problem come through. If we could adequately take these into account I doubt whether continuation would appear nearly such a feasible course. I am satisfied that if BS do decide to cut their losses now through termination this would be justifiable commercially, in the light of the losses already incurred and the risk of further unquantifiable loss.

I can understand Alick's concern that the Britoil rig should be finished. Your letter did not deal with this. However you wrote to him on 13 October, and I understand that officials consider that there may be ways of getting the rig completed elsewhere in the UK, and that discussions should be held as soon as is practicable in the renegotiation timetable.

To conclude, I do not suggest that the Government should seek to press BS in any way against its best commercial judgement. The final decision must clearly rest with them. However I think it is important that Mr Day be left in no doubt that we would be prepared to back him on a decision to terminate. I recognise that this will not be easy for George Younger. Nor is it of course the easiest option from an expenditure point of view. But I believe it would be on balance the right choice. I am anxious that we should not underestimate the difficulties we shall be storing up, if we steer BS towards finishing the contract.

I am sending a copy of this letter to the Prime Minister, Michael Heseltine, Peter Walker, George Younger and Sir Robert Armstrong

Yours sincerely

J. St. Gerin

J. PETER REES

[Approved by the Chief Secretary]

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