

CONFIDENTIAL

Note.  
Mentioned to Prime Minister  
that she had not indicated  
her views. She said she took  
the line that BS should exercise  
its commercial judgement.

AT/10/11

PRIME MINISTER

SCOTT LITHGOW/BRITOIL CONTRACT

There is a dispute between colleagues on the way forward:-

- (i) Norman Lamont and the Chief Secretary conclude that BS should be allowed to terminate the contract and close Scott Lithgow if they conclude it is in their commercial interest;
- (ii) George Younger wants to urge BS to renegotiate, on Scottish employment grounds;
- (iii) Alick Buchanan-Smith wants to do the same to protect the name of the offshore supplies industry (being 500 days late still leaves a reputation to be salvaged);
- (iv) Policy Unit strongly support DTI and Treasury.

The right approach seems to be to allow BS to negotiate with Britoil. If, even on the new terms, BS thinks that cancellation and closure are the right course, it should be allowed to proceed with government backing.

Agree?

AT

9 November, 1983

CONFIDENTIAL





*File No*

10 DOWNING STREET

*From the Private Secretary*

10 November 1983

BRITOil CONTRACT AT SCOTT LITHGOW

The Prime Minister has seen the Minister of State's letter to Peter Rees of 28 October and also the subsequent letters from the Secretary of State for Scotland, the Chief Secretary, and the Minister of State, Department of Energy. She takes the view that the right approach is to allow British Shipbuilders to exercise its commercial judgement. If, after further negotiation with Britoil, BS feels that cancellation is the best course, it should be allowed to proceed.

I am copying this letter to John Gieve (Chief Secretary's Office), Richard Mottram (Ministry of Defence), John Graham (Scottish Office), Ian Fitzpatrick (Office of the Minister of State, Department of Energy), and Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

John Alty, Esq.,  
Office of the Minister of State (Mr. Lamont),  
Department of Trade and Industry.

*CT.*



MR. TURNBULL

cc Mr. Mount

SCOTT LITHGOW AND THE BRITTOIL RIG

There is an overwhelming case in favour of Norman Lamont's proposal to leave British Shipbuilders and Britoil to negotiate a solution which satisfies the commercial judgement of both parties.

The following aide-memoire of argument may help:

1. Instructing BS to keep the Britoil order alive sends the worst possible signal to the Scott Lithgow management and workforce, who have brought the problem on their own heads. Worse still, the same signal will be picked up by the rest of the BS workforce, who are already fighting Graham Day's survival plan. And, worse again, what will the rest of industry conclude if Government condones such an appalling performance by bailing it out?
2. BS' intention for Scott Lithgow is in any event to run it down as soon as possible to a small fabrication facility. The Britoil problem may influence BS's timing, but not their intent.
3. The current year cost of cancellation (put at £106 million) may not in the event be much greater than that of renegotiation (put at £39 million). The largest part of the £67 million difference is a progress payment of £45 million due in December 1983, which Britoil are almost certain to want to defer, since corresponding progress on the rig has not been made.

Conversely, the renegotiation costs are minimum estimates. They could well go higher once the BP rig and the MoD's Seabed Operations Vessel are complete, leaving the Britoil rig to succumb to the "last ship syndrome".

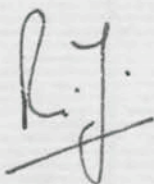
4. Britoil's negotiating spectrum runs from contract cancellation through to the most minor modification. It is quite unreasonable to deny BS the tactical use of the same spectrum. To do so would predictably result in a needlessly expensive settlement.

5. Mr. Younger's concern about unemployment on Clydeside is understandable, but he must acknowledge that keeping Scott Lithgow

/artificially alive



artificially alive is a highly inefficient form of regional policy. His recommendation would ossify the local labour market, and would actually make it more difficult for the IBM success story to be repeated. In Scotland, shipbuilding, steelmaking and coal mining are all in structural decline, so where would the special cases stop? We must not have a re-run of Ravenscraig.



ROBERT YOUNG  
2 November 1983