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PRIME MINISTER

Scott Lithgow/Britoil

I attended the first half of Mr. Lamont's statement. Though he emphasised that strictly he was speaking about the cancellation of the Britoil contract and not about closure, no one in the House (and probably not even himself) was misled by that.

In the part of the discussion that I heard, there was very little support from any part of the House. Labour and Liberals criticised the Government for leaving this decision to the commercial interests of Britoil and British Shipbuilders. It was argued that this was carrying laissez faire to unreasonable lengths. A number of Members on the Conservative side, in particular Mrs. McCurley, expressed serious constituency concern.

Mr. Lamont was alone in defending the taxpayer interest, pointing out that since 1977 Scott Lithgow's losses had amounted to £165 million, 38 per cent of the BS total, although Scott Lithgow accounted for only 8 per cent of employment in the group. Far from being laissez faire, this represented a long history of Government support.

You have received a number of letters on this issue, a sample of which is attached. I am seeking advice from DTI on a reply.

AT

ANDREW TURNBULL

20 December, 1983

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*file*



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*From the Minister of State for Industry*

Norman Lamont MP

Charles Marshall Esq  
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20 December 1983

*Dear Charles*

I am attaching a copy of the statement Mr Lamont will be making on the Britoil contract at Scott Lithgow this afternoon.

I am copying this letter to David Barclay and the private secretaries to the Chancellor, the Secretaries of State for Defence, Scotland and Energy, the Chancellor of the Duchy of Lancaster, the Chief Whip and to Bernard Ingham.

*Yours*  
*John Alty*

JOHN ALTY  
Private Secretary

*agreed by BS*

DRAFT STATEMENT ON BRITOIL

Mr Speaker, with permission I will make a statement about the contract between Britoil and British Shipbuilders.

In December 1981 Scott Lithgow contracted with Britoil to produce a semi-submersible drilling rig. The contract value was £88.6 million, and the contractual delivery date was April 1984. Construction began in February 1982.

By March 1983, BS had provided for losses of £43.8 million on the rig. The then Chairman, Sir Robert Atkinson, warned that performance and losses at Scott Lithgow were unacceptable.

On 31 October 1983, Britoil were sufficiently concerned about progress on the contract to issue through its agents a notice requiring Scott Lithgow to demonstrate within 30 days that the rig could be completed by February 1985.

Scott Lithgow responded to Britoil by arguing that despite the undoubted delays on the contract hitherto completion would be possible within the terms of the contract.

However, on 19 December a notice of cancellation was served on behalf of Britoil on the basis that Scott Lithgow had not demonstrated that the rig could be delivered by February 1985.

BS have responded to the cancellation notice by disputing its validity.

While BS and Britoil are considering the next step in this negotiation, all work on the rig will be stopped. BS are instructing suppliers to suspend work on contracts relating to the rig. Up to 2,000 of the workforce are involved in construction of the rig.

The remainder of the workforce - approx 2,250 men - are employed on two other contracts: one for BP and one for the Ministry of Defence. It is BS' intention that these contracts will continue.

The potential consequences for employment in an already hard pressed area could be severe, and naturally the Government would greatly regret this. However, as the workforce of Scott Lithgow has known all along, the offshore industry is highly competitive. Customers want what they have contracted to buy both in terms of delivery and of price. Scott Lithgow so far appears to have been unable to satisfy Britoil that it can fulfil its obligations on this contract.

DTI

20 December 1983