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From the Minister of State for Industry

24 January 1984

NORMAN LAMONT MP

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

*Dear Peter*

BRITOil CONTRACT AT SCOTT LITHGOW

*and request it revised*

I last wrote to you on 24<sup>th</sup> October about this contract. Since then, as you know, events have moved on considerably. BS have refused to renegotiate. On 19 December Britoil issued a cancellation notice, which BS is contesting. We have come under considerable pressure to intervene, and a further (supply) debate will take place on Tuesday 24 January.

2 Meanwhile, I have been keeping in close touch with British Shipbuilders as events have unfolded. They have recently revised their calculations of the relative costs of cancelling and continuing with this contract. The new figures are substantially different from the old.

3 Originally, as recorded in my letter of 24 October, BS considered that whilst on face value - i.e without taking probabilities into account - the figures might be interpreted as meaning cancellation would be rather more expensive than continuation, nevertheless there was a substantial counter-balancing risk of failing to meet new time and quality constraints, and therefore they did not wish to renegotiate. Having since taken extensive legal advice on the contractual terms, BS are now confident that their liability on cancellation is significantly less than originally feared. Their new estimate is that over the whole contract period cancellation would cost £64m, continuation (assuming completion in mid 1986), £80m.

4 These new figures strongly support BS' earlier strategic view that they should not renegotiate. They also mean that should cancellation go ahead and all the costs fall into this financial year, the additional cash need should work out at about £84m, against our original estimate of £106m, though we still cannot be precise at this stage.

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

*Norman*

NORMAN LAMONT



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