

PRIME MINISTER

SCOTT LITHGOW

Flag A You have a meeting tomorrow at 1600 hours to discuss the next steps on Scott Lithgow. The origin of this meeting is Mr. Younger's minute of 17 January. He suggested action in two areas:

- i) to promote a successor operation at the Scott Lithgow yard
- ii) to alleviate the impact of redundancies on the Inverclyde area.

Flag B Since then the Chief Secretary has written arguing against making any commitment of resources in support of ii) above until the needs of the area have been more fully assessed. Although he appears to support i) I think we can take it that this is on the assumption that no further Government money is put up.

Flag C The Secretary of State for Energy has written to support a "Phoenix" operation as he attaches particular importance to maintaining an offshore capability.

Other papers are:

- Flag D - a further minute of 23 January from Mr. Younger on the "Phoenix" operation
- Flag E - DTI's minutes of 28 October and 24 January on costs of cancellation
- Flag F - Mr. Younger's speech in the debate today
- Flag G - A Policy Unit note

I suggest you organise the discussion around the two main subject areas above. On i) the questions to be answered are:

- what is the state of play on possible bidders?
- on what terms

- on what terms might they take on completion of the rig?
- is Government assistance likely to be sought and if so how much?
- how should negotiations be handled to ensure, as the Policy Unit note recommends, that discussions are conducted at arms length from the Government so that it is not manoeuvred into the position of being seen as the direct arbiter of Scott Lithgow's fate?
- is an inter-departmental group of officials the right way to proceed? (As this subject falls between Scottish Office, DTI and Energy there might be merits in this but there is a danger that such a group could conflict with the objective of staying at arms length). *See Mr Gregson's minute at Flag H recommending Scottish Office be in the lead.*
- what action is needed in relation to BS's remaining operations on the Clyde?

On the remedial measures, you and the Secretary of State for Scotland are on record as promising that the Government will do what it can, using SDA resources, to mitigate the immediate impact. Enough needs to be done to fulfil this pledge. As yet no commitments have been entered into.

The questions which need to be answered are:

- how should the needs of the area be assessed?
- what are the options?
- what existing resources are available?
- what are the costs of going further?

Again agreement needs to be reached on the mechanics for handling these issues.

AT

SCOTT LITHGOW

1. The Current Position

The Scott Lithgow yard is open and is working on a nearly complete rig for BP and a Seabed Operation Vessel (SOV) for MoD. Work on the rig for Britoil is all but at a standstill following cancellation of the contract by Britoil last December.

Nearly 300 men have already been laid off, and 800 redundancies will be declared within the next week or so. These job losses are inevitable, given that the yard is to all intents and purposes nearly out of work. No new work is currently being sought.

BS have taken Britoil to court over the cancellation - not because BS wish to reverse the cancellation, but in order to reduce the penalties to which Scott Lithgow is liable. BS maintain that in some (minor) respects Britoil did not honour their side of the contract.

2. Third Party Interest in Scott Lithgow

We have spoken, off the record, to DTI and to Trafalgar House (the latter coincidentally rather than on purpose).

DTI say that Trafalgar House (TH) have expressed serious interest in acquiring Scott Lithgow. The nature of their interest is still apparently fluid, but to the extent that TH have indicated conditions, they require (a) a debt free balance sheet, (b) BS to pay for all necessary redundancies, (c) transfer of the assets of the yard very cheaply or free, and (d) assistance, if necessary, to renegotiate the Britoil contract.

The TH view is slightly different. They claim to have been approached by Government (Department not stated) and admit that they could be persuaded to take an interest if the terms were right. They feel that they might be able to sustain 1200 of the 4,000 plus jobs remaining at Scott Lithgow, but would want Government cover for redundancies and for future losses on the Britoil contract, which TH assess at £70 million. Presumably TH are in negotiating mode!

TH have a clutch of subsidiaries - the largest of them is Redpath Dorman Long - involved in heavy fabrication and offshore engineering, as well as in offshore exploration. Undoubtedly there is synergy of sorts between Scott Lithgow and the spread of current TH interests.

/DTI observe

DTI observe that TH are particularly keen to take Scott Lithgow with the Britoil rig because it would provide them with immediate, direct experience of work in which they would like to expand. TH have said that they tried for RGC Offshore before Scott Lithgow, but lost patience with Ivory and Sime in the process. (IS own an option.)

Finally, this morning's "Scotsman" reports interest not only from Trafalgar House, but also from a small Swedish yard, Goteverken Arendal of Gothenburg, and from an "unnamed British company.... with experience in shipbuilding, ship repair and the offshore sector". Difficult to think of a big name here.

3. Financial Considerations

3.1 Some preliminary costings for the closure of Scott Lithgow if Britoil cancelled its rig contract appear in Cecil Parkinson's letter of September 14th 1983 to George Younger. The cash cost of cancellation in 1983/84 was put at £106m, broken down as follows:

Instalment due but not paid	£44m
Repayment of previous payments and interest	£45m
Damages	£ 7m
'Extra' redundancy costs	£10m
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	£106m
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The term 'extra' redundancy costs meant the costs of pulling forward into 1983/4 some 2000 redundancies which would have occurred later anyway. The approximate severance cost used was thus £5000 per employee.

In the following analysis, we deal separately with redundancy costs, asset write offs, cancellation costs associated with the Britoil rig, and other possible expenditures thereafter.

3.2 Redundancy

BS will bear the cost of the 800 inevitable redundancies to be announced immediately, at an estimated cost of £4m.

That will leave roughly 3500 employees in the yard, of whom TH might require 1200. The cash cost of severing the difference of 2300 employees would be in the region of £11m.

The peak level of redundancy payments available under the state Shipbuilding Redundancy Payments Scheme (SRPS) is very high by private sector standards, especially for a company such as Scott Lithgow, which is technically bust. Even the average is on the high side.

We agree therefore that a third party buyer should not be saddled with the cost of shedding surplus Scott Lithgow employees. It is highly desirable that the buyer and seller agree on the number of employees to be retained so that the taxpayer does not fund the severance cost of employees who are re-engaged shortly afterwards. Once a level of retention has been agreed, any further severance costs should ideally be for the account of the new buyer.

3.3 Asset Write Off

We do not know what the book value of Scott Lithgow's assets is, since neither the published accounts nor the corporate plan break down the balance sheet to yard level. We assume, however, that once the large items of work in progress (ie BP rig, Britoil rig and SOV) are taken out of the calculation, the book value of remaining fixed and current assets must be low - certainly below £10m. (The whole of BS had a book value of only £220m in the 1982/3 accounts).

Since the book value is almost certainly very small (and the market value nil) and since asset write off is not a cash cost to Government, we agree that the assets of Scott Lithgow could be given free of charge to a third party.

3.4 Cancellation Costs of Britoil Rig

Some £96m is at stake, of which £45m has been paid and could be repayable. An instalment of £44m payable to Scott Lithgow last December was not paid, and possible penalties payable by Scott Lithgow are assessed at £7m.

The negotiating aim of BS must be to hang on to the £45m paid, and to avoid payment of £7m damages. In effect, therefore, the maximum amount within which Britoil and a third party buyer might negotiate should be £44m. We suggest that Government should firstly make it plain that it is not committed to financial aid towards a solution. If it wanted, for non commercial reasons, to assist in a solution it should not venture more than it would cost to sever the remaining 1200 jobs at Scott Lithgow, ie roughly \$6million.

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MR TURNBULL

SCOTT LITHGOW

We have nothing to add to the papers which the Prime Minister will already have before her at her informal meeting on Scott Lithgow, except on one point of mechanics which may come up.

2. In his minute of 23 January the Secretary of State for Scotland has reported that Mr Day, Chairman of British Shipbuilders is willing to try and find a new operator to take over part of the Scott Lithgow yard and complete the rig for Britoil. In addition he has proposed that an inter-departmental group of officials, drawn from the Scottish Office, DTI, Energy and the Treasury, should be set up to work with Mr Day as necessary on this matter.

3. Departments appear to be agreed that this would be a sensible way to proceed. There are however two possible contenders for the lead department - the Scottish Office or the DTI. It ought to be one or the other. This is not one of those cases where it would make sense to put a neutral third party such as the Cabinet Office in the lead; it is a narrowly defined executive task requiring some detailed work on the ground. My own view is that it would be better to put the Scottish Office in the lead. They have the major interest in achieving a positive outcome. Moreover, as Mr Younger points out, it is the Scottish Office who is most likely to have to find the money for any financial sweetener. It seems unlikely that the DTI would strongly object. It would not however be unreasonable to have the DTI in the lead, if it could be more amicably settled on that basis. The important point is that the two Secretaries of State should agree quickly which of the two departments should lead.

PLG

P L GREGSON

24 January 1984

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A future for Scott Lithgow?

From Sir Robert Atkinson

Sir,—Scott Lithgow was given a great opportunity to be a world leading force in offshore work. It has failed for two reasons. It has been unable to convert from shipbuilding to offshore work quickly enough and within reasonable cost. The entrenched attitude of the workforce, their resistance to change, their inefficiency, and their militancy have all contributed to that but there are other causes.

The long history of problems, the endemic habit of late delivery and financial losses have actually caused customers to ask not to deal with that yard. The effect of loss of customer confidence in any business is the equivalent of a terminal illness.

Finally a loss of £74m last year (totalling about £200m in 10 years) could not be tolerated any longer by Government let alone by a private company. Hence my report to the Secretary of State for industry in April 1983 that Scott Lithgow was not viable in its present form. I named a potential buyer in the private sector with whom discussions had been held.

The Prime Minister was very moderate when she described the performance of Scott Lithgow as abysmal. Scott Lithgow has let the nation down, it has let BS down, it has let itself down and it has let the unions down.

Scott Lithgow's failure to deliver rigs on time and at the right price is also due to other causes: the knock-on effect of previous late ship deliveries; an incredibly difficult complexity of products — submarines, warships, merchant ships and oilrigs; a site several miles long which is, and always was, hopelessly inefficient and unworkable; exacting and difficult customers e.g. unreasonable contract terms, incredible delays in drawings approval, lack of design drawings initially, over-exacting customer inspection, failure of sub-contractors (many foreign and very often specified by customer) have all contributed to delay.

Scott Lithgow faced an extremely difficult task in the time allowed and of its three rigs, two are probably the most difficult ever built in the world. The difficulties of converting from shipbuilding to offshore has broken Swedish, German, American and other builders. There is no doubt that Scott Lithgow has made much progress within the last 18 months and is now near success. After all the first rig was a national engineering feat. It is a great engineering production and Scott Lithgow and Scotland deserve credit for that design and manufacture. Is it not true

that a Finnish yard was more than 18 months late with an equivalent rig?

The cancellation of the Britoil rig should not be allowed to finalise. It will cause yard closure, probably £200m or more in cancellation and associated charges: it will damage the Scottish economy and decimate the Lower Clyde. It will also damage Britain's reputation and manufacturing ability, cause the loss of 5,000 jobs and the skills that go with it. Our country cannot afford that.

Britoil has bent backwards to help British Shipbuilders and it is to be commended for its patience and goodwill, as is BP. The rig must be renegotiated before it is snapped up from abroad. Floating rigs are the most difficult to manufacture. In my view that national capability must be retained.

Scott Lithgow will never achieve acceptable efficiency so long as it has the present IR structure and wage systems. The high skills required by rig manufacture and the time factor, demand and pay, high wages and salaries. They also demand employment terms and conditions not workable in a normal shipyard. Offshore manufacture cannot tolerate restrictive practices and endless negotiations.

Scott Lithgow then should be taken out of BS, sold to a consortium and its debts written off. The labour force should be strengthened and offered entirely new employment terms. If they do not accept them a new labour force should be engaged.

The Scottish banks have never had their fair share of BS banking. So a Scottish private consortium should be formed to take over floating rig manufacture (not Scott Lithgow) and the yard separated to a smaller site employing about 1,000. Such plans were produced a year ago. The facilities at Greenock are of the best in the world with the natural and deep water facilities bringing additional bonus.

The consortium should be funded by the amount it is going to cost to cancel and close which is about £200m or more. In the national interest HMG should give a three year guarantee.

The permanent union officers should press their local misguided and inexperienced colleagues to acknowledge the situation and a sincere appeal to that fair minded Secretary of State, Mr George Younger, will do more to attract a private buyer than anything else and without which there will be no future.

(Sir) Robert Atkinson,
Southwood House,
Ichen Abbas,
Winchester, Hants.

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SCOTT LITHGOW

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I suggest the following general line if Scott Lithgow is raised at Questions:

Very much appreciate the effects on the community if Scott Lithgow were closed. Unemployment is a human tragedy and a waste of resources. The Secretary of State for Scotland will be considering how Government resources and the Scottish Development Agency can be used to help the area.

But it is customers who create jobs, not Governments. The Government has already poured vast amounts of taxpayer's money into Scott Lithgow - £165 million since nationalisation in 1977. It cannot carry on doing so.

As the Rt Hon Member for Manchester, Gorton said in 1977 "it would be foolish to bail out yards that are not able to meet pricing and delivery criteria".

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23 January 1984

Official Report cols 1654 - 1655

In response to the Question: '.. Can the Minister assure us that the moneys will be allocated to yards with proven records of meeting delivery dates and with established standards of productivity and profitability?..' from Mr Biffen,

Mr Kaufman replied

'... The assistance will go to yards very much according to the criteria that the hon Gentleman suggested. It would be foolish to bail out yards that are not able to meet pricing and delivery criteria, which would make sure that the money allocated was spent in a sensible way...'

Other Kaufman quotes

'...My immediate concern is to secure orders in order to promote the increased competitiveness needed to secure a future for the industry. These measures to alleviate the industrial and social effects of the world shipbuilding crisis are important and must form part of a longer-term strategy of modernisation and rationalisation following upon public ownership'. Col 1654

'...Shipbuilding industries all over the world from Japan to Sweden are accepting the inevitability of contraction, and Britain cannot be insulated from this world trend...'. Col 1652-3

MR TOWNSEND

Speech

Mr Speaker, it is right that the House should debate the present difficult position at Scott Lithgow following the cancellation of the Britoil contract as this is a matter which is of great concern to everyone who has at heart the well being of the Scottish economy and future employment prospects in the Inverclyde area. As Secretary of State for Scotland I am and always have been deeply concerned about both of these issues and the implications of cancellation for the future of Scott Lithgow. This is a very serious situation by any standard, but it is also a most unusual one. This is not, as so many others have been, a crisis that has come upon us by surprise. On the contrary, everyone concerned saw it coming long ago and tremendous efforts have been made to avert it.

As long ago as December 1982, Britoil (the customers) had grave doubts as to whether the contract would be completed. They made this clear to Scott Lithgow and all through 1983 intensive discussions continued right up to Chairman level, between the two parties in an effort to sort out the difficulties.

I and my colleagues in Government were also extremely concerned and we continued to approve the funding by British Shipbuilders of the huge and growing losses on the contract in order to give all concerned every chance to get the contract back on the rails. At the same time repeated and well publicised warnings were given in the hope that those concerned at every level in Scott Lithgow would understand the crisis and respond.

As long ago as December 1981, I wrote to the Chairman of British Shipbuilders expressing my concern about the appalling absenteeism record at that time at Scott Lithgow and last April I warned, at a meeting with local representatives and shop stewards from the yard, that there was a danger of the yard closing if it could not improve its performance. That warning was not one which was directed solely at the workforce. It was intended to be heard and heeded by all who had an interest in the future of the yard - owners, managers and workers. Nor was I, by any means the only one who gave such warnings from Spring 1983 onwards. The then Chairman of British Shipbuilders, Sir Robert Atkinson spoke out with such bluntness that he was criticised by some for being unnecessarily frank. My hon friends the Members for Edinburgh Central and Kingston Upon Thames as well as my Rt Hon Friends the former and present Secretaries of State for Industry and more recently my hon friend the Minister for Industry and

some of which, such as the BP tanker "British Spirit", were very far from being on the frontier of new technology -has also been very poor. For example, the loss of £26.6 million on the "British Spirit" actually exceeded the contract price of £23.4 million. During the past ten years, the yard has lost nearly £260 million and since nationalisation in 1977 losses have totalled £165 million.

The Opposition demand that, notwithstanding this past record, the Government should intervene in the contractual - and now legal - dispute between British Shipbuilders and Britoil and secure the renegotiation of the contract for Hull 2002. Even if the issue was only one of finance, the Government would find it very difficult to justify further support for a yard which has already been such a heavy burden on the taxpayer. But there are other considerations, not least the attitude of the parties to the contract. The Chairman of British Shipbuilders has made it clear that renegotiation would be prejudicial to the interests of British Shipbuilders as a whole. For their part, Britoil made clear as long ago as December 1982 their serious doubts about the rate of progress on the contract. Their present position is that although ready to consider any specific proposals for completion of the rig they have lost confidence in the commitment of Scott Lithgow to do this on satisfactory terms. The Government are accordingly being asked to bring not one, but two unwilling parties to the negotiating table. I have heard the argument that despite this, the Government have a responsibility because they own British Shipbuilders and have a significant stake - albeit a minority one - in Britoil, to knock the heads of the two parties together. I reject this suggestion entirely. The future of the contract is a matter between the two parties in which it would be quite wrong for Ministers to intervene.

A further argument is that the Government should intervene because it is claimed it would be cheaper to renegotiate the contract rather than to cancel it. Various estimates purporting to support this conclusion have been referred to in the press. I am not sure how these estimates have been arrived at, but they clearly show a wide variation. Professor Pickett of Strathclyde University has produced figures claiming to show that the 'renegotiation option' would be cheaper by around £21 million, while I understand that the Engineers' and Management Association has put the difference at nearly £90 million. This wide fluctuation simply confirms the fact of the matter which is that the 'renegotiation option' cannot be estimated with any degree of precision. This is

because the calculation contains a number of unquantifiable items, not least the length of time it would take to actually complete the rig and the knock-on effect on potential renegotiation of other British Shipbuilders contracts. But British Shipbuilders, which is the organisation best placed to estimate the cost of renegotiation has assured me that, even without taking into account this potential knock-on effect, acceptance of cancellation is the significantly cheaper and commercially justified option.

But let us for a moment speculate on what would have happened if the Government had been foolish enough to take the advice of the hon Members opposite and had intervened and secured the renegotiation of the Britoil contract. For a start this would have been to fall into the trap of encouraging the belief that the Government are always there to bail out a nationalised industry from difficulties in which it finds itself as a result of commercial realities. That is the seemingly easy course which has led to so many of the problems with which we are having to grapple today. It is not a course which seemed to commend itself to the party opposite when they were in Government.

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The then Minister of State at the Department of Industry, the Rt Hon Member for Gorton said in a debate on 24 February 1977 on the Shipbuilding Industry (Assistance) Bill "It would be foolish to bail out yards that are not able to meet pricing and delivery criteria". This could not be more apt to the present circumstances at Scott Lithgow. In this case it would have meant accepting a completely open-ended financial commitment - virtually writing a blank cheque - as we would have no idea how long the contract would have taken to complete or whether the yard would ever have won a further order. It is clear from my discussions with oil companies that the yard has lost customer confidence so completely that the prospects of it obtaining any further orders are remote to say the least. In short, it is clear that intervention would simply have led to the need for still further support by the taxpayer while merely postponing the inevitable.

No, intervention in the commercial and legal issues currently in dispute between British Shipbuilders and Britoil is not the course. The role of Government is not to try to change the commercial realities. We must concentrate our efforts on two tasks. The first and most immediate is that of finding a new operator who can make a new start at Port Glasgow. This task will not be easy, particularly in view of the past history of Scott Lithgow, but it has been achieved elsewhere on the Clyde and I and my colleagues are doing all that we can to assist the Chairman of British Shipbuilders in his efforts to find a private buyer. It is a task on which the Chairman of British⁴ Shipbuilders is already embarked [and

which British Shipbuilders as owners of the assets are best placed to undertake]. My colleagues and I are doing all that we can to assist. We are agreed on the importance of maintaining our skills and the capacity of the yard in the offshore business, but it must be a profit making operation. This is going to require a major change in attitudes, in methods of work and management. Obviously the attitude of the customer for the partly completed rig is immensely important to any take-over operation. It is too early to speculate on the outcome or the attitude of particular companies which might be interested in taking over the Scott Lithgow facilities and completing the Britoil contract, but we recognise the urgency of the situation.

But I recognise that even if a new operator can be found there will still be significant job losses. This brings me to our second task. As I have made clear, I am therefore ready to do all that I can to help the local Inverclyde economy. I have already had discussion with the Chairman and Chief Executive of the Scottish Development Agency. In response to an invitation from Inverclyde District Council, the Scottish Development Agency has already with my support commissioned consultants to examine the prospects for the area and, in the light of their report, I shall discuss with local interests what remedial action might be taken.

The Government are not prepared to intervene in the dispute between British Shipbuilders and Britoil over the future of the contract for Hull 2002, but we do accept a responsibility to help in the effort to find a new operator for the yard and to assist the regeneration of the local Inverclyde economy. Irrespective of that, however, as long as hope remains of putting this rig into production again under a new owner or new management or both, we will certainly do all we can to facilitate such a deal.

The Government believes that it is very important for the UK to maintain and develop further our capability in the offshore construction industry, and we certainly do not believe that, as a country with a large presence of the world's highest technology industries, there can be any question of any basic deficiency in our skills which prevents us from doing so.

I, and my colleagues in Government will, as I say, be doing all in our power to assist, but there is a vital element of help which we need from all concerned on

the Lower Clyde. We need a clear and unequivocal commitment from all who wish to form the workforce for this industry in the future. We need an open agreement for new work practices, for flexible shift working and total cooperation with what will have to be a new and dynamic management team. We need too an assurance of no disputes in any circumstances without full use of agreed procedures, and a joint commitment to the customer by all concerned that the work will be delivered on time.

Only in this way can the essential confidence of customers both present and future be rebuilt. I am sure that the vast majority of those who work in the Lower Clyde would be only too willing to give such undertakings, and that they undoubtedly have the skills when properly used, to out-perform anyone in the world in this field.

BRIEF FOR THE OPPOSITION DAY DEBATE
ON SCOTT LITHGOW

Tuesday 24th JANUARY 1984
House of Commons

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Scott Lithgow

In 1982-3 losses and provisions on Scott Lithgow's orders totalled an unprecedented £73 million, and as a result of this the Clydeside yard's troubles received considerable publicity. The losses were due largely to late delivery and delays on current work. Sir Robert Atkinson, the then Chairman of British Shipbuilders, dubbed the workforce '5000 deaf men' and said no one could remember when the yard had last delivered an order on time.

The controversy surrounding the yard has centred throughout on the £88 million rig that Britoil ordered from Scott Lithgow in December 1981. On 19th December 1983 Britoil issued a notice cancelling this order, and Scott Lithgow then issued a writ challenging the validity of the cancellation. The full details of the rig and Britoil's notice of cancellation were given in the House by Mr Norman Lamont in a statement on 20th December 1983. The text of this was as follows:

'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, British Shipbuilders 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 31st October 1983, Britoil was 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 19th 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. British Shipbuilders has responded to the cancellation notice by disputing its validity and I understand that it has now instituted legal proceedings.

'While British Shipbuilders and Britoil are considering the next step in this negotiation, all work on the rig will be stopped. British Shipbuilders is instructing suppliers to suspend work on contracts relating to the rig. Up to 2,000 of the work force are involved in construction of the rig. The remainder of the work force - about 2,250 men - is employed on two other contracts: one for BP and one for the Ministry of Defence. It is British Shipbuilders' intention that these contracts will continue.

'Unemployment in this area is already high and a further increase of the scale implied by the cancellation of this order would be a matter of deep concern to the Government. My Right hon Friend the Secretary of State for Scotland this morning met the Scottish TUC and told it that he would, of course, seek to do all that he can to alleviate the very real distress that would be caused in the local community. However, the offshore industry is highly competitive and customers insist upon contractors - including management and work force - delivering on quality, price and time. Regrettably, Scott Lithgow so far appears to have been unable to satisfy Britoil that it can fulfil its obligations on this contract' (Hansard, Col 281-2).

Recent Developments

Following the cancellation notice work on the Britoil rig stopped.

However, immediate lay-offs were avoided because the yard moved to three-shift working on the BP rig (see Mr Lamont's statement above). It has recently been wrongly reported in the press that BS have called for 800 redundancies to take affect immediately. The correct position is that:

- 1) The agreement to three-shift working on the BP rig has now lapsed and the yard's management is seeking union agreement to continue it. If agreement is reached some 300 men will be laid off immediately; if agreement is not reached then about 800 will be laid off immediately.
- 2) BS will also be issuing, towards the end of January, a statutory redundancy notice covering 800 redundancies. BS will be seeking voluntary redundancies.
- 3) As work is completed at the yard further redundancies will be called for, and as a result the work force is expected to fall to 500-700 men by the end of March.

The workers meet tomorrow (20th January) to consider their response to these redundancies. The Shipbuilding Negotiating Committee of the Confederation of Shipbuilding and Engineering Unions met on Wednesday 18th January, under the chairmanship of Mr Jim Murray, and decided to give full support to 'any decision' the workers may take.

The BS Chairman Mr Day, is reported as saying that BS has no money to reopen negotiations on the cancelled contract and that the yard's only hope is its sale to another company. This would be possible under the provisions of The British Shipbuilders Act 1983 (see p 6 below)

The dispute between Scott Lithgow and Britoil is a commercial matter between the two parties and is now sub judice. The Government has made clear that it is not prepared to use public money to fund further losses at Scott Lithgow, but it is prepared to consider sound commercial proposals for the future of the yard. It appreciates the affect that cancellation of the contract and possible closure of the yard would have on the local community. If there are large scale redundancies the Government will urgently consider how the Scottish Development Agency may help the area.

Greenock

Scott Lithgow falls within the Greenock Travel-to-Work Area where unemployment is 16.8 per cent (November 1982). The area's other traditional employer is the sugar industry, but employment in this has declined in recent years. Greenock however is on the periphery of Silicon Glen. National Semiconductors presently employ 1600 people at their integrated circuit plant, and expect to take on 300 more this year. IBM manufacture their extremely successful micro-computer in Greenock, where they employ 2,500 people. On January 11th the Scottish Development Agency announced that it had commissioned a study by the international management consultants Coopers & Lybrand Associates of ways to improve the industrial development of the Inverclyde area, of which Greenock is a part.

British Shipbuilders

Background

British Shipbuilders was established under the Aircraft and Ship-

building Industries Act, 1977, after a prolonged Parliamentary struggle. It was formed from twenty-seven companies in shipbuilding, ship repairing and marine engineering.

Shipbuilding in Europe declined throughout the 1950s and 1960s. In the UK the slide has been especially marked. Our share of the world market fell from nearly 40 per cent in 1926 to 20 per cent in 1956 and just 3 per cent today. In the UK, employment in this sector fell from 130,000 in 1955 to 69,000 in 1973. From 1974 the threat of nationalisation hung over the industry, world demand continued to decline and its financial problems continued to be acute.

Since nationalisation, the industry has received approximately £1000 million in grants and loans from the Exchequer. If it had remained in the private sector it would have needed assistance, but it would also have faced up to the need for rationalisation much sooner and the cost to the Exchequer might well have been less.

The Government has made clear its commitment to the industry, but it has also emphasised that the ultimate size and shape of the industry must depend on its competitiveness. Productivity is still below pre-nationalisation levels, so there is considerable room for improvement.

In 1982-3 British Shipbuilders lost £117.5 million, an increase of 600 per cent and far in excess of its agreed loss limit.

The BS Survival Plan & the threatened national strike

Towards the end of last year the BS management offered its workforce, who have not had a pay rise since April 1982, a £7 increase in return for acceptance of its 'survival plan'. This involves a sweeping reform of restrictive practices and demarcation lines within the yards and aims to improve productivity to the level of BS competitors in Northern Europe. It would not increase productivity to the levels attained in Far Eastern yards. The unions rejected the plan, and threatened to strike on January 6th if BS insisted on implementing it. In the event the unions withdrew the strike threat at the last minute, when it became clear that BS were not prepared to back down and that some commercial yards might be closed permanently if the strike went ahead. In return BS offered to backdate the £7 pay rise to November 2nd 1983, provided the yards voted to accept the plan; and the management also accepted a minor union amendment which allows the working party set up to discuss the survival plan to also discuss the unions counter-proposals. These talks are now in progress.

Prospects

Present prospects are gloomy. The world's shipyards have been badly hit by the recession (see below) because their customers, the shipowners are facing a glut in capacity brought about by the drop in world trade. In March 1983, 91 million tonnes of shipping were lying idle up from 55.3 million tonnes nine months earlier. Competition from foreign, mainly Far Eastern, yards is intense. British Shipbuilders current order book at the end of November 1983 was estimated at approximately £2500 million, which included £1800 million for warships and £500 million for merchant shipping. Sir Robert Atkinson, the former Chairman of BS, warned before his retirement that the corporation is 'fighting for it's life'. His successor is Mr Graham Day, one-time head of Cammell Laird. He is now preparing a new corporate plan: British Shipbuilders now faces severe competition in world markets at a time when world shipbuilding capacity is reckoned to be 40 per cent greater than is required.

Warship Yards: Vickers, Vosper Thornycroft and Yarrow have a consistent track record of profitability and are clearly areas with potential for private investment. In December 1982 the Government announced nearly £600 million of naval orders. BS is anxious to increase the export share of its warship order book from around 20 per cent to 30 per cent, but many current customers are rapidly becoming competitors. The Navy has recently announced that it will be ordering up to 12 of the new Type 23 frigates, designed by Yarrow, over the next decade at a cost of approximately £100 million each. The first orders are expected this year. In its 1983 Manifesto the Government said it would return parts of BS to the private sector and in July Mr Norman Lamont confirmed that the warship yards, which made a profit of £54.75 million in 1982-3, are indeed the most likely candidate, (Hansard, 28th July 1983, W/A Col. 576-7).

Merchant Yards: This market is very depressed and expected to remain so. The Merchant Yards are the division most affected by foreign competition and the situation is bad in all the large yards. Sunderland Shipbuilders, however, has recently won an order from the Stena Line of Sweden for two sophisticated diving support vessels with an option for a third.

Offshore Yards: Charter rates for rigs are declining as a result of the world oil glut and orders are scarce. Activity in the North Sea, however, is picking up.

Ship Repairing: This slump in world shipping has hit the ship repair yards hard. They suffered major redundancies last year. This division has now been put up for sale. Redheads, on the Tyne has been bought by its work force, whom BS had made redundant. Tyne Ship Repair is being sold to a management buy-out which will save the 850 jobs involved. This has now been reluctantly accepted by the unions. Grangemouth Dockyards has also been bought by two of its former managers and reopened for business.

The Times on 5th January conducted a survey of BS' major yards:

'Austin & Pickersgill, Sunderland, 1,800 workers. Three bulk carriers and three cargo vessels, no delays for delivery next year.

'Govan Shipbuilders, Clydeside, 2,500 workers. Building two bulk carriers for Norwegian firm, due to be delivered late spring. 'We are running out of work, and need new contracts'.

'Smith's Dock, Cleveland. 1,700 workers. Ahead of schedule on two roll-on, roll-off ships for Brazil, the second due in May next year.

'Sunderland Shipbuilders, 2,200 workers in three yards. On time with three years work on five bulk carriers and two diving support ships.

'Appledore Shipbuilders, North Devon, 750 workers. New order for cargo vessel for Iceland due next year.

'Ferguson-Ailsa, 800 workers at Troon and Port Glasgow. 'We need orders within three months. Six tugs for Kenya and the new Arran car ferry are on time, but will be finished by the end of this year'.

'Hall Russell, Aberdeen, 800 workers. 'We are urgently seeking work now'. They are building four patrol craft, on time, for Hongkong.

'Cleland Shipbuilders, Clydeside, Henry Robb, Leith, and Goole Shipbuilders, Humber. No fresh orders and face 'serious risk of closure'.

'Swan Hunter the composite four-yard Tyneside company, with 7,500 workers, are building the new Ark Royal aircraft carrier, a Type 42 destroyer, and two Type 22 frigates due by late 1987.

'Three merchant vessels are underway, including a container ship for Cunard, which is delayed. 'We have been slightly behind on a couple of programmes, but we expect to catch up by delivery dates'.

'In the warshipbuilding division:

'Brooke Marine, Lowestoft. Will run out of work in the autumn.

'Vickers, Barrow-in-Furness, 12,300 workers. Expect to complete the first Type 2400 submarine in November and are working on four nuclear-powered submarines, with no delays.

'Vosper Thornycroft, Southampton, 4,800 workers. Have two yards working on three minehunters for the Royal Navy, and are fitting out two fast patrol boats. 'We are very anxious to get an order for a Type 22 .

'Yarrow Shipbuilders, Glasgow, 5,500 workers. Have work until 1987 on a £450 million order for five Type 22 frigates and one minehunter, with all ahead of schedule.

'In the offshore division:

'Cammell Laird, Merseyside. 3,500 workers. Slightly delayed on a semi-submersible drilling rig for Sovereign Explorer, ahead of schedule with the missile destroyer HMS Edinburgh, which is due in a year's time, and on time with a jack-up accommodation vessel for British Gas in the Spring.

'A strike last year and problems with supply of parts has caused delays, but 'future prospects of work are good'.

'Scott Lithgow, Glasgow, 5,00 workers. Recently lost Britoil order for a rig overdue, and a £60 million exploration rig for BP is also behind schedule.

'Falmouth Shiprepairers and Vosper at Southampton are both secure, but Tyne Shiprepair will close next month unless a sale is agreed shortly.'

Manpower

BS's work force has been reduced from 87,500 at nationalisation in 1977 to under 60,000 today. 6000 jobs were lost in the second half of last year, but the redundancies at Scott Lithgow are the only one now pending.

BS's Finances

British Shipbuilders, like all nationalised industries, looks to the Treasury for external finance which it usually receives in the form of loans and public dividend capital. Under the 1977 Aircraft and Shipbuilding Industries Act, which created the corporation, the original limit for this finance was £200 million. This was increased in stages, to £800 million by July 1983. Later last year the

Government introduced The British Shipbuilders (Borrowing Powers) Act 1983 to enable the Secretary of State to increase this again, initially to £1000 million and eventually, with the further consent of the Treasury and the House, to £1200 million. The Bill was necessary because of British Shipbuilders' continuing difficulties and the continued deterioration of its markets.

BS Financial Results

Year to April	1978	1979	1980	1981	1982	1983
Turnover	497	842	813	899.3	1025.6	1092.5
Trading Loss	104.5	49.4	109.9	41.4	19.8	117.5
Intervention Fund	2.7	10.6	31.2	38.9	46.1	43.8
Capital Expenditure	20.1	27.4	18.6	16.7	36.8	43.2

The Intervention Fund exists to help BS compete with cheap Far Eastern prices. The most notable recent example of its use was when the Government provided around £10 million in order to ensure that Cunard built the replacement for the Atlantic Conveyor, lost in the Falklands, at Swan Hunter instead of at Hyundai in Korea. The Koreans had quoted £30 million against BS's £40 million and the Korean price was estimated to be the same as BS's material costs alone. BS estimate that approximately 60 per cent of the cost of a ship is accounted for by outside contractors and suppliers, so the benefits of intervention fund spending are spread widely throughout the economy.

The British Shipbuilders Act 1983

The Government is committed to the promotion of private ownership in the shipbuilding industry. This Act removed the previous statutory obstacles to the introduction of private capital, and provided enabling powers for the Secretary of State for Industry to direct British Shipbuilders to dispose of particular assets or subsidiaries. BS is now no longer obliged to carry on the full range of activities specified in the 1977 Act that nationalised it; it can discontinue unprofitable work and dispose of profitable yards when appropriate. The Act gives the Secretary of State powers to restrict foreign shareholdings in any yards that are sold, and gives him other powers to safeguard assets or activities which are important to our national security. Before giving any general direction to BS the Act also requires that the Secretary of State must be satisfied that it will further the national interest. The recent move to sell the repair yards, and the announcement that private investment will be sought for the warship yards, are a result of this Act.

Labour Policy

Labour said in their 1983 Manifesto that they intended to ensure that British Shipbuilders remained a wholly nationalised concern, and intended to create a state-owned shipping organisation to act as its customer. Labour would have introduced protectionism in shipping 'to protect our shipping and jobs from unfair competition' and promised to provide BS with a 'new financial basis and adequate resources for investment'. In short, Labour proposed to apply their usual remedy of State control, subsidy and protection with the sole aim of preserving jobs. Shipping and shipbuilding are areas of intense international competition, and attempts by this country to opt out

of that would have particularly harmful effects on international trade and the viable jobs that depend on it. Labour said nothing about the fundamental problems that make our yards uncompetitive or how they would have tackled them.

/ANNEX A - AID TO SHIPBUILDING AND SHIPOWNERS - attached

Conservative Research Dept
32 Smith Square LONDON SW1

RE/CR
20.1.84

Direct Aid to Shipbuilding	Home Credit Scheme Aid to Shipowners
<u>United Kingdom</u>	
Up to 17 per cent of contract price (Includes 2 per cent Shipbuilders Relief)	Home Credit Scheme 80 per cent over 8½ years at 7½ per cent. (On orders placed in United Kingdom yards only)
<u>Belgium</u>	
Nil	Home Credit Scheme 70 per cent over 15 years. Interest relief subsidy (maximum 3 percentage points)
<u>Denmark</u>	
Nil	Home Credit Scheme 80 per cent over 12 years at 8 per cent interest including 2 year grace period
<u>France</u>	
Up to 20 per cent of contract price (Excludes cost escalation insurance which benefit ranges from zero to 3 percentage points)	Home Credit Scheme 80 per cent over 8½ years at 7½ per cent interest.
<u>Germany</u>	
Nil	12½% investment grant. Interest subsidy 1½% (1983) and 2.5% (1984 & 1985). The Investment Grant automatically reduces the amount of credit to which the Interest Subsidy applies). Credit Guarantees at OECD terms.
<u>Ireland</u>	
Old scheme expired 31 December 1980. No new formal scheme. Subsidy applications considered on a case by case basis subject to EEC approval.	Home Credit Scheme 80% over 8½ years at 7½% interest.
<u>Italy</u>	
Wef 1 January 1983 up to 21% of contract price. (In Mezzogiorno maximum is 26%).	1983 Interest relief scheme:- 2.75% of contract price paid six monthly for 12 years.
<u>Netherlands</u>	
1983/84 up to 8% of contract price. Special maxima of 15% (1983) and 11% (1984) for yards in IEC and VGH groups.	2% Interest subsidy. New investment subsidy of 12%, plus 2.3% premium for 5 years.
<u>Finland</u>	
Nil	Home Credit Scheme 80 per cent over period of construction (at least 2 years, normally not more than 8 years) at 11 per cent interest.
<u>Japan</u>	
Nil	Home Credit Scheme*. Government (Japanese Development Bank) loan of 50 or 60 per cent, Over 12 years at 7% per cent interest including 3 year grace period. Further

Direct Aid to Shipbuilding

Home Credit Scheme Aid to Shipowners

Norway

For cash contracts subsidies given in 5 annual instalments to a total value of the amount that would have been given on the same contract under home shipowners finance scheme.

Spain

Up to 9½ per cent of contract price.

Sweden

For 1984 and 1985 a total of £40m budgetted for Government write-off loans to shipyards.

loan available from commercial banks, acting in conjunction with JDB, for 15 or 20 per cent of contract over 8 years at 8½ per cent interest. Supplementary provision in certain cases for interest subsidies of 2½ per cent to 3½ per cent.

80% of contract price over 8½ years at 8½ interest. The scheme also applies to longer or shorter term financing, but always contains the same amount of subsidy; in the case of cash payment the subsidy is equal to that of a 5 year loan.

Home Credit Scheme. 85 per cent over 12 years at 8 per cent interest with up to 2 years grace period. (Smaller subsidy - 60 per cent of value at 8 per cent for 5 years plus 1 year grace - available for conversions and major repair work).

Credit Guarantees of 90% of contract price for up to 12 years on commercial loans. Interest rate subsidy about 2½% available in certain cases.

Notes

- * Japanese Home Credit. The 60% and 20% loans are available only for LNG carriers. Other types of vessel attract the lower percentages.

→ CF Scott Lithgow file

SCOTT LITHGOW

Line to take

I regret the cancellation of this contract, especially given the high level of local unemployment. What we are witnessing is a company which is losing its customers. Scott Lithgow and indeed the rest of British Shipbuilders' workforce must realise that they are operating in a highly competitive world market where it is essential to be able to deliver to cost and to time. It is by attending to these that customers are won and retained, rather than through looking to Government.

Government should intervene

Britoil have made a decision in what they see as their commercial interest. British Shipbuilders have responded in a way that reflects what they see as their commercial interest. The Government believes that it is in the best long term interests of the UK taxpayer, and UK industry at large, that companies and nationalised industries should take decisions of this kind on a commercial basis.

Scott Lithgow's record [If pressed]

I very much regret that this latest contract is by no means the first example of Scott Lithgow over-running both time and budget. I also note that the unions at Scott Lithgow have refused to sign British Shipbuilders' survival plan and the changes in working practice which it calls for.

20 December 1983



CONFIDENTIAL

PS/Secretary of State

cc PS/Mr Lamont
PS/Mr Butcher
PS/Sir Brian Hayes
Mr Dobbs Spec Adv
Mr Manzie Dep Sec
Mr Treadgold SBP
Miss Bowe SBP1
Mr Thomas SBP3
Mr Hardbatttle PB
Miss Marshall Inf

BRITTOIL - SCOTT LITHGOW

British Shipbuilders, and the press, expect Britoil to serve a notice of cancellation of the rig contract at Scott Lithgow sometime today.

STRICTLY
CONFIDENTIAL

2. BS do not yet know the terms of the notice, but are expecting a straight statement of cancellation. As Ministers know, BS' strategy is to accept the cancellation. But tactically they must be seen to be putting up a strong fight. They must minimise the risk of industrial action jeopardising work on the BP rig and SOV also in the yard. And they must put themselves in the best possible position to contest and minimise damages in the subsequent wrangle with Britoil.

3. BS therefore propose to challenge the cancellation on whatever basis they can, to be determined by their lawyers in the light of the terms of the notice. They may well issue a writ within 24 hours seeking a declaration that the notice is invalid.

STRICTLY
CONFIDENTIAL

4. The immediate practical consequence is that work on the rig will cease on receipt of the notice. Scott Lithgow will try to redeploy as many men as possible onto other work, in particular the BP rig, provided there is no industrial action. As the yard anyway closes on Thursday until 4 January for the Christmas holiday, there will be no immediate lay-offs. The position will then be re-assessed in the first week of January. The likely course of events then will be about a month of litigation and wrangling before cancellation is accepted, when about 2000 jobs will be permanently lost. The immediate future of the yard will then depend on the industrial relations position and various other imponderables.

5. BS will also, on receipt of the notice, be informing suppliers and sub-contractors for the contract that they will accept no further deliveries in order to minimise future damages claims against Scott Lithgow.

6. In press terms, BS will be issuing a notice confirming receipt of the notice, that they are challenging it, that work on the rig will cease forthwith but that there will be no immediate layoffs.

7. We will provide briefing for Press Office and No 10, and for PM's Questions, as soon as we have the details of the notice.

E P CAMERON
SBP1
153 ASH
212 6538

19 December 1983

SCOTT LITHGOW

Following today's announcement by Britoil that they served notice of cancellation of the rig contract Mr George Younger MP, Secretary of State for Scotland said:-

"The decision announced by Britoil this afternoon is not unexpected, but it has tragic implications for the future of Scott Lithgow and for employment in Inverclyde, matters which are of serious concern to me. The highly competitive offshore market requires not only considerable technical expertise but high productive efficiency to succeed.

Unfortunately the yard's performance both on cost and delivery has created serious problems which neither British Shipbuilders nor its customers can any longer sustain. Against this background, where everything depends on performance, it is tragic that management have still not secured the full agreement of the workforce to the improved working practices which are necessary for efficient operation.

Throughout the crisis I have kept in close touch both with the Chairman of British Shipbuilders and with Britoil. I understand that discussions may continue for some time about the future of the rig. In the meantime I will of course be ready to do anything I can to provide assistance for the area."

Scottish Information Office
Dover House
Whitehall
London
SW1A 2AU
19 December 1983



cc TF
BT

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 and I understand that they have now instituted legal proceedings.

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.

Unemployment in this area is already high and a further increase of the scale implied by the cancellation of this order would be a matter of deep concern to the Government. My Right Honourable Friend the Secretary of State for Scotland has this morning met the Scottish TUC and told them that he would of course seek to do all he can to alleviate the very real distress that would be caused in the local community. However, the offshore industry is highly competitive and customers insist upon contractors - including management and workforce - delivering on quality, price and time. Regrettably Scott Lithgow so far appears to have been unable to satisfy Britoil that it can fulfil its obligations on this contract.



WHY IS GRAHAM DAY IN CANADA?

For personal reasons. He is in touch with BS Headquarters.

[If pressed on whether his visit is in connection with the Dome rig at Cammell Laird: firm denial.]

ROBERT ATKINSON'S QUOTE

In July this year, Robert Atkinson referred to the Scott Lithgow workforce as "5,000 deaf men". He catalogues a record of poor productivity, poor delivery and high absenteeism and said:

"(Scott Lithgow) has let the Corporation down. It is not a viable entity in its present form."

SBP1

20 December 1983



WHAT HAPPENS NOW?

All work on the rig will now stop. As the yard anyway closes this week until 4 January for the Christmas holidays, there will be no immediate layoffs. I understand BS will reconsider the question of layoffs in the first week of January.

I also understand that BS will be informing suppliers that they should for the present cease work on contracts related to the Britoil rig.

[If pressed: Looking further ahead, if the contract is ultimately cancelled, then the jobs of up to 2,000 men currently working on the rig are clearly at risk. Beyond the BP rig and the Seabed Operations Vessel already in the yard, there is no other work in prospect.]

SBP1

20 December 1983



(iv) August 1980 - walk out at Kingston Glen over special allowances for difficult and dangerous work. Halted work on BS ESV.

Late Deliveries

	Originally Due	Delivered	Months Late
Britoil Rig	2.84	Not Yet	-
BP Rig	1.83	Not Yet	11
BP Tanker	12.81	3.83	15
BP ESV	4.81	8.82	16
Furness Withy Bulk Carrier	3.78	10.78	7
Furness Withy Bulk Carrier	9.77	4.78	7
Ben Odeco Drill Ship	12.75	3.77	15

[These figures should be treated with care. They do not make allowance for slippage due to delivery dates renegotiated because the customer changed or increased the specifications.]

SBP1

20 December 1983



- Q. Is the cancellation of the Britoil rig not destroying the UK's capability for construction of mobile offshore structures?
- A. No. Within BS there is also Cammell Laird with an established position in the construction of both semi-submersible and jack-up rigs. Harland & Wolff also has suitable facilities for mobile offshore structures. In the private sector, UIE at Clydebank, has an excellent record for jack-ups, while a number of the yards which have traditionally-built fixed offshore structures have the facilities to build mobile structures. Notable among these are Highland Fabricators and McDermott's, who are jointly building a floating production platform for Conoco, and Howard Doris, who have tendered in competition with Cammell Laird for Sun Oil's semi-submersible floating production facility.



Assistance under the Home Credit Scheme

Q1. Was the contract assisted under the Home Credit Scheme?

A1. Yes. It received the standard assistance offered under the Scheme at the time.

Q2. What were the terms of the assistance?

A2. The details are commercially confidential. The terms of assistance generally available under the Scheme in 1981 provided for a guaranteed loan of up to 85% of the contract price, repayable over up to 8½ years from delivery at a fixed interest rate of 8.75%.

Q3. How much has been advanced to the customer under the loan guaranteed by the Department?

A3. 85% of the payments made by the customer to Scott Lithgow towards the price of the rig, in line with the terms of the Home Credit Scheme.

Q4. Will the customer repay the loan guaranteed by the Department?

A4. I have no reason to doubt that it will be repaid if the Department requires it. The timing of any such requirement will depend on when, in legal terms, cancellation can be regarded as having taken place.

Q5. Will there be any loss to the Department?

A5. I have no reason to doubt that the loan will be repaid in full if the Department requires it.



- Q6. Will the loan remain available if Britoil makes alternative arrangements for completion of the rig?
- A6. There is specific provision in the loan documents for the loan to remain in place in certain specified circumstances.
- Q7. Did the Secretary of State give consent to the cancellation?
- A7. Under the terms of the Department's guarantee, the Secretary of State's consent was necessary before the customer could serve notice of cancellation. This consent was granted in the normal way, subject to certain conditions to safeguard the security for the guaranteed loan.
- Q8. Why was consent not withheld?
- A8. It would not be appropriate for the Department to use legal provisions intended to safeguard its guarantee commitment to obstruct proper commercial relations between shipbuilders and their customers.



SL'S TRACK RECORD

Employment/Losses

Scott Lithgow has typically accounted for about 8% of total BS employment since 1977. Over the same period it has accounted for 38% of total losses. (£165m to March 1983.)

In 1982/3, Scott Lithgow lost £66m of BS' total loss of £117m - 56%

Details of Losses

(£m)	77/78 (9 months)	78/79	79/80	80/81	81/82	82/83
Scott Lithgow	24	12	34	14	15	66
BS total	104	50	110	41	20	117

Strikes

Recent stoppages reported in the press have been:

- (i) July 1983 - walk out by 250 plumbers over termination of an overtime agreement
- (ii) September 1982 - walk out by 300 platers over the sacking of a Shop Steward for doing the FT crossword during working hours. Affected work on BP tanker
- (iii) January 1982 - 3 week dispute at Port Glasgow yards. Halted work on BP ESV



PRIME MINISTER'S QUESTIONS

SCOTT LITHGOW: BRITTOIL CONTRACT

Background

Britoil served notice on 19 December of their intention to cancel this contract for a semi-submersible drilling rig on the grounds - as permitted by the contract - that Scott Lithgow will be unable to deliver within 300 days of the contractual delivery date. Scott Lithgow responded by challenging the validity of the notice, claiming that some fault should be attributed to the US designer, and that the rig can anyway be completed within 300 days of the due date. Scott Lithgow issued a writ on 20 December seeking a declaration that the notice is invalid.

2 Mr Lamont made a statement to the House on 20 December stressing the Government's determination not to intervene. Dr Godman (Greenock and Port Glasgow) has secured an adjournment debate on 22 December.

Line to Take

My Hon Friend the Minister of State for Industry made a full statement to the House on Tuesday 20 December. As he stressed then, this is a commercial dispute. It would be quite wrong for the Government to intervene. And since, as the House knows, legal proceedings are in hand, it would be improper for me to comment on the merits of the case. Observe, however, that the call for a strike from 6 January seems designed to ensure that the contract is irrevocably lost.

Dept of Trade and Industry
21 December 1983

Attached is the Hansard of the exchanges on Mr Lamont's statement yesterday. Particular points he made in the exchanges are as follows:

- (i) Both sides have taken decisions that they judge to be in their best commercial interest. If the Government were to intervene either to urge Britoil and its agents to withdraw its notice or to urge British Shipbuilders to reintroduce the contract the commercial and financial position of one party or the other would be severely prejudiced.
- (ii) The taxpayer has funded huge losses at Scott Lithgow. On this contract the taxpayer has funded losses of over £44 million. A total of £66 million of the losses of £117 million that British Shipbuilders announced last year came from Scott Lithgow.
- (iii) Since 1977 Scott Lithgow has accounted for 8 per cent of British Shipbuilders employment and 38 per cent of their accumulated losses.
- (iv) "The national interest is not to pour good money after bad.
- (v) It is not the Government who have pulled out the plug on Scott Lithgow. It has been the inefficiency, the poor performance, the late deliveries and the massive losses that have not just arisen this year but have gone on and on for many years.
- (vi) "I do not see how it could be remotely described as laissez faire to have funded losses by the yard of £140 million in addition to giving production subsidies of £17 million to Scott Lithgow during the intervention fund.