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10 DOWNING STREET

From the Private Secretary

25 January 1984

SCOTT LITHGOW

The Prime Minister held a meeting today to discuss the issues raised in your Secretary of State's minute of 17 January. Also present were the Secretaries of State for Energy, the Environment, Trade and Industry, the Chief Secretary and Mr. Redwood.

The Secretary of State for Scotland said that the closure of Scott Lithgow would have a very concentrated impact on the Inverclyde community, raising male unemployment there possibly to 35 per cent. He fully endorsed the Government line that the decision about the rig contract and closure of the yard should be left to the commercial judgement of Britoil and British Shipbuilders. He also believed that there was more understanding of the wisdom of this position in Scotland than was often apparent. Where the Government was vulnerable to criticism was in appearing to do nothing, either to promote the emergence of the successor enterprise to complete the rig, or to mitigate the impact of the closure on the area.

The loss of confidence in Scott Lithgow was now such that there was no prospect that Britoil would re-negotiate the contract with them nor was there any prospect that other orders would be placed. The best prospect for the completion of the rig was the emergence of a new operator, making a totally fresh start. Such an enterprise might take on up to 800 of the existing employees.

The Secretary of State for Energy noted that over the next 10 years the market for off-shore equipment would be very large. With its accumulated experience, the UK ought to be able to win a substantial part of this market for itself. It would be very damaging to the reputation of the UK off-shore industry if this rig were replaced by one produced overseas. He therefore favoured the search for a new operator to complete the rig. He warned, however, that the worst outcome of all would be a second attempt which ended in failure because work practices and management had failed to adapt. Before going down this road, therefore, it was important to take a judgement on whether improved performance would be secured.

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- 2 -

In discussion, it was argued that Scott Lithgow should be liquidated, leaving a new operator to acquire such assets as it required from British Shipbuilders. The latter, together with the Government, would bear the losses to date and the closure costs. The new operator would not take on the employment contracts of existing workers but would recruit such men as were required on new terms. It was noted that a new enterprise would be unlikely to qualify for significant sums of Regional Development Grant or selective financial assistance. The aim of the new operator should be not merely to finish the rig as a one off operation but in the process to establish itself for new orders. This might provide an opening for a company which wished to break into this market relatively cheaply. It was noted that there were two possible operators, Trafalgar House, who would probably need to go into partnership with a Swedish firm in order to acquire the necessary technical expertise; and Howard Doris who are 50 per cent French owned.

Summing up this part of the discussion, the Prime Minister said that the Department of Trade and Industry, as the sponsor Department, should ask Mr. Day to conduct negotiations with possible new operators to complete the rig. These negotiations should be on the understanding that, while the Government would bear the losses incurred to date and the costs of closure, there was no commitment to provide further resources. It was important for the Government to avoid giving the impression that it was mounting a rescue operation. For this reason no inter-Departmental group should be established though the Department of Trade and Industry should, of course, work closely with the Scottish Office.

The discussion then turned to the measures which were needed to re-generate the Inverclyde area. The Secretary of State for Scotland explained that the Scott Lithgow site accounted for a very large part of the flat land in the area. Substantial clearance and site renovation would be needed to enable new activities to develop. He agreed with the Chief Secretary that no commitment should be made at this stage to a figure for the money to be devoted to this. He proposed, in consultation with the SDA, to assess what work needed to be done, what resources were already available, and what additional resources might be required. He would bring proposals back to colleagues in due course. This was agreed.

In his minute of 17 January, the Secretary of State for Scotland had suggested the establishment of an Enterprise Zone in Greenock/Port Glasgow. The Chief Secretary argued that there were already 25 Enterprise Zones and their effectiveness in generating new jobs needed to be reviewed. The Government should avoid working itself into the position where the establishment of an Enterprise Zone became an almost automatic response to any major closure. It was agreed that this proposal would not be pursued.

I am copying this letter to Michael Reidy (Department of Energy), John Ballard (Department of the Environment), Callum McCarthy (Department of Trade and Industry), John Gieve (Chief Secretary's Office), Richard Mottram (Ministry of Defence), John Alty (Mr. Lamont's Office, DTI) and to Richard Hatfield (Cabinet Office).

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