



DEPARTMENT OF TRADE AND INDUSTRY
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From the Minister of State for Industry

Norman Lamont MP

cc NB
↙

CONFIDENTIAL AND COMMERCIAL IN CONFIDENCE

Prime Minister

To note. Agree X
subject to colleagues

Rt Hon Alick Buchanan-Smith
Minister of State for Energy
Thames House South
LONDON
SW1

Yes not

15 February 1984

Dear Alick

I wrote to you on 3 February recording my meeting with Roger Bexon of BP and warning colleagues that a cancellation of this rig was on the cards.

You will now have seen Peter Walker's copy of BP's letter to Graham Day of 10 February telling him that BP are setting the cancellation procedure in motion while remaining ready to renegotiate the contract. You have also, I believe, received a copy of Graham Day's reply reaffirming his position that, as with the Britoil rig, no more money is available.

Graham Day's stance is partly one of principle; he believes that to concede one renegotiation would amount to an invitation to any number of his customers to try their luck. But he has also considered the financial implications of the options available; you and other colleagues will wish to be aware of these.

If BS accepts BP's demands (which involve an extra £15m) the total contract loss will amount to £54m. If BS refuse and BP cancel, BS will complete the (nearly finished) rig and sell it. The cost of completion, plus the repayment of instalments to BP, plus interest and damages would amount to £127m. The key question is thus how much BS can get for the rig on the open market. To be no worse off than if they renegotiated they need to sell for £73m, roughly the original contract price. To inform his final decision Mr Day is seeking to establish the market price of the rig. This will take some days to complete.

In the light of that price, Mr Day will have to decide what to do, balancing the direct financial considerations with the possible wider consequences of each course of action. I propose to tell him that, as with the Britoil rig, it is a matter for his commercial judgement.

X



I should add that this turn of events should have no fundamental effect on the proposed Trafalgar House deal; under its terms TH is effectively insulated from the consequences of Scott Lithgow's past performance, and has all along been aware of the possibility of cancellation of the BP rig.

I am copying this letter to the Prime Minister, the Chief Secretary, Geoffrey Pattie and Allan Stewart. + *Chancellor of the Duchy*

James
Norman
NORMAN LAMONT

15 FEB 1984





10 DOWNING STREET

From the Private Secretary

16 February 1984

Scott Lithgow : BP Rig

The Prime Minister has seen Mr. Lamont's letter to Mr. Buchanan-Smith. She agrees that, as with the Britoil rig, this should be treated as a matter for the commercial judgement of British Shipbuilders.

I am copying this letter to Alex Galloway (Chancellor of the Duchy of Lancaster's Office), John Gieve (Chief Secretary's Office), Ian Fitzpatrick (Minister of State's Office, Department of Energy), Stephen Douglas (Mr Pattie's Office, Ministry of Defence) and to Gerard Hetherington (Mr. Stewart's Office, Scottish Office).

ANDREW TURNBULL

Miss L.C. Rhind,
Department of Trade and Industry.

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From the Minister of State for Industry

Norman Lamont MP

Rt Hon Alick Buchanan-Smith
Minister of State
Department of Energy
Thames House South
Millbank
LONDON
SW1P 4QJ

7 March 1984

Dear Alick

Thank you for your letter of 28 February about the BP rig at Scott Lithgow.

You say that your main concern is to secure this rig for the UK drilling rig fleet. I appreciate the strategic reasoning behind your view but I can see that it might conflict with British Shipbuilders' commercial duties. If they do end up with the rig on their hands, I shall naturally expect them to sell it for the best achievable price and that may well not be to a UK company. If this situation arose and you and colleagues took the view that a lower UK offer should be given preference, then extra funds would have to be found. Peter Rees may wish to comment on this possibility and how we might handle it if it arose.

I am copying this letter to the Prime Minister, the Chief Secretary, Geoffrey Pattie and Allan Stewart.

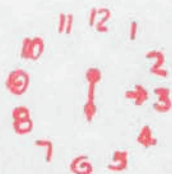
*Yours
Norman*

NORMAN LAMONT

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7 MAR 1984



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THE MINISTER OF STATE

Norman Lamont Esq MP
Minister of State
Department of Trade and Industry
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SW1H 0ET

28 February 1984

Dear Norman,

Thank you for your letters advising of BP's moves to cancel their rig at Scott Lithgow and of Graham Day's stance on the matter. Since your most recent letter BP have now confirmed that they have cancelled.

From a Department of Energy view point our main concern is the potential loss of this rig to the UK drilling rig fleet. As you know we are trying to build up the UK capability in this important sector and this rig would be a significant new addition. The delay and possible loss of the rig to our fleet is very unwelcome news particularly at the present time when exploration and appraisal activity is running at such high levels. This is a factor which will, I hope, be given full weight when the disposal of the rig is being determined.

Regarding the financial implications, I understand Graham Day's position of principle not to renegotiate. However, crucial to any assessment of this is the open market price of the rig. I hope this can be established quickly.

I would be grateful if you would keep me informed of developments.

I am copying this letter to the Prime Minister, the Chief Secretary, Geoffrey Pattie and Allan Stewart.

Your aw.
Aur

ALICK BUCHANAN-SMITH

Nat (nd shipbuilding AT6

29 FEB 1984

