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Secretary of State for Trade and Industry

Prime Minister ⁽²⁾
Still some way to go to settle this K C NO
AT 2/3

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2 March 1984

Andrew Turnbull Esq
10 Downing Street
LONDON
SW1

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Dear Andrew,

SCOTT LITHGOW

My Secretary of State has asked me to bring you up to date on the latest developments on Scott Lithgow.

2 The crisis facing the yard itself has deepened somewhat with this week's announcement by BP that they intend to cancel their nearly completed rig. They have given British Shipbuilders (BS) two weeks before cancellation becomes final. BS has so far refused BP's request to renegotiate the contract (at a likely cost of £15m) and is now considering its position in the light of the cancellation notice. Meanwhile work on the rig is continuing; if it is cancelled BS will complete it and offer it for sale. In reaching their decision the main consideration for BS is the likely value of the rig in the open market; this BS are currently assessing.

3 Given the fact that the BP rig is almost complete BP's cancellation move should not greatly affect the chances of disposing of the yard to one of the current bidders. The conditional deal with Trafalgar House (TH) insulates TH from the consequences of the cancellation, which they have all along known to be a possibility. Any deal with any other party would also have to provide such protection.

4 It now seems virtually certain that the consortium fronted by Bechtel is out of the running. They are insisting on a cost-plus contract with Britoil for the completion of their rig, the key to any takeover of the yard. Britoil have told us that this is wholly unacceptable and that they are therefore ruling Bechtel out.

5 The remaining contenders are TH and Howard Doris (HD). TH is very much further down the road than HD. They have made a conditional deal with BS and are well on the way to



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negotiating a complete contract. They are also a long way down both the commercial and technical roads with Britoil. HD, on the other hand, will make their first formal acquisition proposal to BS this Friday and are considerably behind on their technical assessment and on commercial negotiations with Britoil.

6 The great problem is the attitude of the Britoil Board. TH are keen to clinch a deal, get into the yard and start work on the rig. Their conditional deal with BS ran out at the end of February. They have agreed not to withdraw yet, but are clearly getting very impatient. The Britoil Board, however, wishes to give HD sufficient time to formulate their proposals, which in practice could mean to the end of March. It seems clear that Sir Philip Shelbourne is himself having an uncomfortable time attempting to reconcile differing forces within his Board.

7 In this awkward position we have adopted a twofold strategy. First, Mr Lamont has brought as much pressure as he can on Sir Philip Shelbourne to speed up their assessment of HD. There is some doubt as to whether HD's financial backing is adequate for such a project, and he has pressed Sir Philip to assess this key aspect immediately. He has also impressed upon Sir Philip the dangers of Britoil's course - TH may withdraw and HD come up with a deal unacceptable either to British Shipbuilders or the Government, in which case Britoil would end up without their rig, the worst result from everyone's point of view.

8 Meanwhile, Mr Lamont has kept in close touch with Mr Eric Parker of TH, stressing the importance the Government attaches to TH remaining a contender and emphasising the efforts being made to speed the process up.

9 It is thus very difficult to predict the outcome. We should be slightly better placed when we see HD's initial proposals at the beginning of the week; my Ministers will be considering their next move in the light of these.

10. Meanwhile, as you are aware, we have had to publish a Supplementary Estimate of £125m for 1983/84 to cover costs at Scott Lithgow. £44m of this represents lost income on the Britoil contract and is bound to be needed. The rest is sufficient to cover the costs either of a TH-type deal or of accepting cancellation of the Britoil contract and the consequent rundown. Some provision is also included to cover the consequences of BP's cancellation move. The amount of the total Estimate provision actually taken up in 1983/84 will of course depend on the speed with which negotiations on Scott Lithgow are brought to a conclusion.



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11 I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, Secretary of State for Energy, Secretary of State for Scotland and Sir Robert Armstrong.

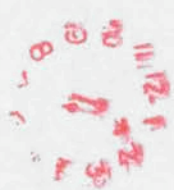
Yours ever,

Ruth

RUTH THOMPSON
Private Secretary

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10 DOWNING STREET

From the Private Secretary

5 March 1984

SCOTT LITHGOW

The Prime Minister has seen and noted without comment the report in your letter of 2 March.

I am sending copies of this letter to John Kerr (HM Treasury), Michael Reidy (Department of Energy), John Graham (Scottish Office) and Richard Hatfield (Cabinet Office).

MR. B. TURNBULL

Miss Ruth Thompson,
Department of Trade and Industry.

So

1 Victoria Street, SW1H 0ET Press Office: 01-215 5068/9
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Ref: 137

March 7, 1984

SCOTT LITHGOW

Mr Norman Lamont MP, Minister of State for Industry welcomed today's announcement by Trafalgar House and Howard Doris that they were to adopt a joint approach to the proposed acquisition of Scott Lithgow.

He noted that detailed negotiations remained to be completed and he hoped that these could be brought to a successful conclusion as rapidly as possible.

He promised that the Government will react quickly to detailed proposals as soon as they are submitted to the Secretary of State for Trade and Industry for his approval.

Trafalgar House

PUBLIC LIMITED COMPANY

1 BERKELEY STREET · LONDON W1X 6NN

Cables TRAFULGE
Telex 21341

TRAFALGAR HOUSE/HOWARD DORIS JOINT PROPOSAL FOR THE PURCHASE OF SCOTT LITHGOW LIMITED

1. Following lengthy negotiations with British Shipbuilders, Britoil, unions and the management and workforce of Scott Lithgow, Trafalgar House and Howard Doris have agreed that the only feasible basis on which Scott Lithgow can be saved from closure and the Britoil Ocean Alliance contract completed by March 1986 is by a joint negotiation resulting in agreement with all parties for the purchase of Scott Lithgow and finalisation of a revised contract with Britoil with the object of completing not later than 16th March 1984.

Trafalgar House and Howard Doris therefore have reached an understanding whereby they intend to purchase Scott Lithgow from British Shipbuilders on the basis of Trafalgar 75% and Howard Doris 25%.

2. Trafalgar House and Howard Doris would use their combined resources to complete the negotiations with Britoil for the revised contract relating to the Britoil Ocean Alliance semi-submersible drilling rig.

3. It is intended that the resources of Scott Lithgow, Trafalgar House and Howard Doris and G.V.A. would be available to ensure the completion of the Britoil rig to the standard required and in accordance with the re-equipment programme resulting in delivery of the rig to Britoil not later than 1986.

4. Scott Lithgow will complete the BP rig on behalf of British Shipbuilders and the MOD vessel in accordance with the existing contractual requirements.

5. Trafalgar and Howard Doris will issue a joint policy statement relating to the level of employment, terms and conditions of employees at Scott Lithgow as soon as possible.

6. It is the intention of Trafalgar House and Howard Doris to pursue opportunities for further work at Scott Lithgow including in particular work on or part of the Sun Oil contract, work from Ministry of Defence in relation to the refurbishment of submarines etc., except that no additional work would be undertaken which would adversely affect completion of existing commitments.

7. Howard Doris are negotiating with Trafalgar for agreement to enable the company to carry out fabrication and assembly of the hulls of large floating structures at Scott Lithgow's yard.

Continued 2

Directors: Nigel Brookes (Chairman) The Lord Matthews (Deputy Chairman) E. W. Parker (Group Chief Executive)
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