File

cc DO
~~Press~~ Office

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5186
GTN 215)
(Switchboard) 215 7877

From the Minister of State for Industry

Norman Lamont MP

Andrew Turnbull Esq
Private Secretary
10 Downing Street
Whitehall
LONDON SW1

27 March 1984

Dear Andrew

You wrote to me today recording the Prime Minister's agreement to the proposals in my Minister's letter of 26 March to the Chief Secretary.

I now attach a copy of the penultimate draft of my Minister's statement. While no changes of substance are expected, the final wording will depend on the detailed negotiations between the companies which will be finalised tomorrow.

I am copying this letter to John Gieve (Chief Secretary's Office), Michael Reidy (Department of Energy), Richard Mottram (Ministry of Defence), John Graham (Scottish Office), David Heyhoe (Lord Privy Seal's Office), Alex Galloway (Chancellor of the Duchy of Lancaster's Office), David Normington (Department of Employment), Murdo Maclean (Chief Whip's Office), David Beamish (Lord Denham's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely

Stuart Gill

pp KATE RHIND
Private Secretary

CONFIDENTIAL

SCOTT LITHGOW

With permission, Mr Speaker, I should like to make a statement about the future of Scott Lithgow and the financial consequences in 1983/4 for British Shipbuilders.

Following the announcement by Britoil on 19 December 1983 of its wish to cancel its contract for a drilling rig being built at Scott Lithgow, discussions have taken place with a number of companies interested in taking over the business.

Throughout the affair the Government have been concerned to minimise any further cost to taxpayers who have already put a huge amount of cash into Scott Lithgow. On the initial cancellation of the Britoil contract, the Government accepted the advice of the Chairman of BS that it was cheaper to accept cancellation than to accept the terms for a renegotiation of the contract demanded by Britoil.

On 26 March the Government were informed by British Shipbuilders that - subject to the Government's approval and the reinstatement of the Britoil contract - they had concluded a deal with Trafalgar House for the sale of Scott Lithgow. [I understand that reinstatement of the Britoil contract will be finalised this afternoon.]

The proposal that has been put to the Government by British Shipbuilders is that the Scott Lithgow company will be reconstructed to enable it to meet its existing liabilities, part of which will be waived and the remainder written off. Substantial liabilities would of course have had to be met whether the yard was sold, closed or retained by BS.

In addition, there will be an injection of cash and share capital to leave the company with net assets of £12m. Trafalgar House will then buy the shares of the company for this amount, £3m to be paid immediately, the rest over three years, with a commercial rate of interest applied to these deferred payments.

The effect will be that Trafalgar House will buy for £12m the currently bankrupt Scott Lithgow reconstructed so as to be able to meet its existing liabilities and the costs of essential rationalisation. Scott Lithgow, under the ownership of Trafalgar House will then complete the Britoil contract, complete the other work in the yard and seek new work wherever possible. The current litigation between BS and Britoil will be dropped.

The costs of this deal for BS are almost exactly the same as those which would have arisen if the Britoil contract had been lost and the yard run down and closed. However there are wider benefits arising from the maintenance of jobs at Scott Lithgow.

Instead of the severe blow to Greenock of closure of the yard, this deal holds out a prospect of a substantial operation continuing and, I hope, expanding. It also means the acquisition of a valuable facility by an experienced UK offshore operator, which has vast financial, managerial and technical resources and the retention of hard-won and valuable experience in the forefront of offshore technology.

The financial consequences for BS in 1983/4 of both the sale of SL and the generally depressed state of the shipbuilding market are that its external finance requirement has been increased from £158m <u>to</u> £268m. All but £22m of their increase relates to the unavoidable costs of Scott Lithgow. The funds for this have already been voted by the House through the main and Supplementary Estimates.

My Right Honourable Friend the Secretary of State for Trade and Industry therefore this morning gave his formal consent to the sale of Scott Lithgow to Trafalgar House on the terms I have described.

I am sure that the House will join me in welcoming this transfer of Scott Lithgow to the private sector which offers a real hope for the people of Greenock and for the future of shipbuilding on the Lower Clyde.

SBP1
27 March 1984

F/U

MJ

6cc: Mr. Young

10 DOWNING STREET

From the Private Secretary

27 March 1984

Scott Lithgow

The Prime Minister has seen Mr. Lamont's letter of 26 March to the Chief Secretary. She agrees that the terms of the deal which British Shipbuilders has reached with Trafalgar House are satisfactory. She is content that a statement should be made to the House on Wednesday afternoon.

I am copying this letter to John Gieve (Chief Secretary's Office), Michael Reidy (Department of Energy), Richard Mottram (Ministry of Defence), John Graham (Scottish Office), David Heyhoe (Lord Privy Seal's Office), Alex Galloway (Chancellor of the Duchy of Lancaster's Office), David Normington (Department of Employment), Murdo Maclean (Chief Whip's Office), David Beamish (Lord Denham's Office) and Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

Miss Kate Rhind
Department of Trade and Industry.

CONFIDENTIAL

SH

File

PM'S BRIEFING - THURSDAY 29 MARCH

SCOTT LITHGOW

Background

The contracts for the sale of Scott Lithgow to Trafalgar House - and that between Britoil and Trafalgar House for completion of an oil rig - were signed yesterday. The Government's approval of the deal was simultaneously announced to the House by Mr Lamont.

2 Annexed is a brief description of the (extremely complex) deal. The net cost to the taxpayer is £71. The purchase price paid by Trafalgar is £12m. There is an outstanding loan from BS to Scott Lithgow of £8m, which is repayable in three years time. Thus, while the price is £12m, total income from Trafalgar House will include repayment of an £8m loan. This has given rise to some confusion in the press.

3 The key points are:

(1) the net cost is £71m. Broadly equivalent costs would have arisen if the yard had been closed, while this deal maintains the capacity and the yard,

(2) the purchase price is £12m.

4 Trafalgar will gain some tax losses from the deal. But we estimate their value to be substantially less than the redundancy and other costs which would arise if the yard closed.

Line to take

Delighted that a solution has been found which saves the yard and the jobs of the workforce.

[COSTS] Trafalgar House is paying £12m. The full cost to the taxpayer of reconstructing the company will be £71m. This is broadly equivalent to the costs which would have arisen on closure - and it leaves the yard and its jobs in being.

[TAX LOSSES] Trafalgar will gain some tax losses. But these will cost the taxpayer significantly less than the extra redundancies needed if the yard had closed.

[SOME REPORTS OF £20m PRICE]	Deal involves some deferred loans, which will be repaid to BS by Scott Lithgow under its new owners. One of these deferred loans is £8m. Thus, while the price is £12m, total income will include this £8m. The cost to the taxpayer remains at £71m.

SBP1/DTI
March 1984

BRIEF DESCRIPTION OF SCOTT LITHGOW DEAL

The deal involves, inter alia,

(1) A complex reconstruction of Scott Lithgow's balance sheet to bring the net worth of the company up from the present excess of liabilities over current assets to a positive £12m. This will cost a gross £97.5m. £6.1m of this comes from outstanding claims which will be recovered in due course bringing the cost down to £91.4m.

(2) A value of £8m is attached to the fixed assets of the company. This is balanced by liability in the form of an £8m loan from BS to Scott Lithgow which is being left outstanding with repayment deferred for three years. This brings the cost down to £83.4m.

(3) A purchase price of £12m with £3m payable immediately and the rest over three years. This leads to a cost to the taxpayer net of the purchase consideration and loan repayments of £71m.

The problem has arisen because of a confusion between Trafalgar House's purchase price of £12m and the repayment of deferred loans to BS, specifically the loan in respect of £8m for fixed assets. Income from Trafalgar House will include the £12m consideration plus loan repayments.

CONFIDENTIAL

DTI

29 March 1984

NBPM
AT
28/3

cc NO.

Treasury Chambers, Parliament Street, SW1P 3AG

PS/ Norman Lamont Esq MP
Minister of State for Industry
Department of Trade & Industry
1 Victoria Street
LONDON
SW1H OET

28 March 1984

Dear John

SCOTT LITHGOW

The Chief Secretary is content with the terms of the proposed draft statement attached to your letter to Andrew Turnbull of 27 March.

with AT?

However the Inland Revenue have drawn his attention to certain difficulties which may arise for all the parties to the deal from the forms of words used in relation to the Britoil contract, in the first part of the draft statement.

The Chief Secretary assumes you will not wish to say anything which, however unintentional, might prevent the deal going through smoothly. He has therefore asked the Inland Revenue to get in touch urgently with your officials to sort out the wording on this part of the draft.

Yours sincerely

John Gieve

JOHN GIEVE
Private Secretary

Nat. Ind.: Shipbuilding Pt 6