



CONFIDENTIAL

cc RT A

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prime Minister

SCOTT LITHGOW

1. I have accepted that decisions about the future of the Britoil rig contract should be left to the commercial judgement of Britoil and British Shipbuilders and that we should not intervene to rescue a yard which has had such a poor record both on cost and delivery in recent years. However, there can be no doubt that the cancellation of the contract will lead, perhaps within a very short period, to the complete closure of Scott Lithgow as a BS yard. Since the yard is still by far the largest employer in the area, the situation which confronts the towns of Greenock and Port Glasgow is extremely grave. The industrial and commercial arguments for non-intervention are compelling. But I cannot sustain indefinitely a position in which the Scottish Office is regarded as doing nothing in any context.

2. Despite its record, the yard contains valuable facilities which are suitable for off-shore work, and elements of the workforce have considerable expertise which was demonstrated in the submarine work which was undertaken over many years to the complete satisfaction of the Navy. As a country we have not done well in the building of semi-submersible rigs for the North Sea. Scott Lithgow is the only yard which has completed one so far and at a time when this market is likely to expand it would be a national misfortune if the loss of the facilities on the lower Clyde were to result in an even larger

share of this market being taken by foreign competition. I believe strongly that what is required is a fresh start outside British Shipbuilders, with new management and a much reduced labour force. I understand that this accords with Graham Day's own view and that he has already had preliminary discussions with a company that may be interested. I hope you will agree that every effort should be made to get such an operation underway, rather as a receiver would if this were a private company. Given the right team and conditions I see no reason why it should not be as successful as UIE have been at Clydebank in similar circumstances. I want to pursue this urgently with Graham Day, in consultation with Norman Tebbit and Peter Walker.

3. Even if a new operation can be found for the yard I would expect the employment to be relatively modest - perhaps about 800 jobs compared with over 4,000 now. Unemployment in the area is already over 17% (20.6% for males) and could rise to around 30% (35% for males). Because the Inverclyde District is relatively isolated with a localised travel to work pattern the effect on the area is bound to be severe and the task of generating new employment opportunities on anything like an appropriate scale will be exceptionally difficult. While criticism of Scott Lithgow is entirely justified, we must not be thought to denigrate the local workforce: companies such as IBM and National Semiconductor have major plants there with outstanding records and none of the difficulties associated with Scott Lithgow. I therefore regard it as essential that we do everything in our power to help regenerate and diversify the local economy.

4. Accordingly, once there is greater acceptance locally that the closure of Scott Lithgow is inevitable - and whether or not some kind of "phoenix" operation based on the yard's assets is feasible - I propose to invite representatives of local interests to discuss with me what remedial measures

might be taken; and I intend to give the Scottish Development Agency the task of leading, co-ordinating and, to a considerable extent, financing the measures which are agreed upon following these consultations. The SDA has built up considerable expertise through tackling the effects of similar closures at, for example the Garnock Valley and Clydebank; and it has already commissioned consultants to examine the prospects for Inverclyde.


5. I shall, of course, be ready to re-order my own priorities and to ask the Agency to do so also in order to help finance such an initiative. But our experience elsewhere in Scotland has demonstrated that the cost of re-generation in an urban area with older industry is substantial. Inverclyde with its restricted area of flat land is no exception. Substantial recovery and clearance in the waterfront area of sites formerly used for docks and shipyards must be undertaken to provide the scope for new activities. The SDA's work at Clydebank in similar circumstances following the closure of Singers has cost approximately £25 million over 5 years and the task at Inverclyde is if anything greater. From the exploratory work we have undertaken so far I estimate that the SDA's budget will require additional Exchequer funds of the order of £30 to £35 million over a period of 3-5 years.

6. Secondly, given Inverclyde's location, I would like to give the area a competitive edge in the effort to attract inward investment. I therefore believe there is a case for an Enterprise Zone in the Greenock/Port Glasgow area and I will shortly set out this case in a letter to colleagues most concerned.

7. Thirdly, I regard it as essential that we demonstrate our confidence in those BS operations on the Clyde which have improved their performance, and it is important to avoid giving the impression that we regard Scott Lithgow as typical of the Clyde as a whole. I have already commented in my

letter of 6 January to Norman Tebbit (about notification of shipbuilding aid to the European Commission) on the need to do everything we can to support Govan as a core yard and in particular to back Graham Day in his efforts to secure for that yard the order for CEGB colliers. He has told me of his confidence in the performance of Ferguson Brothers and John G Kincaid and like him I hope that continuity of workload can be achieved.

8. To summarise I hope that you and colleagues can agree that we should:

- (a) while maintaining our public stance that the future of the Britoil rig is a matter for that company and BS, do everything possible to encourage a "phoenix" operation at the Scott Lithgow yard;
- (b)  provide additional Exchequer funds of the order of £30 million to £35 million to enable the SDA to mount a major recovery initiative in the Inverclyde area;
- (c) examine the case for establishing an Enterprise Zone in Greenock/Port Glasgow; and
- (d) support Graham Day's efforts to secure continuity of employment at the remaining BS operations on the upper and lower Clyde.

I am copying this minute to Norman Tebbit, Nigel Lawson, Peter Walker, Michael Heseltine, Patrick Jenkin and Sir Robert Armstrong.

G.Y.

G.Y.

17 January 1984

Prin Muster Dec '83

Cancellation of Britoils order with
Scott Lithgow

SIS MOD invited
- Wendy Anderson
will confirm
NR 19/11



AT

1.

Confirmed
private day
25 Jan. at 1600.

I told them
you will be in
touch re
documents. CR

10 DOWNING STREET

From the Principal Private Secretary

Prime Minister

Since sending this minute, Mr Younger has had talks with Britoil and has developed his thinking on a "phoenix" proposal. He will put in a further note. I suggest you hold a meeting as soon as it can be arranged to discuss

(i) phoenix

(ii) remedial measures for Inverclyde

On (i), there are attractions but HMG must avoid putting in the money it has refused to BS.

On (ii) you are on record as showing a willingness to help the local community. Some expenditure seems appropriate but how much?

Agree a meeting, probably next Wednesday, with SS/Scot, SS/TI, SS/Energy, SS/T, SS/Env?

Yes MF AT 18/11



10 DOWNING STREET

From the Private Secretary

19 January 1984

Dear John,

SCOTT LITHGOW

The Prime Minister has seen your Secretary of State's minute of 17 January. She thinks that a meeting is necessary to discuss first the proposals for encouraging a "phoenix" operation under which the Britoil rig would be completed under new management; and secondly what Government should do to mitigate the impact of redundancies in the Inverclyde area.

She understands that your Secretary of State has had further discussions with various parties on a phoenix operation and will be writing again on this.

BF1
This meeting has now been arranged for Wednesday, 25 January at 1600 hours.

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

Yours sincerely

Andrew Turnbull

Andrew Turnbull

John Graham, Esq.,
Scottish Office.



Prime Minister

I have now set up a meeting
next Wednesday.

PRIME MINISTER

AT
19/1

SCOTT LITHGOW

with AT
I very much endorse George Younger's views, in his minute of 17 January, on the need to examine the scope for re-establishing the Scott Lithgow operation outside British Shipbuilders under new management.

The UK Continental Shelf is currently at the forefront of offshore technological development and the focus of keen international interest. We should have a spring-board for the promotion of our industrial capability world-wide. The Britoil rig itself was designed precisely to cope with the harsh, deep water conditions towards which our exploration effort will be increasingly directed in the years ahead. The undertaking had a flag-ship status and its total failure would rebound accordingly on the reputation of our generally successful offshore industry.

If Scott Lithgow's rig-building capability disappears completely we shall increase our dependence on foreign builders just as I am endeavouring to expand offshore supply exports to secure the industry against the inevitable ultimate decline in UKCS activity. It is extremely unlikely that, with Scott Lithgow's assets dissipated, any spontaneous alternative would appear in the UK. The rewards of advancing technological frontiers in our own waters would go elsewhere.

At Scott Lithgow itself there are good physical facilities and, to judge by the success of other companies locally, valuable human resources. We have earlier experience from elsewhere of shipworkers' ability to adapt to offshore work when the need is clearly apparent, including Methil and Clydebank in Scotland. But, of course, new management would hold the key.

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I therefore strongly support George Younger's wish to explore urgently what can be done to save as much as possible from the situation. My Department stands ready to assist in any way it can.

Copies go to the recipients of George Younger's minute.

A handwritten signature in blue ink, appearing to read "D. S. Hall".

SECRETARY OF STATE FOR ENERGY

19 January 1984



NAT INS
Ship building
A 5



20 JAN 1953