



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

PRIME MINISTER

23 January 1984

SCOTT LITHGOW

We are to meet with colleagues on Wednesday 25 January to discuss in particular two aspects of the situation at Scott Lithgow - the possibility of a new operator coming in to take over part of the yard and to complete the rig; and measures to assist the economy in the Inverclyde area. Since I first ministered I have had a meeting with the Chairman of Britoil, and my officials have met the Chairman of British Shipbuilders.

It is clear to me that during the summer and autumn of 1983 Britoil completely lost confidence in British Shipbuilders' (BS) ability to finish the rig to the standards required and in time to meet Britoil's needs, and that BS did not respond to Britoil's efforts to get the contract back on the right lines. Britoil's view is that the contract was mismanaged from the beginning, and they have told me that in their view 80% of the responsibility for the failure lies with management, and only 20% with the workforce. Britoil would still like to get this rig finished, since their preference is for a British built rig, and because it represents the best chance of meeting their (revised) drilling timetable. But Mr Day sees no future in trying to renegotiate the contract. There is therefore no way forward on the basis of the present relationship between the two companies. Both are however willing to support a new operator who would take over part of the yard and finish the rig for Britoil, if the right conditions for this exist or can be created.

It will not be easy to get this going. Britoil's timetable is tight (they want to be in a position by the end of February to decide whether or not to start afresh); they want to be assured of the standing and credibility of any new management; their financial conditions will not be easy to satisfy; that part of the workforce which is locally recruited will have to sign up for new conditions they have hitherto not committed themselves to. Mr Day is however prepared to take the lead in finding a new operator, and I think he would wish to be helpful over the financial conditions for a transfer of the existing assets at Port Glasgow.

My proposal is that we should encourage Mr Day to take the lead in this, and that we should set up an inter-departmental group of officials to work with him as necessary. This group would be drawn from the Scottish Office, DTI, Energy and the Treasury. Its purpose would be to examine, and report as necessary to Ministers on, issues arising from the proposed disposal by BS of part or the whole of the Scott Lithgow yards. We shall have to decide who should take the lead; the Scottish Office has a substantial interest in the outcome, and will be involved in questions relating to selective financial assistance for the new operator, if that should arise.

I am sending copies of this minute to Norman Tebbit, Peter Rees, Peter Walker, Patrick Jenkin and Sir Robert Armstrong.

G.Y.

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