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From the Minister of State for Industry

Rt Hon A Buchanan-Smith MP
Dept of Energy

Prime Minister:

BP are now
threatening to cancel
their rig order at Scott
Lithgow, although it is 95%
complete.

3 February 1984

Dear Alice

BP RIG AT SCOTT LITHGOW

You will want to know that Mr Roger Bexon, deputy Chairman of BP, called on me on 30 January, at his initiative, to warn me of problems arising on this contract.

The contractual delivery date for this rig was February 1983. Scott Lithgow (SL) are claiming force majeure extensions to this date, which BP are disputing.

SL have told BP that they are expecting to be able to deliver the rig in March of this year, but BP told me that they think mid-year is a more realistic date. The rig is, as I understand it, about 95% complete.

BP have told Mr Day, the Chairman of BS, that they now wish to renegotiate the contract at an estimated additional cost to BS of around £15m. BS have told BP that they are not prepared to renegotiate, and the purpose of Mr Bexon's visit was to enquire whether I was prepared to require Mr Day to renegotiate the contract.

I made it clear that it is not our intention to intervene in commercial negotiations of this kind, and reminded him of the stance we have taken on the Britoil/BS dispute on the other SL rig. In response to this, Mr Bexon indicated that BP may, in the next 2 weeks or so, decide at Board level to cancel the contract.

I have discussed the situation with Mr Day, who tells me that he is not persuaded that the threat of cancellation has a great deal of force at present. The rig is nearly complete, and BP need it. He believes, and I think this has to be right, that he must stand firm on this if he is not to be faced with a stream of similar costly demands from other BS customers.

I am sure that it is right for us to refuse to interfere in contractual disputes between BS and its customers, but I thought it right to warn you of the situation that may develop.

I have commissioned some detailed figuring on the financial consequences of cancellation in this contract, which will take a little time to produce. A key element will be the resale value of the rig, which will belong to BS if BP cancel. I will let you know the way the figures might look, as soon as they are



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ready; but, in the meantime you and colleagues to whom this is copied may find it helpful to know, by way of background, that around 2,200 men are working on the BP rig, and on present plans they are due to leave SL in the Spring as work is completed. The contract value is £77m, and BS have so far provided for losses of £35m on this contract.

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

Yours
Norm

NORMAN LAMONT