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CABINET

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY
SUB-COMMITTEE ON DISPOSAL OF PUBLIC SECTOR ASSETS

BRITISH AEROSPACE: SALE TO THE PRIVATE SECTOR

Memorandum by the Secretary of State for Industry

The Manifesto commits us to "offer to sell back to private ownership the recently nationalised aerospace and shipbuilding concerns, giving their employees the opportunity to purchase shares". I now seek agreement to the action necessary to give effect to this commitment in respect of British Aerospace.

PRESENT POSITION

2 British Aerospace is now organised into two groups, dealing respectively with aircraft (both civil and military) and guided weapons. I see a number of advantages in retaining within a single organisation the present spread of British Aerospace's activities, and this is our preferred option.

3 Ideally, we should transfer the whole of British Aerospace's business to a Companies Act company and offer shares for sale in the company. There must be some doubt, however, whether this company would prove attractive to investors. The corporation, while making satisfactory profits, is rebuilding the position in the civil aircraft business by launching 3 new civil products - the new A310 version of the Airbus (as a partner in Airbus Industrie), the BAe 146 and the Jetstream. Because of these new developments the business is forecast to require very large injection of cash (£400 million in the next five years) which must to some extent offset the attractiveness of the business's profitability. There is therefore a chance, which cannot be ignored, that sale of shares in a company carrying on the whole of British Aerospace's business will not prove practicable, or that the only basis on which it would be so would be by our offering commitments to support these and perhaps other projects - commitments which would conflict with our general approach of standing back from traditional Launch Aid programmes. For this reason I think we must also preserve the taking but which might not be too different from industrial decision carrying on the guided weapons business now conducted by the Dynamics Group within British Aerospace, although the balance of argument is against such an option. The profitability and cash flow of this Group are such as to make it more attractive to potential investors. However this would have the disadvantage of resulting in an increased call for Government funds for the remaining aircraft business. Either course will require legislation.

4 I shall be receiving very shortly expert advice from the City on the feasibility of marketing either the whole or part of the business. If the sale is confined to a company carrying on the business of the Dynamics Group, it might prove possible, if we wished, to sell all the shares. I do not think we could sell all the shares in a company carrying on the whole of British Aerospace's business. There is therefore a wide range of options, and the legislation which we put forward later this year should be broad enough to encompass any of these.

5 If approximately half the shares in a company carrying on the whole of British Aerospace's present business are disposed of, our best estimate is that the proceeds would amount to some £100 million. This would be expected to accrue in 1980-81. This figure is subject to a wide margin of error and has not yet been confirmed by independent financial advisers. At present British Aerospace foresees a requirement for external funds of some £400 million over the next five years. Introduction of private capital into the ownership should reduce the amount of this which would need to be provided directly from public funds, though, as noted above, it is a prospect that some degree of commitment to Government support for projects may be a necessary part of marketing a share in the corporation's overall business.

LEGISLATION

6 I believe the flexibility we require can be achieved through a measure which would allow the Government to transfer the business of British Aerospace to a Companies Act company, in the first instance entirely owned by Government, and in which the Government would subsequently offer shares for sale. This would also enable the Government to take such measures as it wished to encourage employees to buy shares. Continuity of management would be ensured through the appointment, by Government acting as shareholder, of Board members of British Aerospace as directors of the company. British Aerospace as such, once the business had been transferred to the company, would be dissolved. In place of the detailed and explicit controls of a statutory corporation provided for in the Aircraft and Shipbuilding Industries Act 1977, the Government would rely on its generalised but potent powers as shareholder.

7 It will clearly be necessary to set out, both in the memorandum and articles of association of the company and in the course of the passage of legislation, the attitude Government intend to adopt towards its powers as shareholder in the company. This will require careful thought as will the question of whether the Government should remain the majority shareholder: the balance struck between Government control and commercial independence for the company will be an important consideration for potential investors. We want to ensure that the company is distanced from Government as far as is reasonable. But we must recognise a number of special factors which will inevitably limit the extent of maximum withdrawal. Future investors may seek a commitment from Government to support new civil aircraft projects; we are already locked into support for the Airbus project; and our reliance on British Aerospace for military aircraft and missiles means that we could never view its demise with equanimity. There is thus a danger that, come what may, the Government will be called upon to stand behind the aerospace business, and we must ensure that the use we make of our shareholding reflects this.

8 Once the feasibility of various options has become clearer, I shall circulate a further paper on the relationship between Government and the new company. Subject to the points made in the previous paragraph, I hope that it will prove possible to establish clearly that whatever residual shareholding the Government possesses will not be used to intervene in the administrative affairs of the company as a commercial concern.

CONCLUSION

9 I therefore invite colleagues to agree:

i that our objective should be the sale of shares in a company carrying on the whole of BAe's present business;

ii that legislation should be prepared to enable the Government to do this, but which is wide enough to allow alternatives such as the sale of shares in a company carrying on the dynamics business only; and

iii that I should make an announcement before the summer recess of our intention to introduce this legislation.

K J

Department of Industry
Ashdown House

13 July 1979