



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

30 October 1980

The Rt. Hon. Sir Keith Joseph, MP.,
Secretary of State for Industry

See Keith

BRITISH AEROSPACE: VESTING AND FLOTATION

You sent me a copy of your minute to the Prime Minister on 23 October about the timing of the British Aerospace flotation, a subject which was discussed in E(DL) later that day. I have three comments on your minute.

(a) I am as keen as anyone to see a successful privatisation, and I share your regret that the plan for a flotation in November has had to be dropped. But the doubt about future Defence orders, on which the November plan has floundered, was not in fact an entirely unexpected shoal. It came up in a discussion I had with Adam Butler in June, when he took the view that the chances of bringing off an autumn flotation were less than evens. And the Chief Secretary's initial proposals for PES reductions - admittedly more modest than those subsequently sought - were tabled in Cabinet in July.

The Dept. of Industry

dispute this

interpretation

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(b) I do not dissent from your wish, subsequently endorsed by E(DL), to float early in the New Year, but I see a risk of a further shipwreck on precisely the same shoal. Unless we should decide otherwise, our decisions on particular expenditure programmes would not become public until we issue the White Paper, and if your merchant bank advisers are inclined to see an earlier announcement in respect of Defence as a pre-condition for a flotation in January, I think they must be told that it may not be met. Moreover, their suggestion that the prospectus should reflect the maximum impact on BAe which might result from the public expenditure decisions affecting MOD, rather than their actual impact, seems bound to depress still further the likely proceeds from the flotation. You will wish to be sure, before proceeding with the Offer for Sale, that they would be sufficient and defensible.

/(c) If the



(c) If the route to a flotation in late January or February was clear, I would, as you mentioned, be content to vest the company on 1 January. However, as I explained in my letter of 8 July to Adam Butler, I am unconvinced of the merits of vesting if flotation is not an immediate prospect. The closing sentences of your minute imply that some doubt would remain as to whether the Government would exercise effective control after vesting. I am clear that if the company were to remain in 100 per cent public ownership for more than a very short period it would be absolutely essential that full control, at least as effective as that operated at present, should be maintained. The control mechanisms that would be adequate for an interim period, and were thought adequate for the NFC because Norman Fowler then and now expects privatisation in 1981-82 to go ahead, would be quite inadequate for BAe Ltd., if it were to remain wholly Government-owned throughout the lifetime of this Parliament, as you say would probably be the case if we were in practice unable to float early next year. The scale of BAe's business, investment plans, and future capital requirements greatly exceeds those of the NFC.

In sum, I am sure that E(DL) was right to postpone a decision on vesting date: the prospects for an early subsequent flotation must be clarified before such a decision can be taken.

I register point (a) simply in order to set the record straight. Points (b) and (c) will no doubt be subsumed in further discussion in E(DL) as your planning develops.

Copies of this letter go to the Prime Minister and the other recipients of yours.

GEOFFREY HOWE

A handwritten signature in dark ink, appearing to read 'G. Howe', with a horizontal line underneath it.