

CONFIDENTIAL

*cc by signed  
to matters*



*Ear Rd  
LR(O/R)  
to see  
MS*

Treasury Chambers, Parliament Street, SW1P 3AG

Norman Tebbit Esq  
Minister of State  
Department of Industry  
Ashdown House  
123 Victoria Street  
LONDON  
SW1

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14.*

8 January 1981

*Dear Minister,*

THE BAE 146 PROJECT

I should be most grateful if you could take a look at the correspondence on the 146 project which concludes with John Biffen's letter of 18 December to Keith Joseph, and Adam Butler's reply of 2 January.

Briefly, the position is as follows. The existence of the project substantially depresses the market value of BAE Ltd: in Kleinwort Benson's view the effect amounts to rather more than £150 million. The expected net receipts to Government from a sale of 50% of the shares are thereby reduced (both directly, and because the existence of the project is a major factor in determining the scale of the capital injection which the Government would have to make before a flotation) to a level which is likely to cause controversy. The Chancellor has accordingly argued - his Private Secretary's letter of 15 December - that E Committee should consider the possibility of cancelling the 146, and the Prime Minister agreed - her Private Office's letter of 16 December - that there was a need for early reconsideration of the project in E. Clearly such a review could only take place on the basis of a paper from the sponsoring Department, but John Biffen's letter of 18 December set out the issues which ought in the Treasury's view to be covered in any such paper.

Adam Butler's reply was however silent on many of the issues which John Biffen raised, and in particular contained no assessment of the viability of the 146 project. That was because he argued - and I agree - that cancellation would entail a postponement of the flotation; maintained that the aim of a flotation in February should have an overriding priority; and did not regard it feasible to conduct a full review of the 146 before final decisions for or against February would have to be taken.



I confess that I find this a little unsatisfactory. Without the review which Geoffrey Howe sought, a key factor relevant to the decision whether to sell in February will remain uncertain when that decision has to be taken. But since I understand that that will be in the next few days, the questions which John Biffen asked will I suppose now have to remain unanswered at that stage. However, if for any reason the Government were to conclude that it would be either impossible or unwise to sell the shares in February, I hope that you would then agree that your officials should start work forthwith on the paper for E which was envisaged last month.

Copies of this letter go to member of E, and to John Nott and Sir Robert Armstrong.

Yours sincerely,  
Stephen Loke (Private  
Secretary)

pp NIGEL LAWSON

(approved by the Financial  
Secretary, and signed in  
his absence)