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MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

MO 26/8/1

20th October 1980

Dear Keith,

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BRITISH AEROSPACE FLOTATION

We are not now meeting in E(DL) this morning as had been arranged, but had we done so I would have wanted to register my concern at the way in which positive decisions on flotation are being undermined by what I regard as wholly unrealistic assumptions about changes in the future level of defence spending.

I understand that Kleinworts have reacted strongly to what they have been told about Treasury objectives. They are clearly scared by the implications for the honourable flotation of the company. That Kleinworts should be so concerned does not surprise me: the Armed Services and the public, if they knew, would be just as scared by the implications for our defence effort. The fact is, however, that the Treasury proposals are just proposals and, from what I have already said on the subject, you will realise that I have no intention of agreeing to them.

Moreover, in recent years defence equipment expenditure has been rising in real terms and as a proportion of the defence budget; and, irrespective of the current round of PESC, it shows no sign of falling back in real terms in the future. Within this, BAE have secured a sizeable share of our business in the past and, though the fortunes of individual projects may vary and cancellations arise from time to time, BAE can confidently be expected to achieve a significant share of our business in the future, in competition with other companies. I would have thought the investment world and the investing public would understand this.

The Rt Hon Sir Keith Joseph Bt MP



My view remains therefore that we should press on with the flotation as we agreed last week. There can hardly have been a month in the last decade when there has not been the threat of a PESC reduction in defence spending; and from that point of view there will never be a perfect time to embark on a flotation of a company with strong defence interest.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Chief Secretary and to Sir Robert Armstrong.

James Callaghan

Francis Pym

Francis Pym



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