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Bob Young

10 DOWNING STREET

From the Private Secretary

8 March 1984

Dear Derek,

Shorts: Corporate Plan and Privatisation

The Prime Minister has seen the paper attached to your Secretary of State's minute of 22 February. She endorses the short term strategy, the provision for a cumulative EFL of £87 million and a profit target of £5 million. She welcomes the proposal to seek costed options for Shorts' longer-term strategy.

The Prime Minister agrees that it is useful to confirm privatisation as the objective for the company but shares the Chief Secretary's doubts as to whether it is necessary or advisable to make adjustments to the balance sheet in advance of detailed discussions on privatisation.

I am copying this letter to Private Secretaries to members of E(A) and to Richard Hatfield (Cabinet Office).

Yours sincerely
Andrew Turnbull

Andrew Turnbull

Derek Hill, Esq.,
Northern Ireland Office.

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PRIME MINISTERSHORTS - CORPORATE PLAN AND PRIVATISATION

I am writing to confirm that I am generally content with the course of action proposed in the Secretary of State for Northern Ireland's minute to you of 22nd February. Given the MOD's interest in Shorts' missile activities in particular, we would like to continue to be closely associated with discussions on privatisation of the company.

2. As regards Shorts' desire for more MOD work in aircraft and aero-structures, you are aware of the importance I attach to capitalising on the competing capabilities which exist within the UK aerospace industry. I believe Shorts can certainly make a contribution to this process. Indeed, the Northern Ireland Secretary and I have corresponded on this very point; and Geoffrey Pattie last year visited Northern Ireland for discussions with Adam Butler and with the company. As Shorts' participation in a number of recent competitions indicates, we actively keep them in mind when considering candidates for work in this field. That said, they have been successful in only one of those competitions - which underlines the need for them to pay close attention to their competitiveness. However, their recent success in winning the EDSA contract for a light distribution aircraft for the USAF was most encouraging, and one in which the MOD was able to give the firm practical assistance.



3. On another MOD project, Geoffrey Pattie recently approved the placing of a production order for Javelin missiles with Shorts and told Sir Philip Foreman that competitive tenders would be sought for subsequent orders. Sir Philip accepted this and said that he looked forward to the opportunity of competing for Rapier production, for which British Aerospace have been the sole source of supply. I regard this as an encouraging response to our policies for increasing competition.

4. Copies of this minute to go the recipients of the Northern Ireland Secretary's.

W. J. H.

Ministry of Defence
9th March 1984

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PRIME MINISTER

SHORTS - CORPORATE PLAN AND PRIVATISATION

In his minute to you of 22 February, Jim Prior sought agreement to a number of proposals concerning the future of Short Brothers.

There has been a very welcome improvement in the performance and prospects of Short Brothers recently and I agree that our aim should be privatisation at the earliest opportunity. I therefore support the recommendations in the paper.

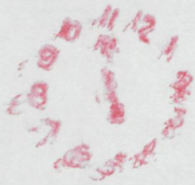
I am copying this minute to members of E(A) and to Sir Robert Armstrong.

NICHOLAS RIDLEY

7 March 1984



8 MAR 1984





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Secretary of State for Trade and Industry

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7. March 1984

The Rt Hon James Prior MP
Secretary of State for Northern Ireland
Northern Ireland Office
Old Admiralty Building
London SW1A 2AZ

R. Tim.

SHORTS - CORPORATE PLAN AND PRIVATISATION

I have read with interest your minute to the Prime Minister of 22 February, and the accompanying memorandum and Note by Officials which you had intended as the basis for discussion in E(A).

2 I am content with the proposals set out in paragraph 14 of your memorandum subject to the following qualifications.

3 First, I am pleased to see that you intended to require Shorts to prepare costed longer term strategy options for your consideration in the Autumn. I hope this will cover a full range of options. You refer in particular to a successor to the SD 360, and I agree that this should feature among the options. But so too should the option of not developing such a successor. Since Shorts have been successful in winning the EDSA order, there may be a case for basing Short's aircraft activities on unspectacular, but relatively low risk, military/utility aircraft. I do not mean to say that I am pre-disposed to such an option, simply that it should be among those considered. I should like to be clear, also, that this options exercise will be completed in time to enable the results to be incorporated in a fully worked up 1984 Corporate Plan - we were, I note, promised such a fully worked up Plan for this year.

4 Secondly, I welcome your proposal to appoint Sir John Sparrow as Deputy Chairman. I believe he will be a valuable addition to the Board and will also relieve Sir Philip Foreman of some of the burdens of the Chairman's role. However, I share Patrick Jenkin's view when he was at this Department (his letter to you of 6 January 1983) that combining the posts of Chairman and Managing Director is undesirable. I recognise that no internal candidate has emerged as a potential Managing Director, and that a search for an external candidate may not be successful before the expiry of Sir Philip Foreman's appointment. I therefore suggest that your privatisation advisers should be asked to



examine the management structure of the company in anticipation of privatisation. Perhaps this could be a point for discussion when we meet as you propose to discuss the whole question of privatisation.

5 I am copying this letter to E(A) colleagues and to Sir Robert Armstrong.

4
J Norman

NORMAN TEBBIT

IND. POL : Short Bros : Nov 1980

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PRIME MINISTER

SHORTS

Mr. Prior is seeking to clear Shorts Corporate Plan in correspondence. His proposals can be found in paragraph 14 of his paper.

The Chancellor of the Duchy takes a rather sceptical view of the prospects for Shorts and wonders whether a 1988 target for privatisation is so remote as to provide no incentive.

The Chief Secretary and the Policy Unit both agree with Mr. Prior's proposals, both for the short term and for the longer term where a product strategy is required. They do not challenge the 1988 target for privatisation, but neither see the need to adjust Shorts balance sheet so far in advance.

Agree the line taken by the Chief Secretary and the Policy Unit?

Y
has not.

6 March 1984

6 March 1984
Policy Unit

MR TURNBULL

c Mr Redwood

SHORTS

Like the Chief Secretary, we support Mr Prior's proposals for Shorts in all respects save those which concern privatisation.

Although the company is now performing better than for many years past, its balance sheet and its prospects are such as to make it unattractive to private sector investors for as far ahead as we can see. There is no case for investing a further £55 million of taxpayers' money to dress up the balance sheet when:

- (i) we still wish to regard Shorts primarily as a source of employment in Belfast;
- (ii) Government will still have a heavy involvement in Shorts' affairs through launch aid, selective assistance and MOD purchasing;
- (iii) there is, as yet, no aircraft product strategy; and
- (iv) we are unlikely to get back our total investment from the proceeds of sale.

We should recognise that privatisation will be a long haul affair. Meanwhile Shorts must get to grips with a product strategy and be kept under pressure to operate at better than breakeven.

In the latter context, we ought to confirm higher performance targets for 1984/85 now that Shorts has won the EDSA order from the United States Air Force. These are set out in Annex III of the officials' paper. The target for profit after interest rises from £5 million to £8 million and the positive cash flow from £3 million to £11 million.

R.J.

ROBERT YOUNG



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CCNO
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The Rt Hon James Prior MP
Secretary of State for Northern Ireland
Northern Ireland Office
Whitehall
LONDON
SW1A 2AZ

2 March 1984

Dear Jim,

Thank you for copying to me your memorandum of 22 February to the Prime Minister about Shorts.

I have no observations on your proposals to respond to the company's Corporate Plan with a view to eventual privatisation.

I am copying this to recipients of your memorandum.

Yours war,
George.

Industrial Policy : Short Brother Corporate Plan



MAY 1984



Chancellor of the Duchy of Lancaster

NDPM at the stage
AT
27/2

PRIME MINISTER

SHORTS - CORPORATE PLAN AND PRIVATISATION

1. The specific issues raised by the Secretary of State for Northern Ireland in his minute to you of 22 February are essentially for the Treasury and I do not comment on them.
2. On the longer term outlook, the 1983 Corporate Plan shows the Company returning to profitability in 1985, a further improvement in 1986 followed by stagnation. The Company never has made a profit, at least not for a very long time, and one views its sudden return to virtue with some scepticism. Nor is sudden recovery and subsequent stagnation a particularly encouraging or convincing scenario. It is accompanied too by some quite dramatic increases in employment - viz an extra 1,000 jobs by 1985 and a further 700 by 1988. The inevitable conclusion is that it is essentially a job-creating rather than profit generating exercise. This is borne out by the recent saga of the Fokker wing contract (P 332) which was the subject of the Secretary of State's minute to you in September.
3. There is much to be said for privatisation as a means of concentrating the mind. The Secretary of State gives himself a great deal of elbow room by putting this at 1988 at the earliest. I would think that if we took that as our target we would find that the improvement needed never did take place and that like British Leyland the horizon receded with every step forward we took. Despite all the difficulties it would be much more effective to set our sights on a much earlier date even if we got very little for the Company.

A.C.

A C

27 February 1984