

CONFIDENTIAL



B/F with Treasury
and Policy Unit responses

AT 5/7

PRIME MINISTER:

SHORT BROS LIMITED

1. I wish to update colleagues on the position on privatisation, EFL adjustment and the V2500 engine project. In my minute of 22 February 1984 I suggested a collective discussion on privatisation plans for Shorts but colleagues may agree on the basis of this minute that it would be better to defer discussion on this (and on the other two headings) until there are sharper issues to address.

PRIVATISATION

2. I am clear that Shorts should be identified as a firm candidate for disposal and the necessary preliminary work put in hand. The public sector is over-developed in Northern Ireland and successful privatisation of Shorts would be good for Northern Ireland's industrial image and morale. While - as noted below - there are particular considerations here which need to be taken into account, I do not think that they are sufficient reason to deflect us from pursuing the possibilities in the context of our general UK policy.

3. Last year the Company sought advice from three merchant banks on prospects for privatisation. Their united view was that, despite a 10-year history of losses, and the high risks associated with any company predominantly dependent on civil aerospace projects, it would nonetheless be possible to return Shorts to the Private Sector in the short to medium term. Adam Butler also took the views of Sir John Sparrow (before his appointment to Shorts' Board) who advised similarly that Shorts could be privatised, although he foresaw a longer period of preparation before disposal.

4. There are other factors in this case. Although we cannot be precise, I doubt if complete disposal would generate significant net proceeds to the Exchequer. Action to restructure the balance sheet is likely to be a prerequisite for privatisation and the cost

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of this may well offset the company's market value. Shorts already receive funding in the same form as other aerospace companies in GB (eg Launch Aid) and on the same basis as private sector companies in Northern Ireland: disposal would be unlikely to free Government from financial involvement under Industrial Development support arrangements. The Company is already exposed to intense competition, and it is thus doubtful if privatisation would significantly increase efficiency.

5. I am also concerned about the possible dangers to Northern Ireland where Shorts plays an increasingly important role both as a large employer and as a centre of technical excellence. I doubt if either the economy of Northern Ireland or the Government's credibility could withstand the consequences if disposal of the Company were to lead to its relocation outside Northern Ireland or to a decision by new owners to pursue expansion elsewhere. Shorts' merchant banking advisers have also pointed to the high risks for a Company dependent on the civil airline sector.

6. Notwithstanding these important considerations I think we should still make privatisation our aim for the Company and if colleagues agree I will wish to inform the Board accordingly. Shorts is a relatively small company in which the main parts draw strength from one another. I see no advantage therefore in piecemeal sale of the most attractive parts of the enterprise (eg Missiles Systems Division) which would leave a less viable rump in our hands. I will wish to make it clear that the integrity of the Company is not threatened.

7. As a first step my intention is to retain specialist merchant banking advisers who will be invited to examine and advise without prejudice on all options as to method, timing, costs and benefits. I will, however, wish them to recommend ways of incorporating safeguards against major change of location, such as the golden share arrangements we have examined in relation to other disposal candidates. I would then review the specialist advice with

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colleagues - possibly when we examine Shorts 1984 Corporate Plan. I would also wish to examine closely ways of securing substantial employee involvement , both for reasons of enhancing pride in Northern Ireland's premier company and in order to extend share ownership within the Province.

8. I have asked the Company to prepare and present in the next Corporate Plan a range of costed options for product development, particularly as the SD330/360 commuter aircraft and Blowpipe/Javeline Missile families may not be capable of much further development. The prospect of privatisation should not inhibit the company from developing new products or seeking large new aerostructures contracts provided the terms would commend themselves to private sector owners; and I will therefore wish to advise Shorts that any planning should be undertaken on that basis. However we should be clear that margins in civil aerospace projects are slim and there may be instances in the run-up to disposal where we will face, as we have in the past, difficult decisions involving very tight tenders in relatively high risk projects. These will have to be judged on their individual merits and their effect on the Company.

9. Another part of Corporate strategy which is important in the context of privatisation is the expansion of MOD contracts, especially in the aircraft/aerostructures field. Shorts' achievement in winning the EDSA order from the US Air Force was a major one and I will be encouraging them to improve the competitiveness of their bids for MOD aircraft/aerostructures work as suggested in the minute of 9 March from the Secretary of State for Defence.

EFL ADJUSTMENT DUE TO EDSA AND WEST BELFAST FACILITY

10. Earlier this year colleagues agreed a cumulative external funding limit for Shorts of £87 m for the current financial year. However, since that agreement was given, two developments have occurred which necessitate further consideration of this cumulative figure. These are the winning by Shorts of the first phase of the

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order from the US Air Force for the European Distribution Systems Aircraft Programme (EDSA), and a proposal by Shorts to set up a "composite facility" in West Belfast, which I strongly favour on the commercial grounds of achieving further orders from the US market as well as other reasons. There have been some premature press stories about the West Belfast development, whose general effect is helpful, and Shorts has confirmed that it has such plans.

11. The Company is currently reviewing the financial effects of these two developments (one positive and one negative in EFL terms) and its figures will then be immediately examined by the Department's advisers. I expect to write to colleagues about my conclusions in the near future.

V2500 ENGINE PROJECT

12. Shorts has been invited to bid for work on the V2500 engine project. Colleagues recently approved Rolls Royce's participation as a prime contractor in this project and Shorts will be seeking to undertake the nacelle work on the engine. The size of the contract means that collective Ministerial approval will be required to the Shorts bid. Shorts is currently engaged in the preparation of detailed figures and these will be analysed by Touche Ross. However, the deadline for the receipt of bids is 20 July and I will therefore be seeking a fairly quick response from colleagues when I write about the Shorts' bid. Officials in key departments will be kept informed of progress on the figures so that colleagues can be fully briefed.

RECOMMENDATIONS

13. I recommend that we:-

- (i) confirm Shorts as a candidate for privatisation as a single unit, and inform the Board accordingly;
- (ii) retain specialist merchant banking advisers to

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examine the whole range of possibilities on method and timing of privatisation, to assess the costs/benefits to Government, and to consider ways of safeguarding the wider Northern Ireland interests;

(iii) agree that the company should continue its development plans on the basis that major new projects should be on attractive commercial terms;

*a separate
minute will be
put to you
on this.*

(iv) note, pending further reference when details are available, the current position in relation to EFL adjustment and possible participation in the V2500 engine project.

14. I am copying this minute to E(A) colleagues, the Secretary of State for Defence, the Foreign Secretary and to Sir Robert Armstrong.

A handwritten signature in black ink, consisting of a large, stylized loop followed by a vertical stroke and a small flourish at the top.

JP

5 July 1984

NO. 100. Sports Nov 80



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C/10.



Chancellor of the Duchy of Lancaster

B/P wa Pu response

AT 917

PRIME MINISTER

SHORT BROTHERS - PRIVATISATION

NORTHERN IRELAND'S SECRETARY MINUTE OF 5 JULY

1. In the memorandum attached to his Minute to you of 27²² February, the Northern Ireland Secretary said that privatisation by way of flotation:

"would be unlikely before 1988".

If as forecast, Shorts returns to profit next year, I would very much hope that we would proceed on the basis of a earlier date than that.

2. Our general experience has been that privatisation has significantly improved efficiency even where the company was run efficiently under state ownership: or at least it has greatly improved both profits and commercial thrust. I would therefore have some reservation about the statement in paragraph 4 of the Northern Ireland Secretary's present minute that:

"The Company is already exposed to intense competition and it is thus doubtful if privatisation would significantly increase efficiency."

This is also at variance with what the Defence Secretary said in paragraph 2 of his minute of 9 March.

3. Subject to this I agree with the Northern Ireland Secretary's recommendations.
3. I am copying this minute to E(A) colleagues, the Secretary of State for Defence, the Foreign Secretary and to Sir Robert Armstrong.

A.C.

A C

Shant. Bros. IN D. POLICY. Nov 1980.

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MR TURNBULL

10 July 1984

PRIVATISATION OF SHORT BROTHERS

1. On the credit side, privatisation might put the company on its mettle, and might boost the morale of the management by confirming that Government regards Shorts as a commercial concern rather than as a welfare organisation.

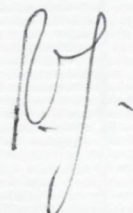
2. On the debit side, Shorts are likely to keep chipping away for additional support to strengthen its balance sheet in the run-up to privatisation. (The company's request for a large injection of cash to restructure its balance sheet was rejected by Ministers in March). Furthermore, Shorts is a small company, operating in two narrow, high-risk sectors (commuter aircraft and shoulder-launched missiles); and if Mr Prior has his way it will be permanently anchored to Northern Ireland. Open communication of a Government desire to privatise Shorts will probably arouse hostility from a fearful workforce. All this seems a large deterrent to private sector interest.

3. So, on balance, we see no decisive advantage to Mr Prior's telling Shorts publicly that they are privatisation candidates.

We suggest he says nothing on the record but comes to an unwritten understanding with the Board that privatisation is a long-term aim.

We agree that he should give a merchant bank a brief to look at the issues, but without commitment to accept or act on its findings.

We suggest no comment on the adjustment of EFL, Shorts' participation in the V2500 engine, or the West Belfast factory project until detailed proposals are available.



ROBERT YOUNG

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JMHAAA

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A



FROM: CHIEF SECRETARY
DATE: /3 July 1984

PRIME MINISTER

SHORT BROTHERS LTD

I have seen Jim Prior's minute to you of 5 July. I confine my comments to the privatisation issue.

Like Arther Cockfield, I wonder if the case for privatisation is not in fact a bit better than Jim portrays it. Whether or not efficiency is improved by the actual move into the private sector, I suspect that, if sale proves possible at all on terms acceptable to us, that of itself must indicate that some improvement in performance will already have taken place under the impetus of privatisation policy - given Shorts' long record of loss-making and the very uncertain outlook for the world aviation business. The company has only survived the recession at all by extensive borrowing from the Government or under Government guarantee; with improved management geared to eventual privatisation, there are already signs of change for the better. So, although we may not be able to assess the benefit to the public sector from privatisation, I have no doubt it will be substantial. If sale to the private sector does not prove feasible in the event, little will have been lost, and perhaps something gained, by preparing for it.

I can therefore go along with the recommendations in paragraph 13 of Jim Prior's minute, on the understanding that we are agreeing at this stage to no more than the principle of privatisation. Given all the caveats Jim makes, I am sure we shall all wish to look very searchingly at the actual deal

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on offer when the time comes.

I note that merchant banking advisers are to be retained and assume that they will, among other things, look at the matter of timing on which Arthur Cockfield has commented. Finally I welcome Jim's insistence that major new projects should be on attractive commercial terms: I should wish to apply that criterion, in particular, to the company's plans for developing a new complete aircraft, which we are likely to be considering before long.

I am copying this minute to the recipients of Jim Prior's.

A handwritten signature in blue ink, appearing to be 'PR', is located to the right of the main text block.

PETER REES

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16 JUL 1984

LONDON

COMPTON



10 DOWNING STREET

Prime Minister ①

Mr Prais recommends that Shah Bros be identified as a candidate for privatisation. The Chief Secretary (Flag A) and Chancellor of the Exchequer (Flag B) agree, pointing out that the prospect of privatisation provides a spur to improved performance. Policy Unit (Flag C) agree, but warn that flotation in 1988 can be used as an argument for injecting more capital in 1984.

Agree Mr Prais's recommendations subject to Policy Unit caveat?

AT
16/7
It sounds very expensive and somewhat unrealistic - I am not very happy about it



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ECNO

NBPM

RT

18/7

PRIME MINISTER

SHORT BROTHERS

I have seen Jim Prior's minute to you of 5 July.

2 I accept that privatizing Shorts will not be easy but there are distinct benefits to be gained from doing so and thereby allowing the company to operate in a wholly commercial environment. I agree therefore that Jim should inform the Board that this is our intention and that he should seek merchant bank advice. As he points out the company have already sought advice. When this is done I hope it will be possible to maintain progress towards disposal at as early a date as possible.

3 As for the other points which Jim mentions in his minute I will be interested to see fuller details of possible EFL adjustment and the V2500 bid as soon as possible.



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4 I am copying this minute to E(A) colleagues, Geoffrey Howe, Michael Heseltine, and to Sir Robert Armstrong.

NJ

N T

17 July 1984

Department of Trade and Industry

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Ind Pot 11180 Sherry

18 JUL 1984





FCS/84/214

SECRETARY OF STATE FOR NORTHERN IRELAND

Short Brothers Limited

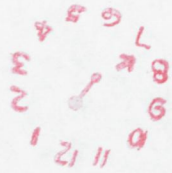
1. Thank you for copying to me your minutes of 5 and 16 July to the Prime Minister about Short Brothers Limited.
2. I was glad to read your recommendations on the privatisation of Shorts (and related issues), and should be grateful if you could keep me informed of developments in case there might be European Community implications to consider.
3. As for the proposal that Shorts be authorised to bid with Rohr Industries for the nacelle for the V2500 engine, there too I can go along with your recommendations.
4. I am copying this minute to the Prime Minister, members of E(A), the Secretary of State for Defence and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign and Commonwealth Office
20 July 1984

Shurt Bros.



7 1984



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NBRM

AT 2417

PRIME MINISTERSHORT BROTHERS LIMITED

The Northern Ireland Secretary kindly sent me a copy of his minute to you of 5th July, which sets out the latest position on Shorts.

2. I am generally in agreement with the line he proposes to take. In my letter to him of 9th March, referred to in paragraph 9, I indicated that we are looking to Shorts to help enhance the competitive potential of UK defence industry. There is no doubt that competitive pressures in defence procurement will become still more intense as the initiatives we have taken recently begin to bite. This will offer both challenges and opportunities to which Shorts' management must respond energetically. I was therefore very glad to note that the Northern Ireland Secretary will be encouraging them to improve the competitiveness of their bids for MOD business.

3. I welcome the moves towards privatisation and believe that it will benefit both the Company and the Province. However, from the MOD point of view, there is a need for any proposals to be considered with the integrity of our defence programmes involving Shorts in mind. I should therefore be grateful if this Department could be kept closely in touch with the plans for privatisation as they evolve.

4. I have also seen the Northern Ireland Secretary's further minute of 16th July, seeking agreement for Shorts to bid for the V2500 engine nacelle. As he is already aware, I am entirely content for them to do so. This is very much the sort of work for which they should be competing.



5. I am copying this minute to members of E(A), the Foreign and Commonwealth Secretary and to Sir Robert Armstrong.

[Handwritten signature]

Ministry of Defence
23rd July 1984

CONQUEROR
LONDON

IND Pa: Short bios

Nov 80



24 JUL 1984

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From: THE PRIVATE SECRETARY

File

AD 2



NORTHERN IRELAND OFFICE

WHITEHALL

LONDON SW1A 2AZ

Timothy Flesher Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1

31 August 1984

Pro Murk

Dear Tim,

Jr

MS

31/8

SHORT BROTHERS LIMITED: PRIVATISATION

Mr Prior was grateful for the views expressed by the Prime Minister and other colleagues on his proposal for the privatisation of Shorts. These will be taken into account in the further work which is to be put in hand.

Mr Prior intends now to inform the company of the Government's plans to return it to the private sector and to seek specialist merchant banking advice. This will probably be brought before colleagues when Shorts' 1984 Corporate Plan is being reviewed. In the meantime, Mr Prior intends that the House should be informed of Ministers' decisions when it re-assembles. I should be grateful if any comments on this letter could reach me by 6 September.

I am copying this letter to the Private Secretaries to other E(A) Ministers, the Secretary of State for Defence, the Foreign Secretary and Sir Robert Armstrong.

Yours sincerely,

Graham Sandiford

G K SANDIFORD

KL

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PCG

JH



10 DOWNING STREET

cc: Dof
 SO
 LPSO
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D/Emp
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 CSO, HMT
 DTI
 WO
 L-Gownie's Office
 FCO
 (MOT)
 CO

From the Private Secretary

10 August, 1984

Short Brothers

I understand that Andrew Turnbull spoke to you last week about the Prime Minister's comments on your Secretary of State's minute of 5 July about the privatisation of Short Brothers. She had also seen the minutes of the Chief Secretary and the Chancellor of the Duchy of Lancaster. The Prime Minister queried whether the proposals for the privatisation of Short Brothers set out in your Secretary of State's minute were wholly realistic but, in any event, did not consider that flotation in 1988 should be used as an argument for the injection of more capital in 1984.

I am sending a copy of this to Private Secretaries to members of E(A), to Len Appleyard (Foreign and Commonwealth Office), Richard Mottram (Ministry of Defence) and to Richard Hatfield (Cabinet Office).

TIMOTHY FLESHER

Graham Sandiford, Esq.,
 Northern Ireland Office

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