

PRIME MINISTER

26 July 1985

SHORTS

With some luck and better management, Shorts are now turning the corner. The strategy of collaborating with other, similar small aircraft manufacturers, as on the RAF Trainer, is right. Profits will always be volatile and current forecasts look on the optimistic side. Nevertheless, the next few years should be good and probably the best time to privatise.

Shorts is important to the Northern Ireland economy and accounts for 7% of its manufacturing employment. Freeing Shorts of public sector ties and State aid therefore needs to be achieved in a way which maximises Shorts' chances of survival within Northern Ireland.

A flotation has political attractions: it would provide many in Northern Ireland with a chance to share in a successful local business. The problem is that Shorts is really too small to survive in the highly cyclical aircraft business as an independent manufacturer without access to additional finance. It would be highly likely to collapse and fall back on the State or become the victim of an undesirable takeover. The net proceeds of the sale would be negative and the shares a bad buy for the non-professional. But worst of all, the privatisation by flotation may never happen. Three years of consistent profits have yet to be achieved and the onerous sales financing contracts could remain HMG's responsibility.

A placement looks more sensible than a flotation. This could be done on a more limited track record, and the

institutions involved would know that continued financial support would be necessary. Nevertheless, it may turn out to be just a back-door route to a trade sale.

A trade sale could be done almost immediately and would best guarantee that the State would be free of propping up Shorts in the future. Such a sale ought to be able to encompass adequate guarantees about the future of Shorts in Belfast (and much better than those if Shorts is left to float free at the mercy of a volatile aircraft market). But this is the least desirable outcome emotionally for Northern Ireland and the workforce. Douglas Hurd is against it even though Samuel Montagu are in favour.

Leaving Shorts in the public sector may be the worst option of all - it guarantees continued state funding without introducing incentive to do better or cutting the constraining ties that prevent this happening.

If early privatisation remains the goal then there is a strong argument for restructuring the balance sheet now. Although this may affect PSBR it actually costs the Government nothing. It will transform the apparent results of the company, (which seem so important to the City), and therefore speed privatisation and improve the proceeds that might be gained.

The choice is therefore:

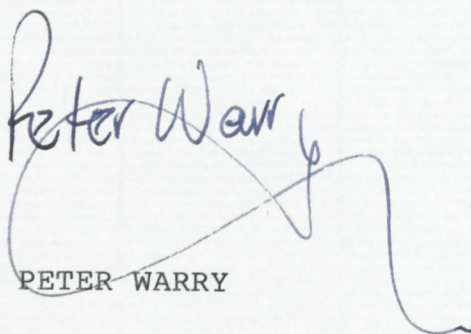
Trade sale : sensible but politically difficult

Flotation : idealistic and may never happen

Placement : a compromise that could evolve in time into either of the above.

Reluctantly, we recommend a trade sale as both the quickest and surest way of privatising Shorts, and the one that has the greatest chances of securing the future survival of Shorts without substantial State aid.

Flotation should only be considered if Douglas Hurd is prepared to commit to an actual privatisation date.

A handwritten signature in blue ink that reads "Peter Warry". The signature is stylized with a large loop at the beginning and a long, sweeping tail that extends to the right.

PETER WARRY

We need to absolutely clear
on whether the collective
decision is a Form intention
or a commitment to
full integration.

I think the Sol general
is now content with the
former.