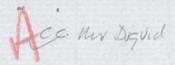
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PRIME MINISTER

BAe FLOTATION

I am concerned about the extremely tight time schedule that must be met if we are not to lose the opportunity to float British Aerospace in February, especially in view of Kleinworts' advice that this would be the best and possibly the only opportunity open to us.

In Keith Joseph's absence abroad I am therefore writing in order to ensure that provided we can clear the difficulties caused by the defence review (which I am hopeful can be resolved in time) no other obstacles will remain in our way.

In Keith Joseph's minute to you of 12 December he reported the decisions of E(DL) that uncertainties about future defence programmes seemed likely to preclude flotation of British Aerospace in February, but that we should continue nevertheless to aim for flotation as soon as possible. With your agreement vesting of the business in a company, British Aerospace PLC, took place on 1 January. Simultaneously work has taken place to try to resolve the defence problems. While a solution has not yet been achieved encouraging progress has been made. There appears to be a fair prospect that such assurances as the Ministry of Defence are able to contemplate giving about their future purchases from BAe may be adequate to enable Kleinworts to proceed with a prospectus. In order to keep the February date open we are proceeding with preparations which will become increasingly public day by day. While, therefore, nothing will be wholly irrevocable until the first days of February the damage caused by a decision not to float in February is also increasing day by day, and it would be much better to call off now if we do not expect to achieve the February date.

My own very strong advice is that we should take our chances while they are available. That is in line with the conclusion of E(DL) that flotation should proceed if at all possible. Thus I recommend that we should confirm that we wish to go ahead in February, subject only to:-

- a resolution of the defence problems on a basis satisfactory to the Secretary of State for Defence, Kleinworts and our legal advisers;
- and b confirmation by Kleinworts that the proceeds will not be less than those recorded in Keith Joseph's minute of 12 December.



To reach that decision we would need to accept the points set out in the following paragraphs.

BAe 146: The Chancellor of the Exchequer considered that E Committee should review the possibility of cancellation of this project now. Adam Butler's letter of 2 January 1981 explained that this would not be compatible with flotation in February. If February in the end proves impossible we may need to revert to this question, but I suggest that we should not prejudice the February date on this account.

Announcement of Defence Budget Decisions

Although Cabinet has decided to reduce defence expenditure in each of the three survey years, the only public announcement of this has been in respect of 1981-82 and, in the normal course of events, there would be no announcement in respect of 1982-83 and 1983-84 until the Budget. I have firm legal advice, in line with that confirmed by the Attorney on our general duty as a promoter to disclose facts relevant to the issue, that we should be failing to discharge our responsibilities if we were not to disclose our overall defence decisions, since these are a relevant consideration affecting prospective investors attitude towards a defence contractor. It is therefore necessary, if we are to bring off the flotation in which we have invested so much, for us to make an announcement, in the next fortnight, of the overall position on defence expenditure by indicating that the decision taken and announced for 1981-82 will be carried through to 1982-83 and 1983-84.

Proceeds: The conclusion of E(DL) that flotation should proceed if at all possible was reached after full consideration of the likely proceeds and the likelihood of criticism on that count. The Chancellor of the Exchequer subsequently warned again that sharp criticism was likely. There is, however, little prospect that deferral of flotation to later in this Parliament would increase the net proceeds. To be deterred by the prospective price, therefore, would be to abandon the objective of flotation in this Parliament. I therefore consider that E(DL)'s conclusion was correct.

I should be glad to know by the end of this week whether you and other colleagues agree to our proceeding on the basis I have described.

I am sending copies of this minute to the members of E and E(DL), to the Secretary of State for Defence and the Attorney General, and to Sir Robert Armstrong.

NT 7 January 1980