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Aerospace



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18th April 1980

Dear Keith,

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Pamie Amster

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THE DEFENCE PROGRAMME AND BRITISH INDUSTRY

Thank you for your letter of 2nd April about the implications of defence programme adjustments.

I recognise that the need to adjust the Defence Programme is untimely for our plans for the privatisation of British Aerospace. We must, however, keep this in perspective. We are not engaged in a "defence review" of the sort embarked on by our predecessors, and, incidentally, I should prefer to avoid such terminology altogether. We are looking at our future programme, which is not based on binding commitments with British Aerospace or any other company, beyond contracts already let. We must not allow "privatisation" to be used as a handle to commit us now to projects which were at an early planning stage and not all of which would have matured.

As you imply, the timetable which I at present envisage should allow us to reach conclusions on the broad shape of the future programme before the summer recess. I had hoped that your decision that flotation should be deferred to the autumn would give some leeway. I am bound to say that I have reservations about involving your Merchant Bank advisers at this stage - even on the necessarily confidential basis you suggest. The plain fact is that some of the possibilities we are looking at will almost certainly not form part of our revised programming and, conversely, other possibilities may well emerge in the course of our work.

I understand, however, that you would not want to continue to have staff prepare for an autumn flotation if it could be shown now that this would be unrealistic even if only some of the proposals were to be implemented: and for that purpose you

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The Rt Hon Sir Keith Joseph MP



need the views of your financial advisers. I recognise this concern and provided that an autumn flotation is, in other respects, still a sensible objective - and I believe E(DL) will shortly be considering this - I suggest that your officials and mine agree a document which your advisers can consider. This consultation would of course be for the sole purpose of deciding whether it was worth continuing to contemplate flotation in the autumn. I would be opposed to any suggestion that, while I am still considering how best to shape the defence programme, the implications of particular measures for the timing of flotation should be taken into account. Finally, I assume that it will be possible to answer any queries from Parliament or the public about the likely timing of the flotation without making reference to our look at the defence programme.

While I hope this meets the specific problem raised in your letter, I should welcome a more wide-ranging discussion about procurement policy and your ideas about privatisation. The handling of the ~~CAA~~ radar and the Jetstream cases leaves me uncertain as to what we are trying to achieve and whether we are applying consistent guidelines. On privatisation, I have seen your recent minute to the Prime Minister which refers to my internal study of the Royal Dockyards. We here were not responsible for the long drawn out Ministerial consideration of the proposed new dockyard efficiency scheme and should have been happy to have backed our judgment from the outset. Moreover, I am not sure of the basis for your assertion that ideally the Royal Dockyards should be in the private sector. The Dockyards perform essential support for the Royal Navy including the Polaris force and our other nuclear forces. I am not sure that a change is operationally acceptable in many areas. Even if a structure on broadly present lines were to be "privatised", would we find it any easier to deal with a monopoly private Royal Dockyards than with the present organisation with its responsibility for Naval operational capability? Would we end up paying more for the same service? There are other highly complex questions to which there is no simple answer. This is not to say that changes may not be both desirable and necessary - that is why I set up the review.

Could I suggest you and I might get together, with Peter Carey and Frank Cooper also present, and go over some of this broader ground? I am asking my office to get in touch with yours.



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

Yours ever,

Francis

Francis Pym

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