



PRIME MINISTER

*MS*  
Prime Minister <sup>2</sup>

To note.

MU 23/3

BRITISH AEROSPACE

The preliminary announcement of British Aerospace's 1982 results is due to take place on 29 March. The results will, I fear, be disappointing. Sir Austin Pearce has warned me informally that, while the profit before exceptional items will be £80 million (compared with £70 million last year), his auditors have insisted on an additional write-off of £100 million. This is to reflect, inter alia, the increased risk of cancellation of orders during the current recession in the civil aircraft market. The net effect is that BAe will show a final loss of £20 million. This will be the first time that BAe (either as a nationalised corporation or as a private sector company) has made a loss. The market reaction will inevitably be adverse. Although BAe will pay a dividend out of its reserves, we can expect the share price to decline.

2 BAe's business remains buoyant in the fields of military aircraft, missiles and space technology: but the market for its civil products has become severely depressed. Neither the 146 airliner nor the wide-bodied Airbus aircraft (for which BAe makes the wings) are selling well. BAe is not alone in facing this problem. The US manufacturers are likewise faced with sharply reduced demand - although they have managed to dispose of a reasonable number of narrow-bodied aircraft through severe

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price cutting and leasing (and they enjoy the "cushion" of massive US military orders). The upturn in the civil market may not come until 1984 or 1985, so that BAe's 1983 results may also be affected.

3 None of this will be helpful in the context of our broad privatisation objectives. There will be criticism from our political opponents - not least because BAe will have to envisage site closures (certainly Hurn, possibly Prestwick and one of the Manchester works) in order to reduce outgoings. But some rationalisation of BAe's plants is probably overdue: and increased cost-consciousness will ultimately be beneficial. I fear, however, that for the time being we shall have to abandon any thought of selling more of the Government's shareholding in BAe.

4 I am copying this to Sir Geoffrey Howe.

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23 March 1983

Department of Industry