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DP with Treasury refs



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NORTHERN IRELAND OFFICE

WHITEHALL

LONDON SW1A 2AZ

SECRETARY OF STATE

FOR

NORTHERN IRELAND

The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1

22 March 1984

#### SHORTS' CORPORATE PLAN AND PRIVATISATION

Thank you for your letter of 1 March. I am grateful for your and other colleagues' agreement to the immediate way forward on Shorts. I look forward to our proposed meeting on privatisation in due course.

I would, however, like to raise again my proposal to convert to equity some of the company's debt to Government. While my original proposal was to convert the full indebtedness of £25.7m as a first step in progressively restructuring the balance sheet, I fully accept your point that we should refrain from taking steps which might constrain options when we come to consider privatisation later this year.

However there remains a different, smaller but nevertheless important point about which the company's Board has been making special representations to Adam Butler. They point out that not making any conversion would leave a deficiency of shareholders' funds at 31 March 1984 - this was mentioned in paragraph 12 of the Memorandum attached to my minute of 22 February to the Prime Minister. Their situation would be one of apparent insolvency and Shorts claim that if no conversion at all were made the company would suffer a real handicap in its commercial transactions - this, in spite of the strength of the Government guarantee. The Board has requested that shareholders' funds should at least be made positive at 31 March 1984.

As long as Shorts is underpinned by a Government guarantee, the status of shareholders' funds in the company's Accounts is really a financial technicality. The proposed conversion should make no significant difference to the company's operations but I can see that in certain circumstances, particularly in transactions abroad, the perception of prospective customers could be adversely affected by

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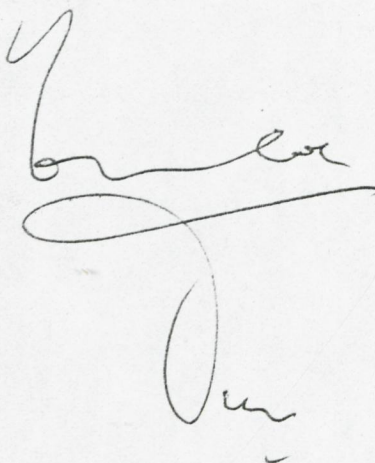
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the existence of negative shareholders' funds and financial institutions in this country would be more inclined to disregard Shorts as a potential candidate for privatisation. I have strong sympathy with the Board's position on this point.

Therefore having deferred consideration of the main proposition (conversion of the full £257m as a first step towards restructuring the balance sheet) I would wish, with the Prime Minister's and your agreement, to accede to the company's limited request. It is estimated that this would require a conversion of no more than £3m which would of course have no PES implications nor constrain our privatisation options to any significant extent.

Given the mechanics of implementations I would be most grateful for a response by close of play on Monday next, 26 March.

I am copying this letter to the Prime Minister, other E(A) colleagues, Michael Heseltine and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'John Major', with a large, stylized initial 'J' and a long horizontal stroke.

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Industrial Short Brothers Ltd. Nov 80.

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Treasury Chambers, Parliament Street, SW1P 3AG

Secretary of State  
for Northern Ireland  
Northern Ireland Office  
Whitehall  
London SW1A 2AZ

26 March 1984

Dear Secretary of State

SHORTS CORPORATE PLAN AND PRIVATISATION

Thank you for your letter of 22 March.

I agree that it is difficult to see why the conversion of £3m DED loans into equity should affect the perception of Shorts customers given that the company is wholly owned and guaranteed by the Government. Nevertheless, since the amount involved - £3m at most - is fairly small and conversion would have no PES implications, I am prepared to agree to the company's request that the conversion be made.

I am copying this letter to the recipients of yours.

Yours sincerely

John Gieve

J. PETER REES

[Approved by the Chief Secretary]

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From: THE PRIVATE SECRETARY



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AT 29/3  
ce *MS*

NORTHERN IRELAND OFFICE

WHITEHALL

LONDON SW1A 2AZ

Andrew Turnbull Esq  
10 Downing Street  
LONDON  
SW1

Mr. Turnbull  
29/3

29 March 1984

Dear Andrew

SHORTS CORPORATE PLAN AND PRIVATISATION

The Chief Secretary has replied to Mr Prior's letter of 22 March which sought the Chief Secretary's agreement to the conversion of no more than £3m of Government loans into share capital. In the light of the Chief Secretary's reply, and in the absence of any comments from other members of E(A), Mr Prior intends to proceed with his proposals.

I am copying this letter to Private Secretaries to members of E(A), Richard Mottram and Richard Hatfield.

Yours ever

*DA Hill*

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