

FROM: MINISTER OF STATE

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DEPARTMENT OF ECONOMIC DEVELOPMENT

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Telephone 63244

Peter Rees Esq QC MP
Chief Secretary to the Treasury
Parliament Street
Whitehall
LONDON

4 December 1984

Dear Chief Secretary

SHORT BROTHERS PLC

Following E(A) colleagues' responses to Douglas Hurd's minute of 19 October, the Prime Minister has agreed that Shorts be authorised to proceed with their bid for the RAF Trainer contract, their proposal for a manufacturing unit in West Belfast and an increase in EFL for 1984/85 from £87m to £95m.

The Prime Minister indicated that the EFL approval was given on the understanding that there would be an offsetting adjustment to the 1985/86 EFL.

Your minute of 9 November to the Prime Minister also referred to such an adjustment and Douglas has asked me to write to you to clarify this point and respond to others raised by colleagues. Your minute stated that the £90m EFL for 1985/86 projected in Shorts' last Corporate Plan should be a ceiling - subject only to factors outside the Company's control arising after November 1984 rather than raise that figure too by £8m. I fully agree that it is important that, all other things being equal, the 1984 Corporate Plan ensures that the effects of this year's overrun are recovered. I would just like to clarify, however, precisely what the proposed offsetting adjustment will entail. Shorts have confirmed that the additional £8m cash requirement for 1984/85 to cover the loss of income from the reduced SD360 delivery programme will be made good in 1985/86 and that the loss of profits will be absorbed by the Company without seeking any additional funding in that year. We will therefore limit the Company by taking the £90m ceiling as the starting point in considering the 1984 Corporate Plan. This would not preclude bringing forward proposals for new work in addition to what has already been provided for, giving colleagues the opportunity to consider these in the normal way. You also raise the issue of pay settlements and I can confirm that I shall be writing to the Company's management urging a very firm line in future pay negotiations.

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Peter Rees Esq QC MP

Geoffrey Pattie, in his letter of 12 November, referred to the need to emphasise the commercial justification for the West Belfast facility if there was criticism of Shorts by sub-contractors. We have made this point to Shorts who have assured us that any response will indicate that the decision to set up such a unit has been taken on commercial grounds. I am grateful for Geoffrey's offer of contact at official level about the review of large credit requirements implicit in potential arms sales and my officials have already made contact with their counterparts in Project and Export Policy Division. I can also confirm that I hope to discuss shortly with Sir Philip his views about the future management structure at Shorts. In addition our privatisation advisers will be asked to examine this area as part of their consideration of how and when we might dispose of our shareholding in Shorts.

Now that colleagues have agreed to a revised EFL for Shorts, we propose to inform Parliament by a written answer of the EFL for 1984/85 and also of our decision, in principle, that Shorts should be privatised.

I am copying this letter to the Prime Minister, other E(A) colleagues, Geoffrey Howe, Michael Heseltine and Geoffrey Pattie.

Yours sincerely

Dr Rhodes Boyson

PP DR RHODES BOYSON MP
(Approved by the Minister
and signed in his absence)

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SHORT BROTHERS PLC

CONFEDERATION OF SHIPBUILDING AND ENGINEERING UNIONS

(Joint Shop Stewards' Works Committee)

All communications to be addressed to the Correspondence Secretary

ppa3
20 November 1984
R24

Dear Member

NEW BASIC TRAINER FOR THE RAF

As you will know, a decision is expected soon on the selection of a New Basic Trainer for the Royal Air Force. One of the four competing companies is Short Brothers who are proposing the SHORTS TUCANO, a version of the Embraer TUCANO adapted to meet the RAF's requirements. The SHORTS TUCANO meets all aspects of the specification for the New Basic Trainer and is the most cost-effective solution for this requirement. The basic Embraer design is well proven, is already in quantity production and 380 of these aircraft have already been ordered by Brazil and a number of other countries.

The possibility of a project such as this coming to Shorts is of vital interest to us. The airframe for the SHORTS TUCANO will be manufactured 100% in Belfast and, apart from the engine, almost all the equipment will come from UK companies. Including sales overseas as well as the RAF order, the SHORTS TUCANO will create up to 1,000 jobs in Shorts and 750 jobs for British suppliers to the programme. These numbers can be doubled when one takes into account the spin-off outside the companies concerned, making a total UK potential of 3,500.

The purpose of this letter is to make you aware of the total support of members of the Trade Unions in Shorts, and of trade unionists throughout Northern Ireland, for the efforts of Short Brothers to win this contract.

We recognise that the selection of the Basic Trainer is firstly a matter for the Ministry of Defence to assess against the specification, but we would also ask for your support for Shorts' case, taking account of the fact that unemployment in Northern Ireland is now 22% - the highest in any region of the UK.

The SHORTS TUCANO satisfies the key criteria better than any other contender:

- SHORTS TUCANO gives MOD the best value for money;
- SHORTS TUCANO meets the specification for AST412 in full;
- SHORTS TUCANO provides the MAXIMUM NUMBER OF UK JOBS.

Thanking you in anticipation of your support.

Yours sincerely

On behalf of the Works Committee

I. P. Torrans

I P TORRANS
CHAIRMAN

R. J. Gordon

R J GORDON
SECRETARY

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Treasury Chambers, Parliament Street, SW1P 3AG

Dr Rhodes Boyson MP
Minister of State
Department of Economic Development
Netherleigh
Massey Avenue
Belfast
BT4 2JP

14 December 1984

Dear Minister,

SHORT BROTHERS PLC

Thank you for your letter of 4 December.

I am grateful for your confirmation that Shorts' additional cash requirement of £8 million in 1984-85 will be recouped fully in 1985-86. We will need to consider the justification for any increase in the allowance for new work in the light of the 1984 Corporate Plan strategy, taking account also of income received from the EDSA contract next year.

I am copying this letter to the Prime Minister, other E(A) colleagues, Geoffrey Howe, Michael Heseltine and Geoffrey Pattie.

Yours Sincerely,
Peter Rees

PETER REES

(Approved by the Chief Secretary and signed in his absence)

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