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Secretary of State for Trade and Industry

11 May 1984

The Rt Hon M R D Heseltine MP
Secretary of State for Defence
Main Building
Whitehall
London
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D Michael,

BRITISH AEROSPACE

The contents of this letter are known within Government only to the Prime Minister, Nigel Lawson, Norman Lamont and a very few officials in my Department and the Treasury. It is important that you should also know of the matter, but I should be grateful if you could take every step to ensure that confidentiality is preserved within your own Department.

2 Thorn-EMI intend to launch a bid to take over British Aerospace. No formal proposition has yet been made, but informal discussion has taken place between Peter Laister and Sir Austin Pearce. I have seen both men separately. A formal bid may be launched early next week.

3 The BAe Board have not yet formally considered their attitude. Sir Austin Pearce appeared initially to be inclined to oppose the bid. Although it is possible he (and Sir Raymond Lygo also) might personally be inclined to see advantage in reaching a quick agreement on terms so that the affair can be publicly presented as an agreed merger, there is no certainty at all on this. In addition, it is not yet clear whether other potential bidders will emerge. If they do, the BAe Board will have to consider its position, and a battle may develop.

4 The position of the Government, with its 48% shareholding, is of course an important factor in determining the BAe Board's position. My provisional view is that on industrial grounds a merger between Thorn-EMI and BAe would be desirable. I think it

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would strengthen both companies and in particular would improve the financial control and overall competitiveness of BAe which have been causing me some concern.

5 However, there could also be advantage on industrial grounds in a merger between BAe and any other UK bidder that may emerge (say GEC).

6 I have discussed our position with the Prime Minister and Nigel Lawson. We believe that, if the Boards of Thorn-EMI and BAe reach early agreement on terms for a merger, the Government should make clear it will not seek to oppose the deal if it is approved by the other shareholders. Equally, if the two Boards do not reach agreement the Government should make clear that it will adopt a neutral position and leave the other shareholders in BAe to decide whether or not to accept any offer that may be made.

7 I have also made clear to Peter Laister that if the merger is agreed the Government will require certain safeguards and assurances. The Thorn-EMI proposal would involve that company acquiring 100% of the BAe shares, thus buying out the whole of the Government's present holding (an aspect which of course makes the proposal attractive to Nigel Lawson). You will recall that we undertook at the time of the flotation to retain a minimum 25% shareholding in BAe so that we would have the ability to block changes to certain of BAe's articles of association, including the article which requires that no more than 15% of the shares may be in the hands of foreigners.

8 The commitment to retain British ownership, via the articles of association and the minimum 25% blocking shareholding in BAe, was an important point during the passage of the British Aerospace Act through Parliament in 1979 and 1980. Defence considerations were of course given as the basic reason for it.

9 I should therefore be grateful for your advice whether defence considerations still make it essential to retain the ability to block foreign takeover of BAe to stop any other changes to BAe's articles of association. If, as I expect, your feeling is that it is still essential to maintain this blocking ability, it will be necessary to negotiate an arrangement with Thorn-EMI giving us the necessary powers. The ^{Prime} Finance Minister, Nigel and I believe that a "Golden Share" arrangement might be suitable (and initial discussions with Laister suggest should be negotiable with Thorn-EMI).

10 On the civil side, I shall also need to seek certain assurances from any new owners of BAe, mainly relating to the Airbus programmes where the Government has given certain guarantees to the other Governments involved in the programme, and more recently has agreed to advance launching aid for the A320.



11 I should be most grateful if you could let me have your views as soon as possible on the questions I have raised. You may wish to nominate a small number of your senior officials to contact mine. For convenience I attach a list of the names of those in my Department to whom the matter is known. I am most anxious that the matter should go no further than a small circle who need to know.

12 I am copying this letter to the Prime Minister and to Nigel Lawson.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a long horizontal flourish underneath.

NORMAN TEBBIT