318.84

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Prime Minister
Chancellor has accepted a date in 1985-86

AT 10/1

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

The Rt Hon Norman Tebbit MP
Secretary of State for
Trade and Industry
Department of Trade of Industry
1 Victoria Street
London SW1H OET

9 January 1985

Dear Norman

with AT?

NL

BRITISH AEROSPACE

You wrote to me on 4 January about the disposal of the Government's shareholding in BAe.

As you know, I should have preferred to dispose of our holding in mid-February or, failing that, to sell at least half of our shares, to help fill the financing gap which is now emerging in the current financial year because of the postponement of the British Airways sale.

However, I accept your view that neither of these options is practicable in the time available and that we should therefore aim to dispose of our entire shareholding, in conjunction with the company's issue of new capital, in the course of 1985-86. There should be a suitable slot in the new issues queue in the early summer and I gather this is the timing the company have in mind. I therefore assume that all concerned will plan on this basis and that the necessary preparations will be put in hand.

I am copying this letter to the Prime Minister and the Secretary of State for Defence.

Yours
Nigel

NIGEL LAWSON

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Prime Minister
To note and await Chancellor's response
AT 4/1

File

CLEAR

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU732
Secretary of State for Trade and Industry

4 January 1985

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Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Whitehall
London SW1

I have a great deal of sympathy with Sofs. Anything else looks hasty and ill-judged

Note Passed this message to HMT who had not yet received this letter
AT 7/1

Dear Chancellor,

BRITISH AEROSPACE

I have been following closely the correspondence between John Moore and Geoffrey Pattie on the disposal of the Government's shareholding in BAe, and the outcome of the various meetings with the company which will also have been reported to you. It may be helpful to you to have my views before the meeting which I understand you may be holding with the company on 7 January.

I am anxious that if at all possible your requirement to dispose of the shareholding in the current financial year should be met, and that is the basis on which my officials have conducted the discussions with BAe. At the same time, however, I believe we must have regard to the company's own position, and must recognise our responsibilities both as Government and as the largest shareholder not to act in a way which damages the company.

As I understand it, there are now effectively three options. The first would be a snap placing of 23 per cent of the shares (nearly half the Government's 48 per cent shareholding) with institutions. As you know, Lazards have advised strongly that they doubt whether a 23 per cent placing would be practicable at all following the necessary disclosure of the company's intention to have a rights issue later this year; and that even if it were practicable this course would inevitably harm the prospects of the company's subsequent new issue. I think we have no choice but to accept Lazards' advice on this and, however attractive it

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may seem, I now believe this option must be discarded.

The second option would be the sale of the Government's entire shareholding in BAe by mid-February. Unfortunately, it is not clear this is a real option. Both Lazards and Kleinworts (BAe's merchant bank) have advised that the timetable is virtually impossible and that there is a real risk that the sale might be a flop or have to be aborted. As well as damaging BAe, this could have serious implications for the flotation of British Airways and other privatisation plans. Moreover, subject to Lazards' further advice (which has been requested today) I would assume the same difficulties on disclosure of the company's intention to have a rights issue would apply in this case as to the option of placing 23 per cent of the shares.

The third option would be to sell our entire share-holding simultaneously with a new issue by the company in late April or May. This does not meet your objective of having the proceeds of the sale by the end of March. As you know, I have attempted to achieve your objective through a device by which we should obtain our receipts this financial year, through a temporary and conditional placing, with the offer for sale in April or May. You have found this unacceptable.

In the light of all these considerations I have reluctantly come to the conclusion that the third option would be the only practicable course both from the Government's point of view and the company's, provided that it fits in with the privatisation programme generally.

I am copying this letter to the Prime Minister and the Secretary of State for Defence.

Yours sincerely

M C McCarthy

pp.

NORMAN TEBBIT

(approved by the Secretary of State and signed in his absence)