

Part 3

Confidential filing

Short Brothers PLC: Corporate
plan + privatisation prospects.

INDUSTRIAL
POLICY

Part 1: Nov 1980

Part 3: April 1989

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
18.4.89							
5.5.89							
10.5.89							
24.5.89							
2.6.89							
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5.8.92							
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25.8.92							
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18.9.92							
6.10.92							
12.10.92							

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GR
my friend?



Department of Economic Development

Netherleigh, Massey Avenue, Belfast BT4 2JP
Telephone (0232) 763244 ext
Facsimile (0232) 761435

J S Wall Esq
Private Secretary
10 Downing Street
LONDON

Prime Minister

4 December 1992

Dear Stephen Atkins

Thank you for your letter of 5 October about the Prime Minister's discussion with Dr Mahathir on behalf of Shorts' bid to sell their Starburst Missile System to the Malaysian Defence Ministry.

It has been remiss of me not to reply sooner given that we have now heard the good news that the Malaysians have confirmed that the contract will go to Shorts. The part played by those at No 10 in ensuring this was so is very much appreciated by Mr Atkins and all here.

Yours sincerely

NEIL ROBINSON
Private Secretary



DEPARTMENT OF ECONOMIC DEVELOPMENT
An Equal Opportunities Organisation

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ccp



Treasury Chambers, Parliament Street SW1P 3AG

071-270 3000

Fax 071-270 5456

*1. Mary
To see
2. File.*

W. Pike

Alex Allan Esq
Principal Private Secretary
10 Downing Street
London
SW1A 2AA

12 October 1992

Dear Alex,

LAUNCH AID

top

The Chief Secretary has seen the letter of 6 October from Tony Pedrotti.

2. He is of course content for officials to prepare a joint paper, and this will need to cover the issues raised in your 18 September letter on both launch aid policy and on cash limiting of the relevant budgets.

3. On the latter point, the Chief Secretary does not believe that the net inflow of launch aid receipts is of itself an argument for a more generous approach to launch aid, or to the aerospace industry generally. He has asked me to record the point that in present circumstances it is more important than ever to ensure that the PES process takes a proper view of all expected commitments. The generally protracted timescale of major launch aid cases does not support the argument that decisions on this sort of expenditure can only be taken ad hoc rather than as a Survey issue.

4. I am copying this letter to Richard Gozney (FCO), John Pitt-Brooke (MOD), Tony Pedrotti (DTI), Alan Fraser (Scottish Office), William Fittall (Northern Ireland Office) and to Melanie Leech (Cabinet Office).

Yours,

Peter

PETER WANLESS
Private Secretary

IND No: short Bros A3



The Rt. Hon. Michael Heseltine MP **CONFIDENTIAL**
President of the Board of Trade



Secretary of State
**Department of
Trade and Industry**

Ashdown House
123 Victoria Street
London SW1E 6RB

Direct line
071-215 4440

DTI Enquiries
071-215 5000

Alex Allan Esq
Principal Private Secretary
to the Prime Minister
10 Downing Street
London
SW1A 2AA

6 October 1992

file

Dear Alex

LAUNCH AID

You wrote to William Fittall at the Northern Ireland Office on 18 September to convey the Prime Minister's decision on the application from Shorts for launch aid for the Learjet 45 project.

We recognise the difficulties that the Shorts case raised for the Prime Minister and will ensure that the problems we have had in handling this project are taken into account in future industrial support cases. I have to say, however, that in one sense it is not surprising that the Bombardier board view should have been that they would proceed subject to an offer of launch aid. This is precisely what one would expect if an offer of assistance is to result in a project that is genuinely additional.

Your letter sought advice from DTI and Treasury on the economic case for launch aid and raised two specific questions about the justification and the record on launch aid receipts. We believe that this advice would best be provided in a joint paper by DTI and Treasury and officials are already in touch. We will need to ensure that the paper takes a comprehensive view of the way support is provided to the aerospace industry, including the state of the aerospace industry in the UK and its future prospects with or without government support. We will also want to ensure that examination of the historic return on launch aid projects takes into account the evolution of policy on support for the aerospace industry, as it is quite clear that seeking a return on the public investment has not always been the prime factor in drawing up launch aid agreements.

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the department for Enterprise



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In judging what it is possible to do with launch aid now and in the future, officials should concentrate on the record of the more recent cases. Consideration should also be given to the impact on the industry of the emerging situation in which, after several years of net outflow of launch aid, launch aid repayments by the industry will begin next year to outweigh the payments from Government. On present plans, the gap could grow to over £60m by the mid 1990s. These figures only cover past commitments, of course, but it is important to remember that there is no set budget for launch aid, with each case being considered by the Government on its merits in the prevailing public expenditure situation. The paper should also provide a comparison of the emerging position on support for aerospace in the UK with the intentions of the governments of our competitors to provide support to their industries.

I am copying this letter to Peter Wanless (H.M. Treasury), Richard Gozney (Foreign and Commonwealth Office), John Pitt-Brooke (Ministry of Defence), Alan Fraser (Scottish Office), William Fittall (Northern Ireland Office), and Melanie Leech (Cabinet Office).

yours
Elizabeth

pp. TONY PEDROTTI
Assistant Private Secretary

JW9180

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dti

the department for Enterprise

2nd Pol. sheet:

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COMPTON



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CC NIO
RB

10 DOWNING STREET

From the Private Secretary

5 October 1992

Dear Neil,

Graham Bright passed on to me your letter of 28 September enclosing a copy of a letter which Alex Roberts, Deputy Managing Director of Short Brothers plc, had sent to Mr. Atkins.

You might like to see the enclosed extract from the record of the Prime Minister's meeting with Dr. Mahathir, in case Mr. Atkins wants to let Mr. Roberts know that the issue was raised by the Prime Minister and that he got a helpful response.

I am copying this letter to Jonathan Rodell (Northern Ireland Office).

Yours Sincerely

pp J. S. WALL

Neil Robinson, Esq.
Department of Economic Development

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File on Malaysia

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10 DOWNING STREET

LONDON SW1A 2AA

1 October 1992

From the Private Secretary

John Richard

MALAYSIAN PRIME MINISTER

Thank you for the consolidated briefing provided for the call by Dr. Mahathir on the Prime Minister which took place on the morning of 30 September.

After initial pleasantries Dr. Mahathir spoke of the rate of population growth in Malaysia and the need to find an extra 250,000 jobs each year. Nonetheless Malaysia had virtual full employment and attracted perhaps one million illegal immigrants, principally from Indonesia and the Philippines. Malaysia was now investing in high-technology, capital-intensive industry.

Dr. Mahathir said that he had had a good visit to Shorts Brothers in Belfast. The agreement to buy Starburst Missile Systems was still not quite finalised. With the value of the Pound down it might be easier for Malaysia to afford. They were also interested in the use of composite materials for aircraft construction and wanted to learn from Shorts. Dr. Mahathir had also visited the Yarrow Shipyard in Glasgow, where preparations for building the Malaysian ships were still at the planning stage, but Malaysian naval staff were there and well accommodated. Dr. Mahathir believed that nothing should go wrong unless changes to the specifications increased the costs too much.

Dr. Mahathir said that the investment promotion seminars in London and Dublin had gone well and he hoped that British investment would be forthcoming. The Prime Minister briefed him on preparations for the Birmingham and Edinburgh Councils. The Prime Minister also raised the consular cases of Ride and Wainwright, and asked Dr. Mahathir to use his influence with Iraq. At most the two men had been guilty of minor infringements of immigration rules. In reality they were caught up in international politics, with savage sentences that were unfair to the men and their families, and in a wider context prevented the possibility of any dialogue with Iraq. Dr. Mahathir did not know how much influence he had with the Iraqis, but undertook to try.

Dr. Mahathir said that he had not heard the outcome of the meeting between his Transport Minister, Dr. Ling, and the Secretary of State for Transport. The Prime Minister said that he had been following the negotiations between BA and MAS and understood that the two airlines would meet again on 9 October. MAS's proposals needed to be commercially

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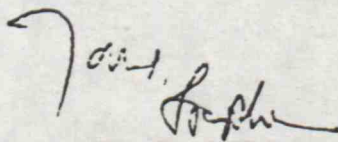
attractive to BA. Dr. Mahathir said that MAS had acquired the rights to pick up passengers in Shannon, but they would not gain much extra revenue. He hoped MAS would be able to fly from London to Mexico. He believed that British Airways' link up with US Air would enable them to concede this point. The Malaysians were not asking for much; indeed they believed that they would lose money initially. They were happy for BA to increase their number of flights between Britain and Malaysia. The Malaysian daily flight was always full. They would bring more tourists to London. MAS had only seven flights to London compared with Singapore's 21 a week. Bangkok too was able to develop as a hub to Malaysia's detriment. Nonetheless MAS was expanding rapidly with new services to Rome, South Africa, Mexico (via Los Angeles), Phnom Penh and Saigon.

In a brief discussion about students Dr. Mahathir spoke of the training of medical students in Dublin, and the continuing shortage of teachers, especially in the medical and engineering faculties in Malaysian universities. There was a brief favourable reference to London University's plans to teach Malaysians in Malaysia. The Prime Minister said that we had tried to keep our level of support for overseas students as high as we could, but the budgetary constraints were constant.

In response to a question, Dr. Mahathir said that the new airport project was coming on well. The Government still had to iron out some cost problems, but the airport had to be ready with at least one runway operational by 1997, in time for the Commonwealth Games. The existing airport would be kept going for repairs, cargo and aviation-based industries but the oldest airport, in the centre of town, would be sold, releasing valuable land and giving the government some revenue towards the new airport construction. The trouble was that the longer the delay in starting work on the new airport, the greater the overall cost because of inflation.

The meeting concluded with a short tête-à-tête during which the Prime Ministers raised Paka and Pasir Gudang. Dr. Mahathir made clear that NEC Parsons would get the contract. Because of the sensitivity of this in Malaysia this information should not (not) be passed on to NEC Parsons.

I am copying this letter to John Pitt-Brooke (Ministry of Defence), Peter Smith (Department of Trade and Industry) and Paul Coby (Department of Transport).


J. S. WALL

Richard Gozney, Esq.,
Foreign and Commonwealth Office.



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10 DOWNING STREET

Stephen

The attached was sent
to Graham and concerns
the Prime Minister's
meeting with the
Prime Minister of Malaysia
tomorrow morning.

Coair

Political Office 29th Sept 92



Department of Economic Development

Netherleigh, Massey Avenue, Belfast BT4 2JP
Telephone (0232) 763244 ext
Facsimile (0232) 761435

Graham Bright Esq MP
Parliamentary Private Secretary
to the Prime Minister
10 Downing Street
LONDON

28 September 1992

Dear Mr Bright

I enclose a letter to Mr Atkins from Alex Roberts, Deputy Managing Director of Short Brothers PLC, which sets out the company's interest in the Prime Minister's forthcoming meeting with Dr Mahathir, Prime Minister of Malaysia.

I understand that my Minister discussed with you today Shorts' interest in securing orders from the Malaysian MOD for its Starburst Close Air Defence Missile system. We would be very grateful for your assistance in this matter.

Yours sincerely

NEIL ROBINSON
Private Secretary



DEPARTMENT OF ECONOMIC DEVELOPMENT

An Equal Opportunities Organisation



SHORTS

afcr/dwh/5495

28 September 1992

Mr Robert Atkins MP
Minister of State
Netherleigh
Massey Avenue
Belfast BT4 2JP

Dear Minister,

As you are aware, the Prime Minister of Malaysia, Dr Mahathir, paid a private visit to Shorts over the weekend, and we were able to discuss our proposal to sell our Starburst missile system to Malaysia, with him. Starburst as you know is one of the items included in the MOU between the UK and Malaysia agreed in 1988.

On Wednesday September 30th, Dr Mahathir is meeting Prime Minister John Major, and it would be very helpful if he is able to refer to Starburst in the context of the MOU, as it is the last major item which Malaysia plans to purchase under the terms of it.

A suggested line which he might take is as follows:

I hear you spent a couple of days in Northern Ireland with Shorts last weekend, and I understand the ~~Company~~ *Shorts* is currently in negotiation with your Ministry of Defence to supply its Starburst Close Air Defence missile system to Malaysia, as part of the UK/Malaysia MOU. HMG looks forward to the successful outcome of these negotiations. */A*

I have asked the 'system' to include Starburst in the brief but anything you can do to make sure that Dr Mahathir is left with the clear impression that HMG expects Malaysia to follow through with its intent to purchase Starburst will be much appreciated.

With kind regards

Yours sincerely

A F C Roberts

A F C ROBERTS
DEPUTY MANAGING DIRECTOR



10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

18 September 1992

Dear William,

LAUNCH AID APPLICATION FROM SHORTS FOR THE LEARJET 45 PROJECT

The Prime Minister was grateful for your Secretary of State's minute of 11 September, and has also seen the earlier correspondence between your Secretary of State, the President of the Board of Trade and the Chief Secretary.

The Prime Minister feels that it is most unsatisfactory for cases such as this to be referred to him for decision at the last moment. In this case, as you know, it was impossible for the Prime Minister to consider the issues before the Bombardier board meeting. I understand that at their board meeting on Monday, Bombardier decided that they would go ahead with the investment at Shorts providing the offer of launch aid from the Government was confirmed. The Prime Minister feels that, in these circumstances, there is little option but to confirm it. This is on the strict understanding that the amounts must be financed within whatever PES settlement is reached for DTI and NIO; and that EDX should take no account of arguments about pressures on base lines in this area.

For the future, the Prime Minister would be grateful for advice from the Chief Secretary, in consultation with other Departments, on the scope for strict cash limiting of the relevant budgets coupled with greater freedom for Departments to spend money within these budgets as they see fit; this greater freedom might also need to be accompanied by some restrictions on access to the Reserve.

The Prime Minister would also be grateful for advice from DTI and the Treasury about the economic case for launch aid. Is there a market failure that requires the Government to provide risk capital? What has been the historic return on launch aid projects?

I am copying this letter to Peter Smith (Department of Trade and Industry), Peter Wanless (H.M. Treasury), Richard Gozney (Foreign and Commonwealth Office), John Pitt-Brooke (Ministry of Defence) and Melanie Leech (Cabinet Office).

Yours sincerely,
William Cheyman.

WAC ALEX ALLAN

William Fittall, Esq.,
Northern Ireland Office.

PRIME MINISTER

SHORTS: LAUNCH AID FOR LEAR-JET

The Bombardier Board agreed in principle on Monday to locate the work in Northern Ireland providing they get the £22.5 million launch aid NIO and DTI want to offer. Bombardier want to announce this next week. NIO insist that there is no commitment; but these circumstances make it very much harder for you not to confirm to offer, and the Treasury will believe it is a bounce.

On the substance, the Treasury argue that this is very expensive in cost per job terms (£25,000). The NIO response is that it is launch aid not a grant; and they believe the project is viable and the investment will earn a good return. The Treasury point to the poor historic returns from launch aid.

The Treasury object to launch aid in principle, on the grounds that there should be no need for Government intervention in commercial decisions. This would be the first launch aid case for some years.

But the Treasury are probably more worried about the precedent: there is the potential for requests from Rolls Royce for £100s of millions for which there is no PES cover.

But NIO and DTI say they will meet any costs from within whatever PES settlement is agreed. The Treasury are very dubious about this: Patrick Mayhew is, for example, separately arguing that he needs additional funds for terrorist bomb damage and cannot find any offset from elsewhere in his baseline.

*Alex,
Thank you.
We can only reaffirm
at your proposal
4/17.9*

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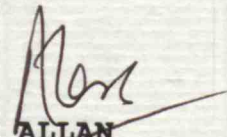
I think that, given the way the offer has virtually already been made, it would be very difficult to withdraw it now. So, I suggest that I should reply on the lines:

"It is very unsatisfactory the way cases such as this are referred to ^{you} for decision at the last moment. In this case, since the offer has effectively already been made, you see little option but to confirm it. This is on the strict understanding that the amounts must be financed within whatever PES settlement is reached for DTI and NIO; and that EDX should take no account of arguments about pressures on baselines in this area.

For the future, you would like advice on:

- the scope for strict cash limiting of the relevant budgets coupled with greater freedom for departments to spend money within these budgets as they see fit, perhaps coupled with some restrictions on access to the Reserve;
- is the economic case for launch aid still justifiable? Is there a market failure that requires the Government to provide risk capital? What has been the historic return on launch aid projects?"

Content?


ALEX ALLAN

17 September 1992

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Prime Minister

LAUNCH AID APPLICATION FROM SHORTS FOR THE LEARJET 45 PROJECT

Michael Heseltine and I have been in negotiation with Michael Portillo for the past month now about the provision of launch aid for Shorts Brothers Plc's involvement in the new Learjet 45 Project. Your office received copies of the various pieces of correspondence.

As these exchanges make clear, both Michael and I are firmly of the view that launch aid is justified to secure the maximum possible share of this project for Belfast and for the UK aerospace industry. Shorts' application has met the criteria that we set for launch aid and offers good prospects of us recovering our investment.

Shorts have had to make 400 redundancies this year as a result of current trading conditions within the industry and substantial further job losses are likely as the Tucano programme comes to an end. New projects, such as the Learjet 45, are vital to Shorts' future and we face a virtual certainty of losing it for Northern Ireland, in favour of Canada, if we cannot offer what is a relatively modest amount of launch aid (£22.5m). At 25% of the total costs involved and at a real rate of return of 8%, this is we believe the minimum needed to secure Shorts' proposed workshare of the project. DTI, with help from my Department, are willing to meet the full cost of this offer from within the September PES settlements because of the priority which we both attach to it. My share, which I can meet from my Block by dint of re-prioritising, is £7.5m. So consent is effectively required for only £15m.

Against this background, the Treasury's rejection of the case for launch aid for Shorts, as confirmed today by the Chief Secretary, is a very serious and decisive setback.



The Board of Bombardier (Shorts' parent company) meet next Monday (14 September) to take final decisions on the project, and have been pressing for an offer on launch aid for some time. This timescale leaves me with no option but to appeal to you to speak urgently to the Chief Secretary to invite him to reconsider his position. Jobs for about 900 employees are at stake directly, and the company's prospects of becoming a significant partner in any future business jet aircraft programme will be seriously reduced. Unemployment in Northern Ireland is already by far the worst in the UK (14.7%) and is of course highly expensive. I strongly recommend that we proceed with offering launch aid to Shorts.

Michael has asked me to confirm that he fully supports this view and remains convinced that the importance of this project to the UK's aerospace industry justifies the launch aid we are proposing.

I am very sorry to have to add to your burden this weekend in particular.

I am copying this minute to Michael Portillo, Douglas Hurd, Malcolm Rifkind, Michael Heseltine and Sir Robin Butler.

Handwritten initials in blue ink, appearing to be "A" and "M".

11 September 1992

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Treasury Chambers Parliament Street SW1P 3AG

071-270 3000

Fax 071-270 5456

The Rt Hon Michael Heseltine MP
President of the Board of Trade
Department of Trade and Industry
123 Victoria Street
London
SW1E 6RB

11 September 1992

Dear President of the Board of Trade,

LAUNCH AID APPLICATION FROM SHORTS FOR THE LEARJET PROJECT

You wrote to me again on 7 September pressing the case for a £22.5 million launch aid offer to Shorts for the Learjet 45 project. We discussed this briefly alongside your other public expenditure priorities, at our bilateral yesterday.

2. This proposal does not meet the criteria for launch aid, and its cost per job puts it well beyond what we would consider if this were an application for regional assistance.

3. The launch aid cases in the 1980s were based on arguments about the strategic importance of the aerospace industry, and about the failure of the capital markets to invest in high risk aerospace projects. In my view, launch aid has not proved a sound investment for the taxpayer, and there has generally been a very poor return on the expenditure. In this case the proposal can be financed by the parent company if they choose to do so. The fact that another Government - in this case the Canadians - have apparently offered substantial levels of public support is not a reason for us to make a counter offer.

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4. I recognise that the 400 jobs safeguarded and the 500 new jobs created would be welcome in Northern Ireland, but that could not in itself justify this amount of public expenditure. I understand that the new capital investment element of Shorts' involvement is relatively small; if we were treating this as a Regional Selective Assistance case it would attract only about £4 million of support within our limits. I understand the Bombardier board meeting on 14 September is in any case likely to give some of the work to Shorts to utilise their recent investment in facilities in Belfast.

4 I appreciate that you and Patrick Mayhew have offered assurances that you will meet this new commitment from your Survey settlement. But I have to be concerned that new commitments will crowd out higher priority expenditure and make the Cabinet's overall public expenditure target more difficult to deliver. Even now when the public expenditure constraints are so evident, colleagues are pressing a range of new commitments, amongst them Ian Lang's strong support for Regional Selective Assistance to British Aerospace.

5. I regret to say therefore that I am not persuaded that you should make an offer in this case. I do not believe that this proposal can rank as a high priority in the current very difficult public expenditure position.

6. I am copying this letter to the Prime Minister, Douglas Hurd, Malcolm Rifkind, Patrick Mayhew and Sir Robin Butler.

Yours sincerely,

P. Wanless

MICHAEL PORTILLO

*[Approved by the Chief Secretary
and signed in his absence.]*

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Alfred P. ...

PRIME MINISTER

LAUNCH AID APPLICATION FROM SHORTS FOR THE LEARJET 45 PROJECT

Mr Mayhew is seeking your aid, at the last minute, to overrule the Chief Secretary, who is refusing to give consent to expenditure of £15m from within the September ^{BES} settlement (or £22.5m, depending on how it is calculated).

I attach Mr Mayhew's minute and the letter from the Chief Secretary which prompted Mr Mayhew to write. Mr Mayhew's letter came in very late this evening and I am afraid it has not been possible to do much research on the issue or to resolve, for example, the differing interpretations of the criteria for launch aid which the Secretary of State and the Chief Secretary have put forward.

The Government is essentially in a subsidy auction involving Shorts of Belfast and a Canadian company. Both firms are subsidiaries of a company called Bombardier, which seems to be playing the Canadian Government off against us.

You may want to back the Chief Secretary, because:

- of the very fierce pay round he is engaged in and the unhelpful signal which would be sent, if you over-ruled his judgement;
- Mr Mayhew may be overplaying the employment case. The Chief Secretary's letter suggests that some of the work is likely to go to Shorts in any event;
- this is essentially a disguised bid for regional assistance. But because it would not meet the criteria it has been repackaged as a launch aid case. However, launch aid is, I gather, meant for new projects whereas the Learjet in earlier versions

has been in production for some time.

Finally, it is a bit off for the Northern Ireland Secretary to try to involve you at this very late stage when he could have sought your views earlier.

Content to back up the Chief Secretary?

DJShacey

[Duty clerk]

pp **WILLIAM CHAPMAN**
11 September 1992

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NOP

cc/o

The Rt. Hon. Michael Heseltine MP
President of the Board of Trade



Secretary of State
Department of
Trade and Industry

Ashdown House
123 Victoria Street
London SW1E 6RB

Direct line
071-215 4440

DTI Enquiries
071-215 5000

The Rt Hon Michael Portillo MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

7 September 1992

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LAUNCH AID APPLICATION FROM SHORTS FOR THE LEARJET 45 PROJECT

Thank you for your letter of 2 September.

I understand your position regarding the difficulties presented by the company's timetable. My officials took this into account in discussions with the company held on Thursday. These talks were held on the basis that neither side could make any commitments, and I am satisfied that no false signals have been given.

The talks clarified the maximum participation in the Learjet project Shorts can obtain, which is to design and build the entire aircraft except for the wings. This will result in costs eligible for launch aid of about £90m. Our judgment is that it would be necessary to offer £22.5m, that is 25% of the costs, with a real rate of return of 8%, to secure that work for Belfast. My officials can provide further details of the discussions to yours if that would be helpful.

Shorts considered that Bombardier would be in position to take a provisional decision on the workshare on 5 September. However, an offer of launch aid will need to be made by 14 September, when the Bombardier Board meets to take final decisions on the project, if we are to secure this workshare. I hope that this delay in the timescale will help in assessing PES priorities, and that the establishment of a proposed offer level considerably below our ceiling of £30m will also be of assistance.

On the merits of the case, I remain of the view that launch aid is justified to secure this important share of a new aircraft project for Belfast and the UK aerospace industry.

dti

the department for Enterprise



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I believe that we should make an offer along the lines set out above by 14 September, subject to EC clearance and to satisfactory completion of the appraisal.

I am copying this letter to the Prime Minister, Douglas Hurd, Malcolm Rifkind, Patrick Mayhew and Sir Robin Butler.

*Yes over
HCL 7*

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*cc/B
PU*

V file

Treasury Chambers, Parliament Street SW1P 3AG

071-270 3000

Fax 071-270 5456

The Rt Hon Michael Heseltine MP
President of the Board of Trade
Department of Trade & Industry
Ashdown House
123 Victoria Street
London
SW1

2 September 1992

Dear Michael

LAUNCH AID APPLICATION FROM SHORTS FOR LEARJET 45 PROJECT

Thank you for your letter of today's date: ^{with JSW?} I have also seen the further supporting letter from Patrick Mayhew.

2. I acknowledge the political difficulty of this case, for Northern Ireland's interests particularly. But I see no new arguments in your letter which suggest that I should change the view which I have already taken of this case. I reiterate that we are committed as a Government to achieving demanding expenditure targets. We are not in a position to choose between desirable ways of spending more money: the issue is what we have to cut out in order to spend less. I do not for a moment doubt your undertaking to absorb the expected cost of launch aid to Shorts; but I believe that we compromise the interests of colleagues if we accept now any new commitments, since they automatically impose greater pressures elsewhere.

3. One of the difficulties in this case has been the timetable set by the company. We have been concerned to buy more time, which would allow us to review Learjet against other priorities in PES. If you now believe that the company can be persuaded to extend negotiations, I have of course no objection to their being asked to do so; but it is essential that no commitment to launch aid even in principle should be hinted at. Similarly, if you believe that officials can make any useful progress by further discussion with the company between now and Friday, then I would not of course stand

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in your way, but again any such discussion must be entirely without commitment. You are better placed than I to judge whether in the light of conversations with the company to date any further discussion in the course of this week followed by refusal of launch aid will give false signals and so stimulate an adverse reaction. So for the avoidance of doubt, I reiterate that I do not share your view of the merits of this proposal.

4. I am copying this letter to the Prime Minister, Douglas Hurd, Malcolm Rifkind, Patrick Mayhew and Sir Robin Butler.

Yours etc

Michael.

MICHAEL PORTILLO

cc. PO



Northern Ireland Office
Stormont Castle
Belfast BT4 3ST

The Rt Hon Michael Portillo MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

file

2 September 1992

Dear Michael,

LAUNCH AID APPLICATION FROM SHORTS FOR THE LEARJET 45 PROJECT

file att.

Michael Heseltine and I have been discussing your response to our earlier letters about the above and continue to be of one mind in our firm support for the proposal Michael set out in his letter to you of 5 August.

Shorts has performed well since its sale to Bombardier in 1989 and is on track to turn around the business within the timescale indicated, and provisions negotiated, at privatisation. This is most encouraging given the current difficulties the aerospace industry is facing.

Shorts has now ceased to manufacture its own civil aircraft and its strategy is to develop partnership opportunities on new aircraft programmes both inside and outside the Bombardier Group. The Learjet 45 project fits well within this mission and has good prospects of being successful.

I cannot overstate the importance of Shorts and this project in the context of the Northern Ireland economy which, as recent correspondence on regional policy underlined, has the worst unemployment of any of the UK regions by a very long way. In his letter to you Michael referred to the recent redundancies at Shorts

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and further substantial job losses are likely early next year as the Tucano programme terminates. Securing new contracts such as the Learjet 45 is vital to the future success of Shorts and will enable it to continue to play an important role in the UK aerospace industry.

We are due to discuss the Northern Ireland Survey requirements on Thursday of this week but as Michael has indicated in his letter to you we must be in a position to start negotiations with Shorts by Thursday if we are not to risk losing this project for Northern Ireland. I therefore urge you to let us have your approval by the end of Wednesday for discussions with Shorts on the proposed support for this important project to commence.

I am copying this letter to the **Prime Minister**, Douglas Hurd, Michael Heseltine, Malcolm Rifkind and Sir Robin Butler.

*James
Rifkind*

IND POLICY : Short Brothers PE3



**CONFIDENTIAL AND
COMMERCIAL IN CONFIDENCE**



Treasury Chambers, Parliament Street SW1P 3AG

071-270 3000

Fax 071-270 5456

Handwritten signature

The Rt Hon Timothy Sainsbury MP
Minister of State for Industry
Department of Trade and Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

25 August 1992

Dear Tim

LAUNCH AID APPLICATION FROM SHORTS FOR THE LEARJET 45 PROJECT

You wrote on 13 August ^{attached} and Patrick Mayhew wrote on 14 August asking me to reconsider my unwillingness to authorise negotiations with Shorts on the terms of an offer of up to £30 million of launch aid.

2. You and Patrick propose to meet the full cost from what is agreed for your Survey settlements and to share the cost between the DTI and Northern Ireland programmes. However I am afraid that does not reassure me on the feasibility of your meeting both this new commitment and a share of the substantial reductions necessary to secure the Cabinet remit. While I have carefully reconsidered my position in light of what you and Patrick say, I remain of the view that this cannot be regarded as a high priority project, and that it would not be appropriate for any commitment to be made to Shorts before we have been able to look at the proposal in the context of the Survey as a whole.

3. In my previous letter I questioned whether launch aid represented good value for money. My doubts are raised further by my understanding that the Learjet project would safeguard about 400, rather than 900, existing jobs, although it would create a further 500 or so new ones. Finally, I gather that some of the work will go to Shorts in any case even if we do not offer any launch aid.

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END Pw: Short A3

4. I am copying this letter to the Prime Minister, Douglas Hurd, Sir Patrick Mayhew, Malcolm Rifkind and Sir Robin Butler.

Yours ever

Michael.

MICHAEL PORTILLO

CONFIDENTIAL AND
COMMERCIAL IN CONFIDENCE



NBPM - *CC*
NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Michael Portillo MP
Chief Secretary
HM Treasury
Parliament Street
London
SW1P 3AG

16 Aug 92

Dear Michael:

LAUNCH AID APPLICATION FROM SHORTS FOR THE LEARJET 45 PROJECT

I have seen the exchange of letters ^{Am} between Michael Heseltine and yourself about launch aid for Shorts' involvement in the Learjet 45 project and I have also seen the reply to your letter which Tim Sainsbury has sent in Michael Heseltine's absence.

I wish to add my full support for the points which are contained in Tim's letter and to emphasise not only the strategic importance of the project to Shorts but also the impact which the loss of 940 jobs would have on the fragile Northern Ireland economy.

In view of the time pressures to which Tim has drawn your attention, I would also ask you to reconsider the Treasury's position as soon as possible.

I am copying this to the Prime Minister, Douglas Hurd, Malcolm Rifkind, Tim Sainsbury and to Sir Robin Butler.

I really cannot contemplate losing this work to Canada, with all the consequences for Shorts, for unemployment, and for stability - and especially when the odds in favour of the money coming back are so good.

*only given
at this*

IND POL: SHOUT BROS PT3

The Rt. Hon. Tim Sainsbury MP
Minister for Industry



The Rt Hon Michael Portillo MP
Chief Secretary
HM Treasury
Parliament Street
London
SW1P 3AG

Department of
Trade and Industry

Ashdown House
123 Victoria Street
London SW1E 6RB

Direct line
071-215 5144

DTI Enquiries
071-215 5000

13 August 1992

Dear Michael

LAUNCH AID APPLICATION FROM SHORTS FOR THE LEARJET 45 PROJECT

1. Thank you for your letter of 7 August to Michael Heseltine. I am replying as he is away at present.
2. We fully appreciate the overriding importance of avoiding new commitments before we have agreed PES baselines in September. But in this case we will have effectively rejected the application if we wait until then, as the Bombardier Group will meet to decide the workshare for the project on 5 September. I am afraid we cannot therefore wait until the PES bilateral before giving a decision to Shorts.
3. As Michael explained in his letter, it is the intention of DTI, with help from the Northern Ireland Office, to meet the full cost of funding HMG's contribution to the costs of this project from within our PES settlement in September, not from existing planned provision. We have set the figure of £30m as the maximum we are prepared to make available to Shorts. Our intention, if it is agreed that we can give an indication to Shorts that launch aid is available in principle, will be to negotiate rapidly with Shorts to settle a figure and phasing which we will then make into a formal offer. I would hope that the eventual offer would be for less than £30m and could be phased over four or five years. This does not represent, as you suggest, a high level of state aid.
4. We surely must take into account that launch aid is currently a positive net contributor to the economy. The level of that net income will be increasing over the period for which Shorts are requesting launch aid, as Michael said in his earlier letter.





The Rt Hon Michael Portillo MP

August 1992

5. I do not want to enter into a debate about the general justification for launch aid here, because the Government's policy is to examine each case individually on its merits. Normally, the industry argues that the private capital markets will not provide sufficient funds because of the long period before payback on aerospace projects, but, as you point out, that is not the issue here.

6. The question here is whether the work will be done in Canada or in Belfast. We are determined not to enter into a subsidy auction, which would be totally contrary to our policy objectives. But if we make no offer then we understand that Belfast will lose this important project. I also cannot accept your unfavourable cost per job comparison: launch aid is a repayable loan with an 8% real rate of return, as opposed to regional assistance, which is a grant. But, in any case, this project is more than a matter of jobs in Belfast; it is of strategic importance to the company, especially in the light of the recent takeover of Fokker by Deutsche Aerospace, which threatens the future of Shorts work on Fokker aircraft.

7. As regards the Commission, we would gain credibility by notifying a launch aid case to them, as we would be the first Member State to do so. Moreover, although the EC/US Agreement does not apply to business jets, the level of assistance is relatively low and should be well within the terms of that Agreement. Thus we will be setting a good example for others in applying international disciplines to aerospace support.

8. I am sorry to have to press you on this case but circumstances dictate that we must take a decision quickly and I would therefore ask you to reconsider the Treasury's position and let us know the outcome as soon as possible.

8. I am copying this letter to the Prime Minister, Douglas Hurd, Sir Patrick Mayhew, Malcolm Rifkind and Sir Robin Butler.

TIM SAINSBURY

dti

the department for Enterprise

2nd Po. Short

Pt 3

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COMMERCIAL IN CONFIDENCE



Treasury Chambers, Parliament Street SW1P 3AG

071-270 3000

Fax 071-270 5456

The Rt Hon Michael Heseltine MP
President of the Board of Trade
Department of Trade and Industry
Ashdown House
123 Victoria Street
London
SW1E 6RB

7 August 1992

Dear Michael

LAUNCH AID APPLICATION FROM SHORTS FOR THE LEARJET 45 PROJECT

Thank you for your letter of 5 August ^{at 4.30 pm} about launch aid for Shorts' involvement in the Learjet 45 project.

2. Over recent years the Government has moved away from providing large scale support for single company, near-market projects because of the poor value for money represented by public sector investments of this nature. Aerospace companies continue to argue that they are a special case because of the size of investment needed; the long development and production time before sales start a return on the investment; and other governments' support for their aerospace production companies. But I am not convinced by arguments which suggest that private capital markets cannot cater for their needs. Is the real reason why some aerospace projects do not attract capital at rates the companies consider acceptable, because they are not a good investment?

3. I understand that Shorts have told officials that in this instance, inability to raise money on the capital markets is not the problem. Investment capital is available but Learjet are keen to conduct a Government subsidy auction playing the UK off against Canada. This is obviously most unsatisfactory and a very expensive way of securing 940 jobs in comparison to, for example, the regional selective assistance average cost per job.

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B3

4. Were we to proceed with an offer of launch aid I question whether it would be a good use of our negotiating credit with the European Commission to set about persuading them to accept the high level of State Aid in this case.

5. In any event, as you will be aware from my Survey agenda letter, my overriding concern is that we cannot afford to enter into new discretionary commitments given the public expenditure outlook we discussed on 22 July. I have thought about the offer you and Patrick Mayhew make to find some of the necessary funds from within existing planned provision, but I would anticipate that any flexibility you may have in mind within your baselines will need to be called on if we are to achieve our public expenditure targets. I should therefore like you to reconsider this proposal and would appreciate it if you did not make any commitment to the company until we have had a chance to discuss the overall position on 10 September.

6 I am copying this letter to the Prime Minister, Douglas Hurd, Sir Patrick Mayhew, Malcolm Rifkind and Sir Robin Butler.

Handwritten: Yours ever

Handwritten signature: Michael.

MICHAEL PORTILLO



020
The Rt. Hon. Michael Heseltine MP
President of the Board of Trade



Secretary of State
Department of
Trade and Industry

Ashdown House
123 Victoria Street
London SW1E 6RB

Direct line
071-215 4440

DTI Enquiries
071-215 5000

The Rt Hon Michael Portillo MP
Chief Secretary
HM Treasury
Parliament Street
London
SW1P 3AG

5 August 1992

Dear Chief Secretary,

LAUNCH AID APPLICATION FROM SHORTS FOR THE LEARJET 45 PROJECT

My officials have kept yours informed about Shorts' application for launch aid for the Learjet 45. As you know, participation in this new business jet, by designing and building the wings and most of the fuselage, would be of strategic importance to Shorts and provide up to 940 jobs in Belfast.

I believe the normal launch aid criteria have been met and HMG would make an 8% real rate of return. If launch aid is refused, the bulk of the work will be transferred to De Havilland of Canada, another Bombardier subsidiary, because support (on much more generous terms than available in the UK) would be provided there. An offer of launch aid of up to £30m spread over four or five years beginning in 1993 would stand a good chance of securing this important project for the Northern Ireland economy.

Despite the tight public expenditure position, we should make a real effort to find these relatively small sums. Launch aid currently provides a positive net income to Government of about £60m per annum. By the second half of the decade this figure will have increased, probably to as much as £200m per annum. It would be very difficult for us to defend turning down otherwise acceptable applications for launch aid when all our competitors continue to provide launch aid or indirect support for their industries.

I would like to pursue this with you to see if we can produce an acceptable agreement on funding. Subject to this I would be willing to consider finding some funds from within DTI's PES settlement in September, and Patrick Mayhew is also willing to make a contribution. I hope that we can agree to give Shorts a first positive indication, subject to detailed negotiation, by late August.

dti

the department for Enterprise





I am copying this to the Prime Minister, Douglas Hurd, Malcolm Rifkind, Sir Patrick Mayhew and Sir Robin Butler.

yours sincerely
E Jones

(Approved by the President
and signed in his absence)

JW7377

Ind Policy

Short Brothers plc

3.31 pm

The Secretary of State for Northern Ireland (Mr. Tom King): With permission, Mr. Speaker, I wish to make a statement about the privatisation of Short Brothers plc.

Since last July the Government have been working with the management of Shorts to seek a successful transfer of the company to the private sector. On 3 March I advised the House that I had selected two out of the six preliminary proposals for the purchase of the company, and had invited those two to submit final proposals by 30 April. They were the Canadian company Bombardier and a partnership of GEC and Fokker. Their final proposals have now been fully reviewed, and I can advise the House that I have today approved heads of agreement for the sale of Short Brothers plc to Bombardier.

Under the heads of agreement, Bombardier will pay £30 million for the share capital of Shorts. On behalf of the Government, I have offered Shorts, under its new ownership, grants of £79 million for new capital investment in the next four years and of £18 million for other costs, mainly for training. As regards the company's existing liabilities, the £390 million loan advanced by the Government earlier this year to repay commercial debts for past losses will be written off. I have also agreed to advance a further £275 million to recapitalise the company, to repay the remaining borrowings and to meet anticipated losses on existing contracts.

Of this sum at least £60 million will be in the form of an interest-free loan. That loan will be progressively cancelled as specified targets are met, but would be immediately repayable in the event of a material breach by Bombardier of the commitments it has given in relation to the future of the company. The Government will of course continue to fund the company until the completion of sale but as I announced on 10 January 1989, Government undertakings in respect of Short's liabilities will be withdrawn at privatisation as far as new obligations are concerned.

Beyond the period covered by the terms of the heads of agreement, Short's eligibility for assistance will be on the same basis as other private sector companies in Northern Ireland. In this respect, as I announced on 22 March 1989, I plan to repeal my powers in relation to Shorts in public ownership contained in the Aircraft and Shipbuilding Industries (Northern Ireland) Order 1979.

The terms of the agreement are subject to contract and also a number of conditions including the approval of the European Commission. The necessary Estimates will be laid before the House at the appropriate times.

Bombardier recognises the important position occupied by Shorts in the Northern Ireland economy and intends to acquire the company as a long-term investment and to maintain it as a complete entity. Its objective is to develop the three main divisions of aircraft, aerostructures and missiles. In particular, Shorts aircraft division will become a full partner in the detailed design and development of the Canadair RJ regional jet and I have agreed to offer £18 million towards development costs on Short's part of this work. Bombardier is a Canadian group with a range of products in the transportation industry. In 1986 it acquired Canadair, an aerospace company similar in size to Shorts, from the Canadian Government, and has since developed it successfully. It has recently launched its new

regional jet for the short to medium range market. Overall, I believe that its activities provide an excellent fit with those of Shorts.

This agreement with Bombardier for the acquisition of Shorts opens the way for the transfer of the company from public ownership to the private sector. The scale of the sums involved illustrates very clearly the problems that the company has faced in public ownership and as a relatively small enterprise in the complex and competitive arena of aerospace. At the same time, it has developed products and skills which, with the right leadership and organisation, can once again make Shorts a successful and viable operation which contributes fully to the economy of Northern Ireland. The Government believe that operating under the commercial disciplines of the private sector and as part of a larger group under Bombardier's ownership, gives Shorts the best possible opportunity for a much brighter future and fully justifies this substantial investment of public funds.

Mr. Jim Marshall (Leicester, South): I thank the Secretary of State for answering the question that I put to him some days ago, asking that he should make a decision on the future ownership of Shorts prior to the opening of the Paris air show. Perhaps it is appropriate that a decision has been made on the eve of that show.

We welcome the fact that a decision has been made because it will remove the uncertainty which surrounds the future ownership of Shorts. We also welcome a bid, which, we hope, will seek to maintain the company as a single entity, and its product range.

It will come as no surprise to the Secretary of State to learn that we still continue to dislike the Government's privatisation policy, in particular as it applies to Shorts. Our view has been, and still remains, that if the Government had been prepared to provide the level of financial assistance that they are now prepared to give to get rid of the company, Shorts, as a publicly owned company, would have flourished and could have been profitable. However, once the Government persisted in their privatisation policy, we made it clear some time ago that, out of the two bids that the Government were actively considering from Bombardier and GEC-Fokker, the decision should be made in Bombardier's favour. We are delighted that the Secretary of State has seen fit to accept our view.

Does the Secretary of State agree that, important though today's announcement is, of even greater importance is the future strategy for the development of the company in view of its pivotal importance to the economy of Northern Ireland? Paragraph 4 of the Secretary of State's statement refers to the commitments that Bombardier

"has given in relation to the future of the company."

It does not say that commitments will be, or may be, given but that commitments have been given. I and my party do not feel that those commitments were fully and adequately expounded in the Secretary of State's statement. It is those particulars and specifics lacking from the statement on which I wish to question the Secretary of State.

First, during his discussions with Bombardier, has the Secretary of State received any assurance about the existing product range and likely levels of employment? Secondly, I am sure that the Secretary of State agrees that Shorts is a centre of technical excellence. In view of that,

GP-based budgeting and self-governing hospitals, I can say "yes" to my hon. Friend and tell him that I have received from his constituency representations not only about self-governing hospitals but about GP-based budgeting, with considerable enthusiasm being shown by the persons concerned.

Mr. Foulkes: May I inform the hon. Member for Tayside, North (Mr. Walker) as a psychologist—*[Interruption.]* He is not; I am. May I inform him that there is absolutely no evidence to show that the general practitioners in Tayside are any less intelligent than the GPs in Ayrshire? All the GPs to whom I have spoken in Ayrshire understand only too well what is meant by the White Paper. They have passed a resolution unanimously condemning it and asking the Government to withdraw it.

If Members of the Government, and in particular the Minister, mean anything when they use the word "consultation"—if they are not to be seen as people who are not men of their word—the only honourable action for them to take now is to withdraw the White Paper.

Mr. Forsyth: I am tempted to reply to the hon. Gentleman by saying "physician, heal thyself." I had a meeting with GPs in Ayr on Monday. After an hour's discussion with them I formed the same conclusion as my hon. Friend the Member for Tayside, North (Mr. Walker)—that many of the details concerning our proposals were not understood and had not been communicated to them.

I am happy to tell the House that the objectives of our White Paper—to increase patient choice, to increase the emphasis on preventive medicine and to make the NHS more responsive to the needs and wishes of patients—are objectives which all of those GPs were happy to endorse. The mechanisms, mechanics and best way forward are issues on which GPs should not pass resolutions of condemnation. They should roll up their shirt sleeves and help us to get this right.

Mr. Hind: When my hon. Friend replies to the representations from the GPs in Tayside, will he emphasise that indicative budgets, both practice and drug budgets, mean that no patients need fear lest the resources for their treatment will not be available? Will he ask them to

withdraw the leaflet from the BMA, which unnecessarily winds up elderly and sick patients and makes them fear that the necessary resources will not be available?

Mr. Forsyth: I wrote to the British Medical Association in Scotland asking it to withdraw the leaflet from Scotland. I received a reply saying that the leaflet had been produced in London and that it did not take entire responsibility for it. I also pointed out the assertions in that leaflet about our proposals, which are frankly just untruths. The response from the BMA in Scotland did not seek to defend the assertions which are made in that leaflet. I believe that events have moved on and that there is a coming together to get the proposals right, certainly in regard to the contract.

I agree with my hon. Friend that it is completely irresponsible to say to any patient that he will be denied treatment or drugs as a result of the proposals. That is not true. No general practitioner, whether a budget-handling GP or a GP subject to indicative budgets, will find that he does not have the resources to treat the patients. Opposition Members who say such things are causing needless anxiety to patients.

Mr. Robert Hughes: The hon. Member for Tayside, North (Mr. Walker) has made astonishing charges of ignorance against doctors in Tayside. Is he saying, however, that it is because the doctors are too thick to understand the White Paper or that the Minister is too thick to explain it properly?

Mr. Forsyth: I am saying that the type of intellectual approach that the hon. Gentleman has shown in his question is not one that I would expect from doctors. I would expect doctors to study the proposals carefully, to form a considered judgment, to identify the particular aspects causing them concern and to discuss with the Government the best way forward. That has not always been the case, but I accept what I think is implicit in the hon. Gentleman's question, which is that the vast majority of doctors will rightly see the way forward as being one which looks to their patients' interests. The White Paper is based on putting the patient first and ensuring that the Health Service delivers the best possible quality of care with the substantial additional resources that are available within the NHS.

From: THE PRIVATE SECRETARY

COPY
PRESS
D/C
PS Pad



NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

PA

Prime Minister²

Paul Gray Esq
Private Secretary to the
Prime Minister
No. 10 Downing Street
LONDON SW1

This apparently went well in
the House - as did Tom King's
neatly edited Y
in the day
with the Shabs' workforce.

June 1989

[Handwritten signature]

SHORT BROTHERS PLC

Recc
7/6
[Handwritten initials]

I refer to my Secretary of State's letter of 2 June which gave
details of the proposed sale of Short Bros plc to Bombardier Inc.

I now enclose a draft of the statement which my Secretary of State
proposes to make to the House of Commons this afternoon.

[Handwritten signature]
[Handwritten signature]
STEPHEN POPE

DRAFT ANNOUNCEMENT TO PARLIAMENT BY THE SECRETARY OF STATE

With permission, Mr Speaker, I wish to make a statement about the privatisation of Short Brothers plc.

On March 3 I advised the House that I had selected two out of the six preliminary proposals for the purchase of the company, and had invited these two to submit final proposals by April 30. They were Bombardier Inc of Canada and a partnership of GEC plc and Fokker NV. Their final proposals have now been fully reviewed, and I can advise the House that I have today approved Heads of Agreement for the sale of Short Brothers plc to Bombardier.

Under the Heads of Agreement, Bombardier will pay £30m for the share capital of Shorts. On behalf of the Government I have offered Shorts, under its new ownership, grants of £79m for new capital investment in the next four years and of £18m for other costs, mainly for training. As regards the company's existing liabilities, the £390m loan advanced by the Government earlier this year to repay commercial debt for past losses will be written off. I have also agreed to advance a further £275m to repay the remaining borrowings of the company and meet anticipated losses on existing contracts.

Of this sum at least £60m will be in the form of an interest-free loan. This loan will be progressively cancelled as specified targets are met, but would be immediately repayable in the event of a material breach by Bombardier of the commitments it has given in relation to the future of the company. The Government will

of course continue to fund the company until the completion of sale but as I announced on 10 January 1989, Government undertakings in respect of Shorts' liabilities will be withdrawn at privatisation as far as new obligations are concerned.

Beyond the period covered by the terms of the Heads of Agreement, the Government will not provide any support to Shorts except assistance normally available to other private sector companies in Northern Ireland. In this respect, as I announced on 22 March 1989, I plan to repeal my powers in relation to Shorts in public ownership contained in the Aircraft and Shipbuilding Industries (Northern Ireland) Order 1979.

The terms of the agreement are subject to contract and also a number of conditions including the approval of the European Commission.

The necessary Estimates will be laid before the House at the appropriate times.

Mr Speaker, Bombardier recognises the important position occupied by Shorts in the Northern Ireland economy and intends to acquire the company as a long-term investment and to maintain it as a complete entity. Its objective is to develop the 3 main divisions of aircraft, aerostructures and missiles. In particular, Shorts aircraft division will become a full partner in the detailed design and development of the Canadair RJ Regional Jet and I have agreed to offer £18m towards development costs on Shorts' part of this work.

Bombardier is a Canadian group with a range of products in the transportation industry. In 1986 it acquired Canadair, an aerospace company similar in size to Shorts, from the Canadian Government, and has since developed it successfully. It has recently launched its new Regional Jet. Overall, its activities provide a good fit with Shorts' business.

Mr Speaker, this agreement with Bombardier for the acquisition of Shorts opens the way for a transfer of the company from public ownership to the private sector. The scale of the sums involved illustrates very clearly the problems that the company has faced in public ownership and as a relatively small enterprise in the complex and competitive field of aerospace. At the same time it has developed products and skills which, operating under the commercial disciplines of the private sector and as part of a much larger group, can produce a more viable and successful future for Shorts.

25

07. VI
PH: 4

PRIME MINISTER

SHORTS

You saw over the weekend my minute of 2 June (Flag A) covering the latest report from Tom King (Flag B). You were content with the idea of Tom King making a statement on Wednesday, as long as you had had time to consider a report from George Guise; you also queried the handling of clearance with the European Commission.

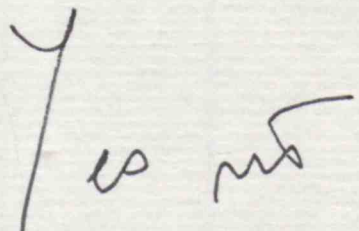
I now attach a note from George at Flag C, which reports that he is content with the proposed course of action.

I also attach at Flag D a note that has come in during the day from John Major, indicating that he too is content with the proposed draft Heads of Agreement with Bombardier.

Both George Guise and John Major touch on the issue of clearance with Brussels. The position here is that, as with the agreement on Harland & Wolff, the terms of the Shorts deal will have to be cleared with the Commission. But the package has been drawn up in a way which it is hoped will not cause substantial difficulties with the Commission, unlike the position over Rover.

Content now to agree to Tom King proceeding with a statement on Wednesday?

(PAUL GRAY)



5 June 1989

DA2ACA

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

6 June 1989

Dear Stephen,

SHORT BROTHERS PLC

The Prime Minister was grateful for your Secretary of State's minute of 2 June and for the minute from the Chief Secretary of 5 June.

The Prime Minister has noted the terms of the draft Heads of Agreement which Bombardier are willing to accept, and agrees that your Secretary of State should now proceed on the basis proposed. She is also content for him to make a statement in the House tomorrow.

I am copying this letter to Carys Evans (Chief Secretary's Office), Stephen Catling (Lord President's Office), Brian Hawtin (Ministry of Defence), Neil Thornton (Department of Trade and Industry), to the Private Secretaries to the other members of E(A) and to Trevor Woolley (Cabinet Office).

*Yours
Paul*

Paul Gray

Stephen Leach Esq
Northern Ireland Office

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PAUL GRAY

5 June 1989

SHORTS

I went over the Shorts' papers during the weekend including the detailed Heads of Agreement drafted by Slaughter & May. The main terms represent a satisfactory outcome which should lead to a successful sale to Bombardier within an overall cost to government of £750 million. This is less than closure costs (£800 million plus) or a far more expensive sale (£1 billion plus) to a partnership of GEC and Fokker. It is particularly satisfactory that King has secured a deal without any open-ended commitment from government for the renegotiation of the Fokker F100 wing contract which is better than we expected some weeks ago.

The sale is conditional upon a satisfactory resolution of the detailed items in the annexure to Tom King's minute of 2 June, as well as acceptance by the European Commission.

While supporting the general framework of agreement described, I identified a number of detailed points of concern or lack of clarity which have subsequently been discussed with the Northern Ireland Office to my satisfaction. These were:

- (i) The detailed figuring in paragraph 1 of King's annex describing the purchase arrangements total £398 million compared with the further injection specified of £390 million. This imbalance of £8 million has now been satisfactorily accounted for.
- (ii) I was concerned that net profits above £25 million during the first seven years would incur a

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repayment penalty because this could act as a disincentive to Bombardier putting further profitable business into Northern Ireland. I am now assured that this language is for the benefit of the Commission rather than any genuine commercial constraint. In the happy event of such profit levels being achieved, Bombardier will have the opportunity to renegotiate this clause.

- (iii) As drafted, the Heads of Agreement leave government with a liability for the direct costs of correcting any deficiencies in the design of certain products including the F100 wing. NIO are adamant that this could only be in relation to technical faults rather than manufacturing difficulties (just as a motor car manufacturer sometimes has to recall certain models to have their brakes modified).

NIO were pleased that I had spotted this potential for ambiguity. They will emphasise to the lawyers that this clause must not cover any redesign relating to manufacturing complications otherwise the whole principle of limiting financial obligations to Fokker would be defeated.

- (iv) There were several areas where the language did not make commercial sense or gave undertakings which were legally worthless. The NIO accepted this criticism pointing out that they were expressions of intent either for public consumption or consumption by the Commission.

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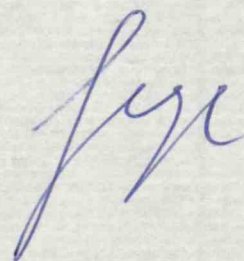
(v) I have stressed again that Tom King must speak to Fokker before any Bombardier deal is publicly announced emphasising the very beneficial role Fokker has played in Northern Ireland and his hope that this will continue. We must avoid Fokker going away with a chip on the shoulder which could jeopardise future business with Shorts/Bombardier. King has readily agreed to this.

(vi) The terms of the sale have been structured under advice from UKREP with a view to satisfying Brussels particularly on the £190 million loan. Unlike the Rover deal, there should not be hostile arguments from competitive manufacturers, particularly if Fokker are well handled by King and therefore do not make a nuisance.

Since Brussels closes shop during August it will be essential to satisfy the bureaucracy before the end of July. This makes timing somewhat critical and it is intended that all substantive arguments be dealt with by the end of June. Overall, we anticipate a 3-month period before final closure of the deal.

Our main reassurance is that the Treasury has been in detailed negotiation alongside NIO and has been the key participant in drafting the Heads of Agreement. The fact that disposal of Shorts should absorb such a huge sum of public money as £750 million is yet further evidence of how abysmally the Boards of such companies perform while they are under state ownership.

GEORGE GUISE



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COPIED FROM



FROM: CHIEF SECRETARY
DATE: 5 June 1989

PRIME MINISTER

SHORT BROTHERS PLC

with Mr?
In his minute of 2 June Tom King set out the terms of the draft Heads of Agreement which Bombardier are willing to accept. I believe we should endorse this agreement which, in all the circumstances, seems to me to be the best obtainable.

2 As Tom points out the price of the disposal of Shorts at £750 million is very high and rather more than we had hoped, although within the range expected by our advisers. However in spite of the high cost I consider it is the best, and probably the only, opportunity we are likely to have of returning the company to the private sector and so avoiding the continual drain on our resources which further public ownership will involve. You will recall that E(A) agreed on 13 July that the best course was to privatise Shorts as it stood at the earliest date.

3 The disposal cost therefore needs to be measured against the cost of closure which would far exceed £750m, and would also inevitably have serious political and economic effects on Northern Ireland. In the absence of real competition to Bombardier any further delay would only add to the cost, as Shorts losses would continue to rise and its trading position would decline even further. We have further evidence that the position with regard to the F100 wing contract was more serious than had been thought previously, and in my view it is worth settling on disposal now in order to secure a clean break on this contract.

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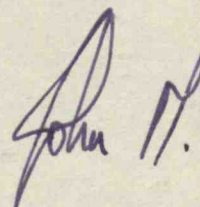
4 I am very pleased that Tom has negotiated an agreement which provides us with a number of important safeguards particularly on early disposal which I believe will protect the Government from Parliamentary or public criticism of the terms of the sale.

5 As Tom says, this deal has been structured to minimise difficulties in clearing it through Brussels. But given the sums involved and Bombardier's Canadian background we must guard against attempts to delay or unpick a carefully balanced package. I would be grateful if my officials could be kept closely in touch with the drafting of the notification and subsequent negotiations.

6 I understand that Kleinwort Benson's assessment does confirm that Bombardier while not a major aerospace player are capable of taking over and managing Shorts effectively. Further investigation beyond the study already completed is necessary before we can be fully satisfied that they have the financial and management resources to turn Shorts into a successful company, and I attach considerable importance to the due diligence report which is to be prepared. Again, it is helpful that Tom has secured that as a condition to be satisfied before we go to contract.

7 Finally I can confirm that the part of the cost falling in the current year - £293m (£263 net after taking into account the £30m proceeds from Bombardier) can be met from the Reserve despite other pressures we face. I will need to consider separately the question of cover for the further losses accruing to Shorts up to the point of sale once the figures have been finalised. (The £390m loan already made to Shorts was, of course, met from the Reserve last year). As to the costs falling in future years, I agree that this is something which will need to be considered in the course of the 1989 Survey.

8 I am copying this minute to Tom King, John Wakeham, George Younger, David Young and other members of E(A) and to Sir Robin Butler.



JOHN MAJOR





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~~copy~~

PRIME MINISTER

SHORT BROTHERS PLC

Further to my correspondence with John Major last week and after some hard negotiation I have now agreed draft Heads of Agreement with Bombardier subject to your and colleagues' agreement.

In our correspondence I sought John's consent to go to £700 million in return for a Heads of Agreement which eliminated unacceptable conditions in Bombardier's original proposal. However I anticipated that I might need to concede Bombardier's request for a period of exclusivity to renegotiate the F100 wing contract with Fokker. In his reply, John helpfully agreed to this strategy and proposed arrangements which, effectively, offered a limit of £725 million should it be necessary to concede the Fokker renegotiation.

In the event I have secured an agreement without the Fokker renegotiation for a net sum of (£750) million. This is higher than I had hoped but is considerably less than any of the alternatives including closure and avoids further delay.

Although this is a very large sum of money indeed you will recall the costed options prepared by Touche Ross and summarised in the E(A) paper (89)4 of 6 February 1989. These showed that the costs of disposal could lie within the range £800/1100 million. These figures were supported by Kleinwort Benson's estimate that the total cash cost to HMG of this sale would be at least £750 m and could be as high as £1,000 million dependent upon the extent of the assurances required from buyers regarding the future conduct of the business and on the handling of existing sales financing obligations.



In the light of the problems which have emerged since then, in particular in relation to the F100 wing contract, I asked Touche Ross to re-examine these estimates and they now tell me that the alternatives could cost £100 million more than first thought. Furthermore, the only other credible buyer - a partnership of GEC and Fokker - is seeking some £1,100 million.

The details of the Heads of Agreement are set out in the attachment. Broadly speaking they are, that Bombardier will acquire Shorts for £30 million and will bring new work to it in return for a package of assistance totalling £390 million. This is in addition to the £390 million which was advanced to Shorts earlier this year to repay commercial debt and which will now be written off, and which of course represents money already lost over previous years. We will also have to meet the costs of Shorts until disposal; now expected to be some £60 million of which about half returns to HMG as interest on our loan.

Of the package of assistance, £79 million will secure new capital investment of £170 million over the next four years and £18 million will attract work on Bombardier's new commuter airliner. Of the rest, £18 million will pay for expected redundancies and future training and £275 million is needed to restructure the balance sheet. £190 million of this will be advanced in the form of loan stock which I will use to secure Bombardier's performance of its undertakings to us.

An important feature of the Heads of Agreement is the protection I have sought against rapid disposal by Bombardier of the more attractive assets of Shorts; its leasehold property, its missiles division and the airport business where there might be the temptation of quick profits from individual deals. The details of our safeguards against this are in the attachment but I have sought to ensure that Bombardier cannot profit from such a rapid



disposal and that we will not, therefore, be exposed to public criticism. The structure of the deal is intended to offer the best defence against rejection by the European Commission to whom the terms will have to be notified.

As I said in my previous letter, I do not find the proposal that Bombardier should manage the Sales Financing subsidiaries attractive and with their agreement I will be rapidly exploring whether a satisfactory disposal of this part of the business can be secured.

In summary I believe that this deal is far the best way to proceed. The more that has come to light during the privatisation process the more clear it has become that this is the right and urgent step to take. The transfer of responsibility for the F100 wing alone is of major significance and we are now achieving virtually a total clean break with no ongoing liability for the main trading businesses. At the same time, I believe that Bombardier, and their impressive track record with Canadair, in very similar circumstances, holds out the chance of a good future for Shorts under private sector disciplines and free of the disastrous handicap of public ownership.

As I indicated in my letter of 22 May to John Major, the costs of resolving the Shorts problem are exceptional items and well outside the ability of the Northern Ireland Block to meet. I must therefore come forward to the Treasury with a bid for £293 million to meet the current year requirements. I will also seek cover for the Public Expenditure impact of losses occurring in the current year until the point of sale as referred to above, once these can be accurately established. I will also be making a bid in the Survey process for the costs falling in the Survey years. My best estimates are £37.5 million, £36.5 million and £23.0 million



respectively. We shall, of course, return the £30 million proceeds of sale to the Treasury and will meet out of the Northern Ireland Block both the annual costs of operating the Sales Financing subsidiaries and, in addition, a £5 million contribution to the deal as a whole.

If you and colleagues are content with this proposal, I would like to announce it on Wednesday with a statement in the House. I am copying to John Major, John Wakeham, George Younger, David Young and other members of E(A) and to Sir Robin Butler.

[Handwritten signature]
 TK

2 June 1989

(Approved by the Secretary of State & signed in his absence)

PROPOSED FINANCIAL PACKAGE

The main terms of the financial package are as follows:-

1. Purchase Arrangements

- (a) Bombardier will pay £30m for the shares of Shorts,
- (b) before the date of sale, the provisions for future losses will be increased from £45.7m at 31 March, 1988 to £260m,
- (c) the £390m loan advanced by HMG earlier this year to repay commercial debt will be written off,
- (d) a further £98.8m loan stock to be provided by HMG (see below) will be written-off to ensure that the net assets of Shorts, after making the additional loss provisions at (b), are equal to the £30m being paid for the company by Bombardier,
- (e) HMG will also:-
 - (i) reduce Short's creditors by £25.7m - to take account of credit periods more in line with those to which Bombardier is accustomed,
 - (ii) pay off a £14m liability to leasing companies for leased assets - on the basis that all Shorts financial liabilities are to be met, and
 - (iii) repay an EIB loan of £45.2m - on the same basis that HMG agreed to repay other borrowing. (In practice, HMG may decide to assume the loan).

2. Financial Assistance

- (a) £190m of non-interest bearing loan stock repayable after 30 years and secured by a floating charge on Shorts' assets supported by an undertaking by Bombardier to make good any shortfall. The principal conditions of the loan stock are

set out below. Of the £191m, £98.8m is immediately written off, see para 1(d) above and upto a further £38.8m may be written-off dependent on the level of net assets at the date of sale,

- (b) a grant of £75m at the rate of 50% on capital expenditure over a four year period,
- (c) a grant of £4m at the rate of 20% on capital expenditure on the Starstreak missile project over a two year period,
- (d) a grant of £10m at the rate of 50% on non-recurring costs on nacelles to be developed for the Bombardier "RJ" commuter airliner,
- (e) a grant of £8m at the rate of 25% on non-recurring costs on other components for the RJ,
- (f) a grant of £6m towards redundancy costs to be incurred within a two year period, with an option to extend to three years within the same cost,
- (g) a grant of £12m towards training costs to be incurred over a three year period.

3. Loan Conditions

- (a) The ^{outstanding} loan stock becomes immediately repayable if:-
 - (i) Bombardier disposes of its shareholding in Shorts within a four year period;
 - (ii) Bombardier fails to meet its promises as regards maintaining Shorts as a separate entity, carrying through its capital expenditure programme and meeting general business objectives;
- (b) The loan stock becomes immediately repayable in part (to an equivalent amount) if:-

- (i) Shorts makes a payment to Bombardier e.g a dividend, in excess of 50% of after tax profits in any year;
 - (ii) disposes of part of the business and does not reinvest the proceeds;
 - (iii) makes a loss as a result of a transaction with Bombardier not at arms length; and
 - (iv) after tax profits in any of the first seven years exceed £25m, to the extent of 30% of the excess; and
- (c) part^{of} the loan stock will be cancelled if Shorts invests more than £40m each year in capital expenditure, R&D, training and product development costs in any year after 1993, to the extent of 50% of the excess over £40m.

4. Tax Losses

All existing tax losses will be eliminated.

5. Other Conditions

- (a) Property (all leasehold). All profits on disposal within 10 years to be paid to the Department of Economic Development (DED) unless reinvested in the business
- (b) Harbour Airport. All proceeds of sale within four years to be paid to DED. All proceeds after four years and up to ten years to be paid to DED unless reinvested in the business
- (c) Missiles Division. No disposal of the whole or a controlling interest for four years without DED consent. All proceeds of sale within four years of part of the Division to be paid to DED unless waived. All proceeds after four years and upto ten years to paid the DED unless reinvested in the business.

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Shorts
Pt 3



PRIME MINISTER

SHORTS

I have been showing you various papers over the last few weeks reporting on continuing discussions on the disposal of Shorts.

Tom King's latest minute (attached) now reports that draft Heads of Agreement have been agreed with Bombardier. He seeks E(A)'s agreement to this.

George Guise has been keeping in close touch with the negotiations, and is content that the agreement reached is a good one. George will be studying the fine print further over the weekend to make sure there is nothing untoward in it.

Content (subject to a final clean bill of health from George on Monday) to endorse the Heads of Agreement with Bombardier, for Tom King and John Major to sort out the detailed financing arrangements, and for Tom King to make a statement on Wednesday?

PGC.

PG

2 June, 1989.

Yes - providing we have George's report in time properly to consider it

And - what about Europe?

no

TPM
PRIME MINISTER

SHORTS

I heard tonight from the Chief Secretary's Office that the sale of Shorts to Bombardier is likely to be settled tomorrow. Tom King and his negotiating team have been holding out for £715m. Bombardier are asking for £775m. as their "final" offer for a clean takeover of Shorts. The Chief Secretary have authorised Tom King to go to £775m. tomorrow if necessary. If he can get away with anything less that will be a bonus.



Dominic Morris

31 May 1989

MJ2DRB



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

24 May, 1989.

SHORT BROTHERS PLC

The Prime Minister has seen your Secretary of State's letter to the Chief Secretary of 22 May, and the Chief Secretary's response of 23 May. She has noted the latest position in the negotiations with Bombardier.

I am sending a copy of this letter to Carys Evans (Office of the Chief Secretary).

Paul Gray

Stephen Leach, Esq.,
Northern Ireland Office.

SW2AWC

PRIME MINISTER

SHORTS

You saw some papers about a week ago indicating that Tom King was now focussing his discussions on the disposal of Shorts with Bombardier; you indicated you were content with this.

You will now wish to be aware of the latest exchanges between Tom King (Flag A) and John Major (Flag B). The negotiations are proceeding broadly as signalled in the earlier correspondence. The main point to note now is the intention to negotiate within a total financial envelope (including the money already advanced) of £675-700 million.

You will see that Tom King and John Major are in broad agreement on the way forward. And George Guise, who is keeping closely in touch with developments, is also content that the NIO and Treasury are handling this sensibly.

Content simply to note the latest state of play?

Patricia A. Parkin

(PAUL GRAY)

23 May 1989

Yes mb

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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Tom King MP
Secretary of State for Northern Ireland
Northern Ireland Office
Whitehall
London
SW1A 3AZ

23rd May 1989

Dear Tom,
SHORTS BROTHERS PLC

Thank you for your letter of 22 May.

I agree that you should try to secure, for a price in the range of £675-£700m, a much less conditional offer from Bombardier, as this course seems to offer the best prospect of a clean break with Shorts at an affordable price. I am persuaded that the problems identified on the F100 wing contract, and Shorts' actual and potential liabilities under that contract, justify such a move beyond the £600m guideline price colleagues agreed earlier this year for this disposal. So I am content for you to make an offer as you propose, provided Bombardier drop their condition for pre negotiation with Fokker and the other conditions you covered in your letter.

I know you will press Mr Beaudoin hard for such a deal but, as you acknowledge, he may not be prepared to go forward on such a basis and may well insist on a pre negotiation with Fokker.

I accept that if you are unable to move him on this point then, reluctantly, it will be necessary to offer Bombardier a limited period of exclusivity to carry out this pre negotiation. The two month period you have in mind should provide a tight time discipline. But once we take this step both Bombardier and Fokker will know that Bombardier is our favoured bidder. So we must guard as best as we can against them doing a cosy deal on the F100 wing, resulting in increased disposal costs to us.

To this end, I believe that a cap for the costs we would be prepared to accept as the costs to us of negotiations between Bombardier and Fokker on the F100 contract is essential. I am content for you to make clear to Bombardier that your offer of £675-£700m had included some provision for such costs and for you to say that it would be very difficult for you to persuade colleagues to go much beyond that. But some marginal flexibility

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might be possible and you might therefore be prepared to see them negotiate with Fokker within a cap of £65m - a figure some £25m higher than that implicit in your offer for a deal without the pre negotiation condition. But you should stress that would be the limit of the losses that we would be prepared to fund on that contract.

I also feel that, to further protect our position, you should take up the offer made by Bombardier to your officials that they should be associated with those negotiations with Fokker.

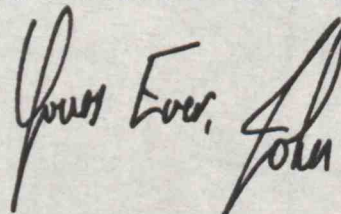
Like you I find the Bombardier proposal that you should retain ownership of Shorts' sales financing subsidiaries unsatisfactory. It is less than the clean break we are seeking and there is potentially some conflict of interest for Bombardier in managing that activity alongside the marketing of their Regional Jet. So I am content for you to ask Kleinworts to explore whether another aircraft financing company, such as GPA, might be prepared to take these liabilities off our hands.

I note you think it might be possible to get a taker if we were prepared to go to £50m. But that can only be tested by Kleinworts doing the exploration for us. We can then consider which option represents the most satisfactory and cost effective way forward. If, as seems possible, that consideration points to either Bombardier or another company managing the sales financing companies on your behalf, I would hope that you will be able to contain the relatively modest costs involved, as they arise year by year, within your existing provision. (I would of course be prepared to look at the matter again if in any particular year major contingent liabilities crystallised). I would regard that as a helpful contribution to the costs we face.

I recognise that it would not be reasonable, given the costs you face in relation to Harland and Wolff, to expect you to be able to meet the far larger costs arising from the disposal of Shorts' main business. For the current year, I confirm that I will consider sympathetically the substantial bid that you are likely to have to mount if a deal with Bombardier can be concluded. And we will have to consider in the Survey how the balance of the costs over the Survey year can be met. Clearly you will not be in a position to quantify those substantial bids this week but it would be helpful to me if you could quantify as soon as possible, to enable us to deal with it as soon as possible in the Survey.

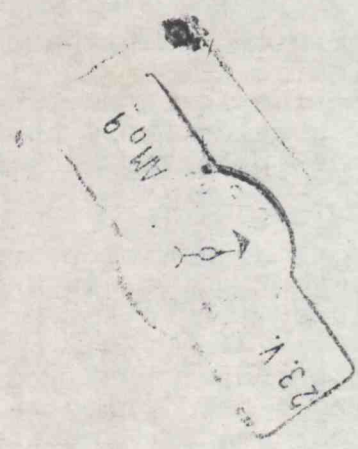
In your separate letter of 19 May you sought my agreement to a further increase in Shorts' borrowing limits to enable them to borrow commercially to cover their cash requirements over the next few months, while they remain in public ownership. I am content for you to proceed as you propose, stressing to Mr Potter the importance of his role in keeping such borrowings to the lowest practicable level. You should also seek to ensure that, to the extent possible, these losses are met by the drawing down of provisions in Shorts' March 1989 balance sheet, so as to minimise the impact on the costs of disposal.

I am sending a copy of this letter to the Prime Minister.



JOHN MAJOR

Inv'd POC: Short
PSS





A NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ
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Rt Hon John Major MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

11 May 1989

See Chief Secretary

SHORT BROTHERS PLC

at flat

Thank you for your letter of 16 May and your support for the approach I am taking on this matter. As a first step I intend to seek to persuade Bombardier to enter into a binding contract for the purchase of Shorts at a significantly lower net cost to HMG than they have suggested and without certain conditions which they have sought, particularly the opportunity to renegotiate the F100 wing contract with Fokker before entering into contract. I think this gives us the best prospect of a clean break at the lowest achievable cost.

With this in mind I propose to offer M Beaudoin, Chairman of Bombardier, a package deal with a net cost to HM Government (excluding the cost of the rundown of the sales financing facilities - see below) of £675m to £700m in return for a Heads of Agreement which eliminates conditions in his proposal which are unacceptable to us. Officials have advised that I should open at £675m but I would like your agreement to go to £700 m if it seems to be likely that this would secure a deal.

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I should be grateful for your approval to an offer of a figure in the £675/700m range. I acknowledge that this goes some way beyond the £600m which we adopted as a target earlier in the year but our investigations of the company since then have shown that the problems are, if anything, greater than we then thought possible. In particular, the problems of the F100 wing contract for Fokker have assumed major proportions and your officials have received copies of legal and accountancy advice which I have received which all too clearly demonstrate the extent of Shorts actual and potential liabilities. (It is now clear that Touche Ross' costings for the options for Shorts were understated and I have asked them to look at them again in the light of this latest information). In the circumstances, I think we cannot realistically expect to be able to settle at anything less than £675/700m.

As regards the conditions which I would wish to see eliminated from the Bombardier offer, the main ones relate to renegotiation of the F100 wing contract, Bombardier's wish to obtain a comprehensive agreement with the workforce before entering into contract and Bombardier's preference for freehold title to the land leased by Shorts. I have already referred to the F100 wing and the other two are not in my gift to deliver, nor do I believe that the freehold title is achievable. Our officials have agreed with our advisers a revised version of the Heads of Agreement on which we might negotiate with Bombardier and your officials have a copy of the revised document.

Should Beaudoin not accept my offer for an unconditional deal, I would propose to give him a period of exclusivity to renegotiate terms and conditions of the F100 wing contract with Fokker. I propose to set a two month time limit on these negotiations and to tell Beaudoin that the Government is not prepared to fund future losses on the contract to a sum greater than £65m.

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As regards the acceptability of Bombardier as a purchaser of Shorts, you have already seen the initial report by Kleinwort Benson and I asked them to undertake further work which has now been copied to your officials. Of course, I shall insist that any Heads of Agreement with Bombardier will entitle us to make a pre-contract full due diligence but, in the meantime, the work undertaken by Kleinwort Benson has not produced any evidence that Bombardier's position is unsatisfactory.

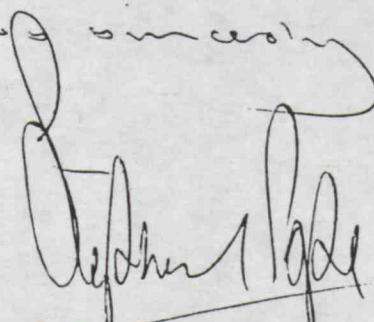
One final point. The present arrangements with Bombardier assume that we will retain ownership of the sales financing subsidiaries and that Bombardier will be managing these on our behalf. I find this - which is less than a clean break - unsatisfactory and have asked Kleinwort Benson to explore the terms on which aircraft financing companies might be prepared to assume these liabilities. If such a deal is possible there will be a further cost which is unlikely to be less than £50m, but I think we should have the opportunity to consider this as it would give a clean break in that area also. I will, of course, consult you on the outcome of Kleinwort Benson investigations.

You will appreciate that the costs of resolving the Shorts problem once and for all, (including the cost of funding losses in the current year before privatisation) are exceptional items, well outside the capacity of the Northern Ireland Block to bear, particularly bearing in mind the costs I am bearing on the disposal of Harland and Wolff. A substantial part of the cost will fall in the current financial year, and, as you are aware, no provision has been made for this within the Northern Ireland Block. I will, therefore, as previously indicated, need to come to the Reserve for the 1989/90 costs of the disposal. It is too early yet to form any clear assessment of the phasing of the balance of the cost over the

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Survey years, but I am nonetheless satisfied that the sums involved will be entirely beyond what the Block could accommodate. I will, therefore, need to mount a bid during the coming Survey.

I should like to respond to Bombardier within the next two days and I should, therefore, be grateful for an early response to this letter.

Yours sincerely


TK

(Approved by the Secretary
& State & signed in his
absence)

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Treasury Chambers, Parliament Street, SW1P 3AG

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The Rt Hon Tom King MP
Secretary of State for Northern Ireland
Northern Ireland Office
Whitehall
London
SW1A 3AZ

16th May 1989

Dear Tom,

SHORTS: FOKKER/GEC

at flap

You copied ^{me} your minute of 10 May to the Prime Minister.

Like you I see the Bombardier offer as offering the best prospects of securing a disposal at an acceptable price. But, as you say it is at present too conditional and too costly. The way forward you propose seems to offer the best way of reducing the conditionality and also of determining whether an acceptable deal can be struck.

I am therefore content that you proceed as you suggest, subject to you agreeing with me, in the light of Norton Rose and Touche Ross advice, both the amount you would indicate to Bombardier you would be prepared to seek colleagues' agreement to as the price of a binding contract, and also the cap that you would set for their negotiations with Fokker if, as you suspect, they are not prepared to agree a purchase without such a negotiation on the Fokker wing.

I am copying this letter to the Prime Minister.

Yours Ever,
John Major
JOHN MAJOR

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*Me from
ce G Guse*

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

16 May 1989

SHORT BROTHERS PLC

The Prime Minister was grateful for your Secretary of State's minute of 10 May. She has noted the position on the bids for acquisition of Shorts and the action that your Secretary of State has in hand.

I am copying this letter to Carys Evans (Chief Secretary's Office).

Paul Gray

Stephen Leach, Esq.,
Northern Ireland Office.

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Prime Minister

|| MBM with Treasury
|| regard. B/F 15/5.

SHORT BROTHERS PLC

PLC 6
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1. I have now received from Bombardier Inc and a GEC/Fokker partnership proposals for their acquisition of Short Brothers PLC, and officials and advisers have given me preliminary advice on these proposals.

2. As expected, both bidders are seeking considerable support for their proposals, which, even after allowing for what they would pay us for the shares, would require the injection of substantial funds beyond the £390 million we put in place at the end of the last financial year. Nonetheless, I am convinced that privatisation of the company as a whole is much the best route, as the alternatives leading to drastic rationalisation or closure involve very significant sums of money indeed (you will recall the costings: £815m - £1100m in total).

3. The proposal by GEC/Fokker is the less attractive of the two. It is still vague and subject to a great number of conditions, but it appears to have a cost to us of a further £800 million. The proposals for the Missiles Division of Shorts are reasonably well developed but those for the Aircraft side are very imprecise indeed. To some extent, this reflects the situation in Fokker where the management is contemplating a major re-arrangement of manufacturing facilities to meet the recent upsurge in demand for its F100 passenger jet (Fokker now has 212 firm orders and 178 options). It does not have adequate capacity in Holland and is contemplating various alternatives of which Shorts' facilities are one; a US location, possibly with McDonnell Douglas, is also being

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considered. It is clear that Fokker's main interest as a bidder for Shorts lies in securing its supply of wings for the F100; the wings are made by Shorts but the design is particularly difficult to manufacture. They are in great difficulty in maintaining their schedules and are incurring heavy losses.

4. The proposal from Bombardier is far more detailed and, at a net additional cost of some £400 million, is closer to what we had in mind and might be negotiable downwards. I was able to visit their Canadair aircraft facilities during my North American trip last week and was encouraged by what I saw. We have undertaken an initial review of Bombardier's acceptability as a purchaser but will wish to seek more information if they are preferred. I have been impressed by the major effort they have made in putting together their proposal, and Alan Urwick's telegram 324 of 4 May from Ottawa confirms the strong supportive interest of the Canadian Government in the Bombardier approach.

5. Bombardier's plans cover the whole range of Shorts' businesses but on the aircraft side concentrate on their recently launched RJ commuter jet, a derivative of their established Challenger business jet. Their proposal for Shorts is to replace manufacture of the SD360 with substantial sub-contract production and engineering work for this regional jet and to develop within Shorts its skills for composite and engine nacelle work. Their plans appear to make good business sense and, although they anticipate a possible 2,000 redundancies within about three years of acquisition, I think we have to accept that cutbacks are inevitable in any plan to turn the company into a profitable operation (and indeed 700 redundancies have already been announced by Shorts).

6. The Bombardier proposal is not as firm as I would have wished as it is subject to some significant conditions. The major one



centres on the Fokker F100 wing and Bombardier's worries about Shorts' potential liabilities under its contract with Fokker. At a late stage in negotiations, Bombardier have made it clear that they will wish to re-negotiate with Fokker the terms and conditions of the contract and that they will not proceed unless these re-negotiations are completed to their satisfaction. This has a positive aspect in that a major part of the funds which they are seeking from the Government is made up of loss provisions on this contract and they have proposed that a satisfactory outcome to these negotiations would be reflected in a reduction in the amount of funding being sought. They are also concerned to establish a single union negotiating structure, and acceptance of full flexible working arrangements, and would obviously prefer to establish this in advance of ownership.

7. In respect of the Fokker problem, I have asked Norton Rose and Touche Ross for additional information to help to deal with this matter but I may well have to agree to a period of exclusivity to allow Bombardier some time to undertake this re-negotiation. Subject to the further advice, my view is that it may well be sensible to permit these negotiations within a capped amount, less than Bombardier are seeking, to see if a satisfactory disposal package can be developed.

8. In spite of these difficulties, the Bombardier proposal is much the more attractive of the two and there seems a good chance that we can negotiate their request for funds down to a more acceptable level. I would have preferred more certainty at this stage and, as a first step, I intend to seek to persuade Bombardier to enter into a binding contract for the purchase of Shorts without any of the above conditions.

9. In advance of this, I hope to go to Amsterdam this week to see Fokker and form an initial view of Fokker's attitude to changes

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in the wing contract. Should it not be possible to make progress with Bombardier without conditions - as I fear is likely - I shall then seek a Heads of Agreement which is less conditional and less expensive than the present proposal but which would offer a limited period (I have in mind not more than 2 months) during which Bombardier could seek to re-negotiate the F100 wing contract within a capped amount. I shall at the same time tell Fokker/GEC what I am proposing.

10. I am copying this letter to John Major.

A handwritten signature in blue ink, appearing to be "TK", enclosed within a large, loopy blue circle.

TK

10 May 1989

PRIME MINISTER

SHORTS

The minute from Tom King at Flag A below reports developments with the two bidders for Shorts - Bombardier and a GEC/Fokker partnership.

You will see that Bombardier is clearly emerging as the favourite bidder, but that a complication arises because of their worries about Shorts' liabilities under its existing contract with Fokker concerning the F100 wing. Tom King is meeting Fokker this afternoon to try to ease the position on that point.


You may also like to see an earlier note George Guise prepared on 5 May at Flag B.

I have discussed the latest position with both George and with John Major's office. They are both content with the way in which Tom King is handling matters. John Major will be minuting to this effect tomorrow, while stressing that Bombardier's present bid for funds is too high. George is keeping in close touch with those concerned.

Content simply to note the latest developments set out in Tom King's minute?

PCCG.

(PAUL GRAY)

15 May 1989Yes 

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PAUL GRAY

5 May 1989

B

CF - re.
RUC
8/1

UPDATE ON SHORTS

Both bids are in and Tom King will be minuting early next week recommending Bombardier.

Fokker/GEC

They have a big problem with finding the extra capacity to produce the new F100 wings. The aircraft has obviously been overmarketed too early and at too low a price - cf Airbus where we are now told that the order book is so good that they will lose far more money than they expected!

The Fokker/GEC proposal is vague with no proper commitment to the business role envisaged for Shorts other than continued lossmaking production of the F100 wings.

The cash injection required from HMG would be £700m plus £100m for capital expenditure in addition to the £390m already transferred (and about which I was so reluctant!) This makes a total of £1190m and sounds like a nonstarter.

Bombardier

There is a clearer business role for Shorts which will include keeping the missile division under one ownership. Bombardier are however worried about the loss making contract for the F100 wings which Shorts have got themselves locked into. Bombardier do not believe it possible to make profits unless the wing is redesigned for more streamlined production.

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Bombardier have requested a further £400m (to include capital expenditure) in addition to the £390m already transferred. This makes the far more realistic total of £790m. We must endeavour to negotiate this down and I believe the Treasury would support a deal at £750m.

Liability for Aircraft Leasing

Both contenders refuse to assume this and insist that it be left with HMG. ~~It is analogous to the~~ Varley-Marshall assurances in that it will expire with time. I find it hard to get anyone to quantify a realistic estimate of this contingent liability. However, on the wholly unrealistic assumption that every airline in the world with leasehold aircraft from Shorts suddenly went bankrupt, the maximum figure would be £300m.



GEORGE GUISE

2
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✓
cepu

Northern Ireland Office
Stormont Castle
Belfast BT4 3ST

Rt Hon John Major MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

MBM

HLG

19/4

13 April 1989

SHORT BROTHERS PLC

at the top

Thank you for your letter dated 22 March regarding the draft negotiating brief. I accept the points you make and am happy that our officials should conduct their preliminary negotiations in accordance with our agreed stance.

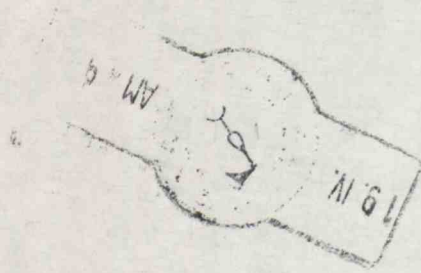
It is inevitable that further specific issues will emerge in discussion with the potential purchasers and I will, of course, consult you further as necessary and on any final package.

I am copying this letter to the Prime Minister.

TK

PM/21829

Ind Pol Svant Brothers PLC
page 2



PART 2 ends:-

Pa to N10 03/3/89

PART 3 begins:-

SS/N10 to CST 18/4/89

Grey Scale #13



A 1 2 3 4 5 6 **M** 8 9 10 11 12 13 14 15 **B** 17 18 19



Inches 1 2 3
Centimetres 1 2 3 4 5 6 7 8

Colour Chart #13

Blue Cyan Green Yellow

