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*Prime Minister*²
MUS 28/3

PS/Secretary of State for Industry

28 March 1983

Tim Flesher Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Tim

BRITISH AEROSPACE RESULTS

We now understand that the preliminary announcement of BAe's 1982 results, about which my Secretary of State minuted the Prime Minister on 23 March, will be made at 11.00am tomorrow. It therefore seems likely that there may be references to the loss BAe have made in the course of Prime Minister's Questions tomorrow afternoon. You may find it helpful to have the enclosed background note and notes for supplementary questions. As you will see, some of the figures in the background note are slightly different from those given in my Secretary of State's minute; this is because they are based on more up to date information.

Yours ever
Steve Nicklen

STEPHEN NICKLEN
Private Secretary

BRITISH AEROSPACE

British Aerospace, which was consistently profitable as a nationalised corporation, now makes a loss post-privatisation

I agree that British Aerospace's results for 1982, as announced today, are disappointing. But they reflect the sharp downturn in world demand for civil aircraft which is affecting all aircraft manufacturers. (Boeing's net earnings fell 62% in 1982 for the same reason). British Aerospace continues to do well in the fields of military aircraft, missiles and satellites: the company is also well placed to take advantage of the upturn in the civil market when it comes.

Those who purchased shares in British Aerospace have been misled: privatisation will cause them to lose money.

I do not agree. Investors were aware that British Aerospace operates in an internationally competitive environment where it is dependent upon the level of world demand for its products. The criticism from the PAC was that the Government sold the shares too cheaply.

What will the Government do to help British Aerospace (oblige British Airways to purchase BAe products, launch aid for A320 etc)?

British Aerospace itself will wish to take any necessary commercial action. The Government will not direct British Airways to purchase any particular type of aircraft. As regards launch aid for the A320, the Government still needs to be satisfied that the project can earn a commercial rate of return. The British Aerospace application remains under consideration.

Will the Government now abandon privatisation?

No. It remains the Government's view that companies will perform best in the medium and long-term when exposed to the disciplines of the market place.

Background

The preliminary announcement of British Aerospace's 1982 results takes place on 29 March. We understand that the profit before taxation will be £80 million (compared with £70 million in 1981)

but that this will be more than offset by a write-off of £100 million to reflect such exceptional factors as the increased risk of cancellation of orders during the current recession in the civil aircraft market. The net result will be a final loss of £20 million.

This will be the first ever BAe loss. Market reaction will be adverse and the share price will decline. But the results reflect the fact that the civil aircraft market has been severely depressed. BAe have secured only 18 sales (6 of which are rather uncertain) plus 14 options for the new 146 airliner. Airbus sales showed a negative net balance last year (ie cancellations exceeded new orders). Prospects for the current year are not much brighter. BAe's military sales continue buoyant - as do its activities in the missile and space fields.

BAe's shares were floated at £1.50 in February 1981. They have never fallen below that level and reached a peak of £2.55 in September 1982 before declining to their present level of around £2.30.

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