

PREM 19/1099

Select Committee Report

PARLIAMENT

on Concorde

DECEMBER 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
22.6.81		22.7.82					
30.6.81		30.7.82					
2.7.81		2.8.82					
3.7.81		11.11.82					
7.7.81		29.11.82					
9.7.81		7.12.82					
13.7.81		9.12.82					
13.7.81		14.12.82					
21.11.81		20.12.82					
30.11.81		25.2.83					
13.11.82		4.3.83					
20.4.82		17.3.83					
23.4.82							
24.5.82							

PREM 19/1099

for report see

Questions.

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons Paper No. 193:

Second Report from Industry and Trade
Committee, Session 1981-82: Concorde
HMSO, 10 February 1982

Signed AWayland Date 23 April 2013

PREM Records Team



MBPM

MO 18/3

Parliamentary
CC NO

Foreign and Commonwealth Office

London SW1A 2AH

17 March 1983

From the Parliamentary Under Secretary of State

Dear Norman,

FUTURE OF CONCORDE

Your letter of 3⁴ March to Iain Sproat reported recent developments on the future of Concorde. I am pleased to learn that our officials reached agreement on the text of your answer to the inspired Parliamentary Question and that the French have been given the necessary explanations. I am also grateful for your assurance that the notice of termination of contracts issues to the British manufacturers could be withdrawn if Ministers wished. I understand that there will be no further talks with the French until your exploratory discussions with British Airways have made progress, when our officials can review the position together.

Meanwhile I should like to comment briefly on Leon Brittan's letter to me of 2 March. We all hope that your negotiations with BA will succeed, and that it will be possible to gain French agreement to the Anglo/French aspects of the arrangements. I am glad that there is general approval for my idea that we should seek to commit BA to giving us notice of any intention to terminate Concorde operations once they are responsible. However, I do not think that we can presume anything at this stage about our policy should the talks fail. We do not know whether it would then be politically wise to stop Concorde flying. And even if we wished to do so, we would still have to carry the French with us. I cannot predict now what their position would be. I therefore believe that we must leave the question open.

I am copying this letter to the recipients of the earlier correspondence.

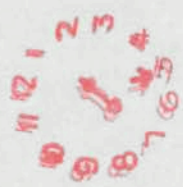
Yours ever,
Malcolm Rifkind

Malcolm Rifkind

Norman Lamont Esq MP
Minister of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

Parliament,
Dec '80, Concorde.

18 MAR 1983





From the
Minister of State

Norman Lamont MP

Iain Sproat Esq MP
Parliamentary Under Secretary
of State
Department of Trade
1 Victoria St
London SW1

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

4 March 1983

Dear Iain

THE FUTURE OF CONCORDE

Thank you for your letter of 24 February, with which you enclosed a copy of one that you had sent the previous day to John King. I wrote to Austin Pearce and Frank McFadzean on 25 February, and enclose copies of my letters. French officials were informed later that day of our decisions: and on Monday 28 February MOD(PE) gave the manufacturers formal notice of termination of the Government's contracts to take effect from 31 March 1984. All that therefore now remains to be done is to make our decisions public through an arranged PQ, and to let the Select Committee on Industry and Trade know of this announcement beforehand.

You also enclosed a redraft of the PQ, to take account of certain suggestions by Malcolm Rifkind. I agree with these. I do not, however, consider that realistically we could - or should - make no public mention that the fact that the Government has given notice of termination of existing contracts. This is, of course, already known to the two British contractors; and they in turn have been formally instructed, under the usual procedures in these matters, to review obligations and reduce further expenditure to the minimum, a review which it is stated will usually involve their cancelling purchases of unwanted materials, terminating sub-contracts, and the disposal of surplus materials and equipment. News of the termination will therefore quickly become known throughout a wide sector of British industry and indeed, through the French authorities and manufacturers, also in France. It is therefore likely to become public knowledge within a very short period indeed.

Malcolm Rifkind does, however, have a point in suggesting that the wording of the original draft answer could imply - erroneously - that the Government has already decided to ground Concorde if the talks with British Airways fail. To meet his objection I have reworded the passage to give the same - unexceptionally - reason for the Government's decision as in my letters to Austin Pearce and Frank McFadzean.



On this basis, I will now arrange for the PQ to be tabled as an Ordinary Written Question and for it to be answered on Monday, 7 March. This will allow time for me to send Donald Kaberry a letter forewarning the Select Committee of the proposed announcement, and to advise them of the possibility of exploratory discussions with British Airways, which are referred to only very obliquely in my proposed Answer.

Your letter, and those from Leon Brittan and Malcolm Rifkind, contains suggestions as to the approach which officials should adopt in the exploratory discussions, whilst the Treasury and FCO letters also raise the hypothetical question of what would happen if the Government and British Airways cannot agree.

In correspondence with British Airways and the manufacturers, Ministers have already laid down positions on a number of points, eg for a British Airways contribution, for direct contracts, and for spares and other property to be passed over only on commercial terms, of which officials will need to take account. However, by far the most important of these is the decision, referred to in your letter to John King, to switch funding proposed for 1984-85 onwards for Concorde to launch aid for the Westland 30 helicopter project. We shall, of course, have to find some - pretty marginal - amounts in PES 1983 for the net costs of terminating existing contracts if British Airways assume Government responsibilities, and a good deal more if in-service support activities are shut down and Concorde grounded. But without PES provision to meet costs for on-going activities beyond the end of 1983-4, many of the expectations in John King's letter of 13 December are likely to be unfulfilled; and, if this were to prove a sticking point with the airline, we could well be in for a fundamental review of the kind referred to by Leon Brittan.

I see no point in our speculating now, before the exploratory discussions have even begun, on what might be decided by Ministers collectively should negotiations fail. However, I can confirm that notices of termination could in theory be withdrawn. But whether the Government of the day would withdraw them, if the then estimates still confirm current judgements of British Airways financial ability to take on the Government's responsibilities, is an entirely different question.

I am copying this letter, with enclosures, to the Prime Minister, the members of E(EA), John Biffen, Malcolm Rifkind, Geoffrey Pattie, Michael Jopling and Sir Robert Armstrong. In the absence of comment by close of play on 4 March, I shall take it that colleagues are content.

NORMAN LAMONT

*Yours
Norman*



TS/1/072

DRAFT ARRANGED WRITTEN PQ ON CONCORDE

To ask the Secretary of State for Industry, whether he will make a statement about the funding of in-service support for Concorde in the financial year 1983-84.

Mr Lamont

As I announced on 17 December 1982 British Airways have concluded that the airline could take over the future costs of supporting Concorde in-service, subject to agreement on a number of points. To allow for the completion of discussions on these points, for the negotiation of contracts between the airline and the manufacturers, and for further discussion with the French Government, the Government has decided to continue to fund in-service support during 1983-84. The extent to which British Airways would contribute to such costs will be discussed with the airline. To give the maximum time possible for the negotiation of new contracts, under which support can be continued in accordance with the requirements of both British Airways and Air France, the Government has also given British Aerospace and Rolls-Royce formal notice that HMG's contracts for in-service support of Concorde are being terminated with effect from 31 March 1984.



Prime Minister

② CCIV

ms 3/3

Treasury Chambers, Parliament Street, SW1P 3AG

Malcolm Rifkind Esq
Parliamentary Under Secretary
of State
Foreign and Commonwealth Office
Downing Street
London SW1A 2AL

2 March 1983

M. Rifkind

MB

THE FUTURE OF CONCORDE

Thank you for sending me a copy of your letter of February 21 to Norman Lamont. I understand that the points you made about the draft PQ and the statement have been satisfactorily resolved and I do not wish to comment further about them.

However, I would like to make one point about your letter. You said that the ideal outcome would be for BA to accept that the decision about future Concorde operations should remain a matter for governments even after the handover of support costs. I would not agree. As I made clear in my letter of November 25 to Norman Lamont our objective is to withdraw completely from responsibility for Concorde. This means no continuing indemnities to manufacturers or British Airways and no responsibility for deciding whether Concorde continues to fly or not. Indeed the whole point of the exercise, as I understand it, is to ensure that decisions about Concorde's future are taken on commercial grounds.

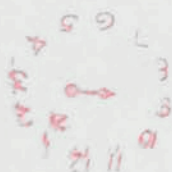
That said, I would agree with your suggestion that the best solution is probably to negotiate with BA a reasonable period of notice if they wished to stop flying Concorde to allow for subsequent discussion between Governments. But the presumption would have to be that there would be no question of continuing with Concorde if BA had decided that the operation was no longer commercially viable.

I am copying this letter to the recipients of yours.

Leon Brittan

LEON BRITTAN

Permanent: Index of Concord
12/80



3 - MAR 1983

PERSONAL



From the
Minister of State

Norman Lamont MP

PS/Sec of State
PS/Mr Butcher
PS/Secretary
Mr Sterling
Mr Croft
Mr Hudson
Mr Treadgold
Mr Bradbury EC
Mr Stredder Air
Mr MacTavish
(on file)

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

Lord McFadzean of Kelvinside
Chairman
Rolls Royce Ltd
65 Buckingham Gate
London
SW1E 6AT

25 February 1983

Dear Friend

FUTURE OF CONCORDE

You will by now have seen Iain Sproat's letter of 24 February to Sir John King setting out the Government's reaction to the proposals contained in Sir John's letter of 13 December. I would like to add the Government's appreciation of the considerable effort which you and your staff have put into assisting British Airways and the Government in considering the future of Concorde.

Our suggestions as to how this work could be carried forward are set out in Iain Sproat's letter. My purpose in writing is to let you know personally of the Government's awareness of the need for early resolution of current uncertainties about Concorde's future, and for the proposed transfer of Government responsibilities to be effected in an orderly and harmonious manner. Our decision to extend funding beyond 31 March 1983, which will I know be welcome to you and your colleagues and to the company's workforce, was taken in this spirit.

I also wanted to let you know that similar considerations lay behind our decision, of which I shall shortly be informing Parliament, that formal notice of termination of existing contracts should be given now. This will give the maximum time possible for the negotiation of new contracts under which support can be contained in accordance with the requirements of both airline customers and their engine overhaul agencies.

The letters from the Procurement Executive of the Ministry of Defence giving formal notice will be sent to the company early next week; and I shall not be making the proposed statement to Parliament until they have been sent and the French Government informed of these developments.

*Yours
Norman*

NORMAN LAMONT

PERSONAL



From the
Minister of State

Norman Lamont MP

PS/Sec of State
PS/Mr Butcher
PS/Secretary
Mr Sterling
Mr Croft
Mr Hudson
Mr Treadgold
Mr Bradbury EC
Mr Stredder Air
Mr MacTavish
(on file)

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
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TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

Sir Austin Pearce CBE
Chairman
British Aerospace PLC
100 Pall Mall
London SW1

25 February 1983

Dear Tim

FUTURE OF CONCORDE

You will by now have seen Iain Sproat's letter of 24 February to Sir John King setting out the Government's reaction to the proposals contained in Sir John's letter of 13 December. I would like to add the Government's appreciation of the considerable effort which you and your staff have put into assisting British Airways and the Government in considering the future of Concorde.

Our suggestions as to how this work could be carried forward are set out in Iain Sproat's letter. My purpose in writing is to let you know personally of the Government's awareness of the need for early resolution of current uncertainties about Concorde's future, and for the proposed transfer of Government responsibilities to be effected in an orderly and harmonious manner. Our decision to extend funding beyond 31 March 1983, which will I know be welcome to you and your colleagues and to the company's workforce, was taken in this spirit.

I also wanted to let you know that similar considerations lay behind our decision, of which I shall shortly be informing Parliament, that formal notice of termination of existing contracts should be given now. This will give the maximum time possible for the negotiation of new contracts under which support can be contained in accordance with the requirements of both airline customers and their engine overhaul agencies.

The letters from the Procurement Executive of the Ministry of Defence giving formal notice will be sent to the company early next week; and I shall not be making the proposed statement to Parliament until they have been sent and the French Government informed of these developments.

NORMAN LAMONT

*Yours
Norman*

Parliament,
Dec 80,
Concordia.

4 MAR 1983

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Mrs THATCHER

deso



From the
Parliamentary Under Secretary of State

Norman Lamont Esq MP
Minister of State
Department of Industry
Ashdown House
123 Victoria Street
London
SW1

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 3781
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NBAM

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24 February 1983

Dear Norman,

THE FUTURE OF CONCORDE

Thank you for your letter of 15 February. ^{-TPM}

I have also seen Malcolm Rifkind's and Leon Brittan's letters of 21 February.

I agree with the draft letter you propose that I should send to Sir John King, and I have now written to him, incorporating the amendment proposed by Malcolm Rifkind. I enclose a copy of the letter I have sent.

I agree that officials should now hold exploratory discussions with BA as you propose, with the aim of getting as close as possible to agreement on a package of proposals about the terms of any transfer to BA, which could then be put to Ministers collectively to consider. In putting such proposals to Ministers I hope officials will address themselves to the practical implications of Malcolm Rifkind's and Leon Brittan's suggestions for the responsibilities which BA should be asked to take on (in relation to Air France, redundancies and support costs). I think we should inform ourselves about these implications before we take a firm view on the unacceptability of any particular course.

Finally I agree with your proposed Parliamentary Answer, subject to one point. This is that I think it might be helpful in conveying a more positive approach to the future of Concorde if you were to add a new first sentence to your answer (on the lines mentioned by Malcolm Rifkind) drawing attention to the fact that, as you reported to the House in December, BA have indicated that, subject to agreement being reached on certain points, they



could take over from the Government the future costs of supporting Concorde in-service.

I am copying this letter to the recipients of yours.

Yours ever,

A handwritten signature in cursive script, appearing to read 'Iain Sproat', written over a vertical line that extends from the 'Yours ever,' above.

IAIN SPROAT



TS/1/072

DRAFT ARRANGED WRITTEN PQ ON CONCORDE

To ask the Secretary of State for Industry, whether he will make a statement about the funding of in-service support for Concorde in the financial year 1983-84.

Mr Lamont

As I announced on 17 December 1982 British Airways has concluded that the airline can take over the future costs of supporting Concorde in-service, subject to agreement on a number of points. To allow for the completion of discussion on these points, for the negotiation of contracts between the airline and the manufacturers and further discussion with the French Government, the Government has decided to continue to fund in-service support for Concorde beyond 31 March 1983. The extent to which British Airways would contribute to the cost of in-service support in 1983-84 will be discussed with the airline.

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Prime Minister (4) 2/80

MCS 22/2



Foreign and Commonwealth Office

London SW1A 2AH

21 February 1983

From the Parliamentary Under Secretary of State

Dear Mr Lamont,

THE FUTURE OF CONCORDE

Thank you for sending me a copy of your letter of 15 February to Iain Sproat on our Concorde policy. I understand that Iain will not be writing to Sir John King until colleagues have had a chance to comment.

Our concern throughout these discussions has been to find a way of bringing the French to accept what is in the UK interest, while not damaging our overall relationship with them. There is now a significant difference of view between ourselves and the French which we shall have to try to resolve. They want the ultimate decision on whether Concorde should continue to fly to remain a matter for governments, while you wish to leave this to the commercial judgement of British Airways once they assume financial responsibility. If we are to succeed in bringing the French round, we shall have to be careful to consult them when appropriate, and not to take any irrevocable step without explaining to them what we are doing and preferably gaining their consent. The alternative would be a dispute with them over whether the 1962 treaty entitles us to take the action we propose, without their agreement; since we are unlikely to be able to convince them of this we would face the prospect of political and economic penalties if we went ahead regardless.

I foresee two difficult points in the near future, the publication of your inspired PQ and answer, and then the first session that we shall have with the French after the explanatory discussions you propose to hold with BA. Both will need to be carefully handled. I have no objection in general to the way forward you propose. But I have a number of suggestions on tactics and presentation.

First, I think it essential that the Embassy in Paris give the French Government advance warning of the text of your inspired Parliamentary Question and the answer, and at the same time explain where we stand. Ministers here agreed in December that Concorde should be kept flying, and I should like the French to be reminded of that. We could then say that we are embarking on negotiations with BA to transfer responsibility for in-service support costs to the airline, and that (as you told Parliament in December) the French will be consulted on the Anglo/French aspects of any new arrangements.

/We

Norman Lamont Esq MP
Minister of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

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We could then explain that the purpose of the latest PQ, apart from clarifying the 1983/84 financial position, is to concentrate the minds of BA and the manufacturers on reaching agreement with HMG, and that although notice has been given to the manufacturers no decision has been taken on the future of Concorde if the talks with BA were unfortunately to reach an impasse. (Incidentally, I trust I am correct in assuming that if the negotiations with BA fail the contracts could be continued. If not, I would want to think again urgently about whether notice to the manufacturers is advisable, since the French would be justified in accusing us of taking a fundamental step unilaterally in breach of the treaty.) If we do not explain ourselves to the French in this way, there is a real risk that they will conclude from your answer that a decision has already been taken that Concorde will be grounded if the talks with BA are unsuccessful.

I understand Iain Sproat is suggesting the following new formulations at the beginning of the draft answer to the PQ: 'As I announced on 17 December 1982 British Airways has concluded that the airlines can take over the future costs of supporting Concorde in-service, subject to agreement on a number of points. To allow for the completion of discussion on these points, for the negotiation of contracts etc'. I agree with this. I would like to suggest an additional amendment, designed to make the answer compatible with what we shall be saying to the French in advance: after 'manufacturers' in the fifth line, I should like us to add 'further discussion with the French Government'. I should also be happier if the whole of the penultimate sentence could be deleted, as it implies erroneously that we have decided to ground Concorde if the talks with BA fail. I understand that you feel that a public statement of this kind would make a significant difference to the willingness of the manufacturers to conclude negotiations, but I am advised that there is no legal necessity for such notice if the intention is to reach agreement with the other parties, failing which the contracts would be continued.

I agree that exploratory discussions between your officials and BA should be the next step, after we have spoken to the French and the PQ has been published. No doubt you will be considering the Anglo/French problems with the airline. Ideally we should like BA to accept that the decision on whether Concorde would continue to fly should remain a matter for governments, since this is the sticking point for the French. But I recognise that this would not be attractive for BA, who would wish to employ the usual commercial criteria, nor indeed to HMG if we wish to shed ourselves of our responsibilities. The best alternative, if we are to find a solution acceptable to HMG, BA and the French, might be to discover what for BA would be a reasonable period of notice of their intention to terminate operations. We could then open exploratory discussions with the French, and suggest to them that if BA (or indeed Air France) wished to stop flying Concorde the future of the project could be a matter for discussion between governments over a certain fixed period. In practical terms, it is unlikely that Air France would wish to continue to fly Concorde if BA

/wished

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wished to stop (and vice versa), but we need to establish with the French a clear procedure to cope with this contingency. It is also important that BA be told that they will have to meet the costs of in-service support for Air France at present levels, unless they can negotiate a reduction. This would be a quid pro quo for the French Government continuing to meet the cost of French manufacturers' support for BA.

I have only one comment on the draft letter from Iain Sproat to Sir John King. I suggest that we should add a new fourth sentence in the penultimate paragraph as follows: 'They (ie the discussions with BA) would need to take account of the interests of other parties concerned, notably the French Government and the manufacturers.' This amendment is intended to provide an opening for discussion of the points mentioned in the previous paragraph.

Finally, we need to bear in mind the implications for our strategy of the cost-sharing dispute. If we do not carry the French with us at all stages we can wave goodbye to any chance of recovering the sum that we think the French owe us. I therefore believe it would be wise to have the Law Officers' opinion on our chances of success if the cost-sharing dispute goes to arbitration before we make our next approach to the French.

I am copying this letter to the recipients of yours.

Yours sincerely

Paul Cairns

PP Malcolm Rikfind
(approved by the Minister
and signed in his absence)

22 FEB 1965



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Prime Minister (2) *[Handwritten signature]*
MS 21/2



Treasury Chambers, Parliament Street, SW1P 3AG

Norman Lamont Esq MP
Minister of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

[Handwritten initials]

21 February 1983

Dear Minister of State

THE FUTURE OF CONCORDE

PM's Box

Thank you for sending me a copy of your letter of 15 February to Iain Sproat.

I am content with the terms of the written PQ and the draft letter for Iain Sproat to send to Sir John King. I am also content with your proposal that a small team of officials should have exploratory discussions with BA to establish the amount of flexibility in Sir John King's opening negotiating position.

I must say that I found his letter of 13 December laid down completely unrealistic conditions for the handover. We must await the results of officials' discussions and consider then whether an acceptable arrangement could be reached. But I should say now that I regard British Airways' conditions that the Government should continue to pay some of the project support costs beyond March 1984, and that it should accept any redundancy liabilities resulting from future cancellation as completely unacceptable. I understand that officials will be trying to negotiate arrangements without these provisions but I do not believe we should make costly concessions in other areas to British Airways. If we discover that the only conditions on which BA are willing to take over in-service support costs are disproportionately costly to HMG we shall need to review the situation fundamentally.

I am copying this letter to the recipients of yours.

Yours sincerely

J. Brittan

LEON BRITTAN

[Approved by the Chief Secretary]

CONFIDENTIAL

Parliament
Dec 80
Concordia

21 FEB 1983



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Prime Minister ②

MS16/2

DEPARTMENT OF INDUSTRY

ASHDOWN HOUSE

123 VICTORIA STREET

LONDON SW1E 6RB

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*From the
Minister of State*

Norman Lamont MP

Iain Sproat Esq MP
Parliamentary Under Secretary
of State
Department of Trade
1 Victoria St
London SW1

15 February 1983

Iain

THE FUTURE OF CONCORDE

We are now ready to take the next steps on the future of Concorde following receipt of Sir John King's letter of 13 December last which set out the conditions on which the BA Board had concluded BA could take over HMG's role with the UK manufacturers of Concorde.

A question which we need to address immediately is the funding of in-service support in 1983-84. As noted in Leon Brittan's letter to me of 25 November, Ministers have now come to the general view that Concorde should be kept flying. Given that there is a PESC provision, that BA is to remain in the public sector during 1983-84, and that there is insufficient time to negotiate any alternative, I propose that the Government should continue to fund in-service support for Concorde in 1983-84. However, in order to keep up pressure on BA, and to help us in presenting publicly this apparent relaxation on our previous position, I propose that the British manufacturers should be given formal notice at this stage that the Government's contracts for in-service support are being terminated with effect 31 March 1984. We need to settle this question quickly in order that the necessary arrangements can be made with the manufacturers and so that we can announce the decision before the 1983-84 Estimates are published. I attach a draft of the announcement which I propose to make. In order to avoid weakening our position by making this concession I also propose that we should tell BA that we expect to discuss with them the extent to which they would contribute to Concorde in-service support costs in 1983-84.

We also need to explore as quickly as possible the scope for reaching agreement with BA on the conditions on which they would take over HMG's present responsibilities, and which we could justify publicly to the Select Committee and more generally. At the moment there is a wide gap between what we have asked British



Airways to consider (which postulates no continuing HMG financial involvement), and what BA have proposed (which is that they should take over only about two thirds of the Government's present expenditure obligations). However, I believe the conditions set out in Sir John King's letter to be an opening negotiating position rather than BA's final stance, and that there could therefore be scope for reaching agreement. This would, of course, have to take account of the fact that, as a Department, we have no funding for Concorde in-service support beyond 31 March 1984. But there are other items on which the Government could, as necessary, make concessions.

I suggest that the best way forward would be for a small team of officials to have exploratory discussions with BA, initially with the aim of identifying the minimum conditions which BA would expect the Government to meet for relieving HMG of the risks inherent in continuing with the present responsibilities and to induce BA to take on financial risks to which they are not currently subject. If these showed there to be sufficient flexibility in BA's position, the talks could be extended to consider the scope for reaching an agreement which would meet the concerns of both sides and the detailed nature of such agreement.

... In order to get such discussions under way you may like to write to Sir John King along the lines of the draft letter attached. This also covers the 1983-84 arrangements, and makes it clear that the exploratory discussions would be without prejudice to the eventual position, either of HMG or of the BA Board.

I am copying this letter to the Prime Minister, the members of E(EA), John Biffen, Malcolm Rifkind, Geoffrey Pattie, Michael Jopling and Sir Robert Armstrong, to whom I sent copies of Sir John King's letter under cover of my letter of 20 December to Patrick Jenkin.

John

Norman

NORMAN LAMONT



TS/1/072

DRAFT ARRANGED WRITTEN PQ ON CONCORDE

To ask the Secretary of State for Industry, whether he will make a statement about the funding of in-service support for Concorde in the financial year 1983-84

Mr Lamont

To allow for the completion of discussions about the transfer to British Airways of HMG's financial and other responsibilities for Concorde's support, and for the negotiation of contracts between the airline and the manufacturers, the Government has decided to continue to fund in-service support for Concorde beyond 31 March 1983. The Government has, at the same time, given British Aerospace and Rolls-Royce formal notice that, since no funding will be available beyond the end of 1983-84, HMG's contracts for in-service support of Concorde are being terminated with effect from 31 March 1984. The extent to which British Airways would contribute to the cost of in-service support in 1983-84. will be discussed with the airline.

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DRAFT LETTER FROM MR SPROAT TO SIR JOHN KING

FUTURE OF CONCORDE

Thank you for your letter of 13 December. I am grateful for the time and trouble which you and your staff - who subsequently supplied officials with substantial supporting material - have so evidently put into examining the Government's proposals for the future of Concorde, and for your generally constructive approach. This gives us a solid basis on which to consider whether, without too much further delay, we can now come to arrangements which meet the concerns of both sides.

It is against this background that the Government have decided to extend the present arrangements for in-service support for Concorde beyond 31 March 1983. This will allow time for discussions between us to be completed, and for new contracts to be negotiated between the airline and the two British manufacturers. As part of those discussions we shall want to consider what contribution BA would make to meeting the cost of in-service support in 1983-84. These discussions will also take place against the background that the funding originally earmarked for Concorde

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support in 1984-85 and later years has now been switched to other aerospace projects, and that consequently there is no financial provision for Concorde support funding beyond 31 March 1984. Norman Lamont will therefore shortly be writing to the Chairmen of British Aerospace and Rolls-Royce to let them know that formal notice is being given that the Government's contracts with their firms are being terminated with effect from 31 March 1984. This in turn means that new contracts between BA and the manufacturers will need to be in place by 31 December 1983, with an operative date of 1 April 1984, if support for Concorde is to continue as scheduled in the period 1 January to 31 March 1984.

These dates present us with a stringent - but realistic - timescale. In order therefore that we can proceed towards finding acceptable arrangements, I suggest there should be early exploratory discussions between your staff and a small team of officials to look at the scope for reaching an agreement and what its main elements might be. These discussions would, of course, be without prejudice to the eventual position, either of the Government or of the

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BA Board. The Government team would consist of four officials, led as before by Mr B MacTavish of the Department of Industry; and, if you agree that this is the right way forward, I would suggest that Keith Wilkins should establish direct contact with Mr MacTavish to begin the discussions as soon as practicable.

I am copying this letter to Norman Lamont, and to Austin Pearce and Frank McFadzean.

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Parliament
20 30



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

From the
Minister of State
Norman Lamont MP

The Rt Hon Patrick Jenkin
Secretary of State
Department of Industry
Asndown House
123 Victoria Street
London SW1

MBPM

ms 21/12

20 December 1982

Dear Patrick

THE FUTURE OF CONCORDE

... I was grateful for colleagues' comments on the draft PQ and on my letter to M Fiterman. I now enclose for the record, final texts of both documents.

... Arthur Cockfield, in his letter of 14 December to Leon Brittan, suggested that we should not make a statement now since it should not take much longer to get the terms of the transfer settled. However, John King's reply of 13 December, which was received after he had written and which I also now attach, has proposed a long list of conditions which could lead to protracted negotiations. In order to keep Parliament informed and to forestall the questions which would inevitably have arisen, it seemed better to make a statement now.

Officials are now studying the BA reply and I understand that an interdepartmental meeting is being arranged for early in the New Year with a view to presenting conclusions to Ministers collectively at the earliest practicable date.

I am copying this letter and enclosures to the Prime Minister, the members of E(EA), John Biffen, Malcolm Rifkind, Tom Trenchard, Iain Sproat, Michael Jopling and Sir Robert Armstrong.

*Yours -
Norman*

NORMAN LAMONT



DRAFT

To ask the Secretary of State for Industry, whether British Airways have now made proposals to take over the present Government responsibilities for financing Concorde in-service support, and when he expects a decision on the future arrangements to be announced.

Mr Lamont

The Chairman of British Airways has recently written to my hon Friend, the Parliamentary Under-Secretary of State for Trade (Mr Sproat), indicating that the airline has considered the question of continuing Concorde operations on a commercial basis and concluded that British Airways could take over the future costs of supporting Concorde in-service subject to agreement being reached on a number of points.

The Government welcomes the airline's conclusion. British Airways proposals on these points will now be studied by the interested parties along with a number of other related issues. The French Government will be consulted on the Anglo-French aspects of any new arrangements. Until this process is completed it would be premature for me to say when a further statement might be made to the House.

Parliament



Prime Minister (2)

MUS 17/12

Treasury Chambers, Parliament Street, SW1P 3AG

Jr. Rhodes Esq
Private Secretary to the
Rt Hon Lord Cockfield
Secretary of State
Department of Trade
1 Victoria Street
London SW1H 0ET

17 December 1982

Dear Jr.

THE FUTURE OF CONCORDE

I understand that your Secretary of State has now withdrawn his objections to a Parliamentary statement and arrangements are being put in hand to table the question. This letter is simply to confirm that the Chief Secretary is content with the draft reply circulated by Mr Lamont on 7 December.

I am sending copies of this letter to the Private Secretaries of the Prime Minister, Members of E(EA), the Secretary of State for Industry, Lord Trenchard (MOD) Mr Rifkind (FCO), Mr Sproat (DOT) the Chief Whip and to Sir Robert Armstrong.

Yours sincerely

Jr. Gieve

JOHN GIEVE
Private Secretary

Parliament - Select Committee on
Concorde

7 DEC 1982

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From the
Minister of State

Norman Lamont MP

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

M Charles Fiterman
Ministre d'Etat
Ministre des Transports
246 Boulevard St-Germain
75700 Paris
France

15 December 1982

Dear Mr Fiterman

Thank you for your letter about the future of Concorde, which I received on 6 September. I thought it best to delay writing until I was able to give you a further explanation of our position.

I do, of course, understand that, in recognising at our meeting on 6 May that the question of a termination of the Concorde project will have to be contemplated sooner or later, you were not indicating that the French Government wished to proceed immediately to examine possible arrangements for termination. Indeed you confirmed that the French Government is still prepared to continue operation of the Air France aircraft. Given the financing arrangements now made for 1983 and described in your letter, the question of a possible agreement by both Governments to detach themselves from the project and to terminate the 1962 Agreement is clearly unlikely to arise for some time.

For our part, in my letter of 6 August I said that the British Government had asked British Airways whether they wished to take over responsibility for funding in-service support of Concorde by the British manufacturers. The Government has now received a definitive reply from British Airways. I attach a copy of the announcement I am making to Parliament on 17 December about this. You will see that the British Government has no wish to bring about the termination of Concorde services, and has indeed welcomed British Airways conclusion that the airline could take over the future costs of supporting Concorde in-service subject to agreement being reached on a number of points. Our objective in making new arrangements for in-service support in Britain is only to ensure that all the costs of Concorde are borne by those



who use the service, and not by the British taxpayer, and to enable the future of Concorde in operation with British Airways to be determined on a fully commercial basis.

We do not therefore envisage either withdrawal from the 1962 Agreement, or from such institutional machinery as is still judged necessary for the performance of residual functions under the Treaty, or from the existing contractual relationships between British and French manufacturers and between the British manufacturers and Air France. But the extent of official involvement, already much reduced now that in-service support programmes are running on smooth and largely predictable lines, will be somewhat less pronounced in the future. Our intention to continue with the 1962 Agreement, appropriate machinery for Anglo-French oversight, and the existing Anglo-French contractual arrangements does, I hope, meet your understandable concern that the carrying out of our proposals might leave the French Government in an unacceptably exposed and isolated position.

Traditionally, the financial and contractual aspects of Concorde have been regarded as national matters. I attach importance to the spirit of co-operation between us, and should like us both to be assured that our two Governments are satisfied with the arrangements to support Concorde in our two countries, and on the role of British and French officials on this. I therefore propose that we ask the Concorde Management Board to prepare and present an early report on these matters.

With best wishes

Yours sincerely

Norman Lamont

NORMAN LAMONT



From the Secretary of State

Prime Minister

(2)

MCs 14/12

CONFIDENTIAL

The Rt Hon Leon Brittan QC MP
 Chief Secretary
 HM Treasury
 Treasury Chambers
 Parliament Street
 London
 SW1P 3AG

14 December 1982

Dear Chief Secretary

ms

THE FUTURE OF CONCORDE

I am writing to you with reference to your letter of 25 November to Norman Lamont and his letter of 7 December to Iain Sproat.

I can see no advantage and plenty of disadvantage in a Parliamentary Question. The important thing is to get the terms settled. This should not take much longer and we should then be in a position to make a definitive statement. To start making statements now would simply take the heat off; and possibly lead to misunderstandings.

The most important point is whether support ceases on 31 March 1983 or continues to a later date. This in turn will be a determining factor in deciding the future of the 80/20 profit sharing arrangement: although in this my own view is that the termination of that arrangement should coincide with whatever date is chosen for the cessation of support.

I am copying this letter to Norman Lamont and the recipients of his letter of 7 December.

Yours sincerely
 John Whitehead

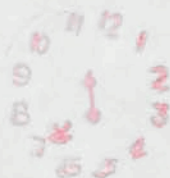
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LORD COCKFIELD

Approved by the Secretary of State and signed in his absence

PARLIAMENT: Select Committee report on
Concordat: December 1980

14 DEC 1982



**British
airways**



PO Box 10
Heathrow Airport (London)
Hounslow TW6 2JA
Telephone: 01-759 5511
Telegrams: Britishair

Chairman: Sir John King
13 December 1982

Iain Sproat, Esq., M.P.,
Parliamentary Under Secretary of State,
Department of Trade,
1 Victoria Street,
London SW1H 0ET.

Iain Sproat

TO	MR CLARK	DATE	12/15/82
FOR	MR CLARK	BY	PS/MR KENNEDY
RE			PS/SECURARY
			MR KENNEDY
			MR CRANE
			MR BLAKE
PLEASE BY:			MR HUGHES
			MR ROBERTS
			MR FORBES
			MR MACDONALD
			MR LAUREN
	AS AP		

FUTURE OF CONCORDE

In my letter of 18 October I undertook to propose how British Airways could comply with HMG's requirement that the Airline take on the costs of maintaining Concorde in service hitherto borne by Government, thus enabling Concorde operations to continue.

At its 3 December meeting, the British Airways Board reiterated its intention to make its proposal on strictly commercial grounds and concluded that BA could take over HMG's role with the UK manufacturers of Concorde on the following basis:-

- 1 The 80/20 operating profit sharing arrangement to be abrogated from the date BA takes over support-cost responsibility.
- 2 This date to be that by which the present contractual arrangements between Government and Manufacturers have been transferred (after appropriate revision) to BA.
- 3 Contract renegotiation to be initiated straight away, with the firm intent of completion as soon as possible. Meanwhile existing contracts to continue.
- 4 An assurance that BA would, at most, be expected to bear only its share of the costs of contract re-negotiation.
- 5 With effect from completion of renegotiation, BA to be given access to the existing stock of spares at nominal charge. (BA's view is that the stock has only scrap value unless Concorde continues).

/continued.....

Iain Sproat, Esq., M.P.

- 6 BA to be relieved from funding those items of expenditure which are essentially concerned with Concorde's design and production rather than with its in service support. These items are mainly:-
 - a structural and material testing, in particular the Major Fatigue Specimen Test being undertaken at Farnborough.
 - b Costs of disposal of unwanted production facilities.
 - c Costs of administration by HMG of the Concorde project.
 - d Flight test support.
 - e Restoration of the spares lost in the fire at British Aerospace, Weybridge, for which (it is understood) insurance compensation has been made.
- 7 HMG commitments on insurance, indemnities and product liability as set out in "Clause 9" of the Manufacturers Contracts to remain in effect to the extent necessary to provide a safety-net beyond the cover (£165m) BA would expect to take over.
- 8 HMG to continue to accept any redundancy liabilities to UK manufacturers implicit in any future decision to terminate Concorde operations (BA has made no allowance for this liability in assessing the future viability of the project).
- 9 HMG to re-affirm the UK undertakings to the French Government in the 1962 Treaty; and HMG to ensure that the lower level of in-service support BA has in principal agreed with the UK manufacturers is acceptable also to the French. BA would wish to be indemnified by HMG against any extra costs arising from lack of such acceptance or any other obligation to the French that would affect the basis of BA's assessment of Concorde's viability.

An important assumption underlying the above proposal is that suitably revised contracts can be negotiated. In my previous letter I said that British Airways, Rolls Royce and British Aerospace all thought that contract re-assignment would prove so lengthy that it might well delay unacceptably the date on which the Airline could take on HMG's role.

/continued.....

Iain Sproat, Esq., M.P.

In now offering to attempt re-negotiation, I am responding to your letter of 19 November which emphasised that Government would greatly prefer British Airways responsibility for in-service costs to be on the basis of contracts directly between Airline and Manufacturers.

Your November letter also seemed to suggest HMG recognises that British Airways acceptance of support-cost responsibility may have to be later than April 1983 because of the complexity of re-negotiation. In our present judgment (we have not yet seen all the contracts) re-assignment may not be accomplishable before later 1983/early 1984. However, British Airways would, of course, consider accepting support-cost responsibility at an earlier date if HMG were to agree that the proposed basis for acceptance, summarised in points 1 and 4-9 above, could be effective whilst contract re-assignment was being negotiated.

I shall be pleased if you will signify if you find these proposals acceptable. If so, contract re-negotiation can commence straightaway.

Iain Sproat

John King
John King

Parliament:

Select comm: on concorde.
Dec 1980

21 DEC 1982



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Parliament ✓
ZPPS



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 5903
SWITCHBOARD 01-212 7676

From the
Minister of State
PS/Norman Lamont MP

Ms Ruth Thompson
Private Secretary to
Mr Sproat
Parliamentary Under Secretary
of State
Department of Trade
1 Victoria St
London SW1

MBPM
MS 8/12

9 December 1982

Dear Ruth

FUTURE OF CONCORDE

... As promised in Mr Lamont's letter of 7 December to Mr Sproat, I attach a copy of the letter Mr Lamont proposes to send to M Fiterman on Concorde.

I understand that British Airways are on target to provide a definitive response to the Government no later than 13 December, which we hope will allow us to answer the proposed PQ and reply to M Fiterman later that week. We should therefore be grateful for any comments on the draft PQ and answer and letter to M Fiterman by 13 December.

I am copying this letter to Michael Scholar, and the private secretaries to the members of E(EA) and to Mr Biffen, Mr Rifkind, Lord Trenchard, the Chief Whip and Sir Robert Armstrong.

Yours,
John

JOHN ALTY
Private Secretary

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DRAFT LETTER FOR MR LAMONT TO M FITERMAN

Thank you for your letter about the future of Concorde, which I received on 6 September.

I do, of course, understand that, in recognising at our meeting on 6 May that the question of a termination of the Concorde project will have to be contemplated sooner or later, you were not indicating that the French Government wished to proceed immediately to examine possible arrangements for termination. Given the financing arrangements now made for 1983 and described in your letter, the question of a possible agreement by both Governments to detach themselves from the project and to terminate the 1962 Agreement is clearly unlikely to arise until towards the end of next year at the earliest.

For our part, in my letter of 6 August, I said that the British Government had asked British Airways whether they wished to take over responsibility for funding in-service support of Concorde by the British manufacturers. The Government has now received a definitive reply from British Airways. I attach a copy of the announcement I am making to Parliament on 17 December about this. You will see that the British Government has no wish to bring about the termination of Concorde services, and has indeed welcomed British Airways intention to continue. Our objective in making new arrangements for in-service support in Britain is merely to ensure that all the costs of Concorde are borne by those who use the service, and not by the British taxpayer, and to enable the future of Concorde in operation with British Airways to be determined on a fully commercial basis.

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However we do not envisage either termination of the 1962 Agreement, or of such institutional machinery as is still judged necessary for the performance of residual functions under the Treaty, or of the existing contractual relationships between British and French manufacturers and between the British manufacturers and Air France. But the extent of official involvement, already much reduced now that in-service support programmes are running on smooth and largely predictable lines, will be somewhat less pronounced in the future. Our intention to continue with the 1962 Agreement, appropriate machinery for Anglo-French oversight, and the existing Anglo French contractual arrangements does, I hope, meet your understandable concern that a total British Government withdrawal might leave the French Government in an unacceptably exposed and isolated position.

Traditionally, the financial and contractual aspects of Concorde have been regarded as national matters. In order, however, that we can rest assured that our two Governments are satisfied with the arrangements to support Concorde in our two countries, and on the role of British and French officials in this, I propose that we ask the Concorde Management Board to prepare and present an early report on these matters. They can then also advise us as to whether we should meet to consider that report or any other matters that may have a bearing on Concorde's future.

- 8 DEC 1982

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CONFIDENTIAL

*Bartholomew
cc to*



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

*From the
Minister of State*

Norman Lamont MP

Prime Minister 2

To note the proposed

Iain Sproat Esq MP
Parliamentary Under Secretary
of State
Department of Trade
1 Victoria St
London SW1

Written Answer at May A

7 December 1982 *M/S 7/12*

Dear Iain

mt

THE FUTURE OF CONCORDE

Thank you for your letter of 19 November, with which you enclosed a copy of your reply of the same date to John King. Austin Pearce of British Aerospace and Ralph Robins of Rolls-Royce have also written about the proposed contractual arrangements. As their letters raise points of general interest, some of which bear on our own exchanges, I am circulating copies of them, and of the replies, to colleagues.

Requested

Your letter stresses the need to clear our lines with the French Government before any detailed work is done by British Airways in renegotiating contracts. I quite accept this. When once, therefore, the British Airways definitive reply has been received I plan to reply to the points made in M Fiterman's letter which I received on 6 September (translation attached), to draw his attention to the PQ and Answer referred to below, and to propose that the Concorde Management Board of British and French officials should examine and advise the two Governments at an early date on the Anglo-French aspects of the proposed arrangements. A draft of my letter will follow.

Leon Brittan's helpful letter of 25 November indicates that his main concern is that the arrangements for Concorde's future should be settled fairly quickly so that British Airways can concentrate on operating services profitably in the run-up to privatisation. While the developments described above will help achieve an early resolution, his letter confirms that, depending upon the terms of British Airways reply, we could be faced with some difficult and complex decisions. It will inevitably take some little time before we can be sure that we have achieved the right balance, both in principle and presentationally, and are in a position to make a formal announcement and to supplement this by the note which I have promised to let the Select Committee have.

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... If colleagues see no objection I therefore propose to make a holding statement along the lines of the attached draft PQ and Answer shortly after British Airways reply has been received. As you will know, the British Airways Board considered this at their meeting on Friday 3 December; and I understand we may expect Sir John King's letter about a week to ten days from then.

... Leon Brittan's letter makes a number of other points. The question of the indemnities is covered in my enclosed letter to Frank McFadzean. That on the sharing of British Airways Concorde operating surpluses (on which the Prime Minister has since commented) is mainly for your Department. Since, however, this is linked in his letter with the date for the transfer of in-service support costs, I think you will agree that we need to await British Airways definitive proposals on both aspects before taking up a position on it. On this, and on other points in the British Airways reply, we shall need a report from officials. I have therefore asked that work on this be put in hand as soon as the reply is received.

I am copying this letter and attachment to the Prime Minister, the members of E(EA), John Biffen, Malcolm Rifkind, Tom Trenchard, Michael Jopling and Sir Robert Armstrong.

NORMAN LAMONT

A handwritten signature in cursive script, appearing to read 'Norman Lamont', written in dark ink.



TS/1/072

10-13 December

DRAFT ARRANGED WRITTEN PQ ON CONCORDE

To ask the Secretary of State for Industry, whether British Airways have now made proposals to take over the present Government responsibilities for financing Concorde in-service support, and when he expects a decision on the future arrangements to be announced.

Mr Lamont

Following extensive consultations between the airline and the two main British Concorde manufacturers, the Chairman of British Airways has written to my hon Friend, the Parliamentary Under-Secretary of State for Trade (Mr Sproat), to indicate that British Airways wish to continue operating Concorde, and are therefore prepared to take on the Government's present financial and other responsibilities arising from the British contribution to Concorde's in-service support. The Government welcome this decision. They will now consider, with the interested parties, a date for the transfer of responsibilities and other arrangements; and a statement will be made to the House as soon as possible in the New Year. The French Government are being kept informed, and will be consulted on the Anglo-French aspects of such arrangements.

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(A)



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

From the
Minister of State

Norman Lamont MP

Lord McFadzean of Kelvinside
Chairman
Rolls-Royce Ltd
65 Buckingham Gate
London SW1E 6AT

PS/Sof S
PS/Mr Butcher
PS/Secretary
Mr Croft

Mr Hudson
Mr Streecher
Mr MacTavish
(on file)

6 December 1982

Mr Clarke - CAP.

Dear Frank

THE FUTURE OF CONCORDE

Iain Sproat has passed to me Ralph Robins' letter to him of 24 November, from which I was pleased to learn that substantial agreement has been reached between Rolls-Royce, British Aerospace and British Airways on a minimum level of Olympus 593 operating costs. Since Mr Robin's letter deals with those aspects of in-service support which are the responsibility of the Department of Industry, I shall be replying to the other points he makes.

The letter crossed Iain Sproat's reply of 19 November to John King, copied to yourself, in which he indicated that the Government would greatly prefer that in-service support costs should, as soon as possible, be organised on the basis of contracts direct between British Airways and the manufacturers. This preference has implications for the suggestion in Mr Robins' letter that HMG's indemnity against unplanned and unforeseeable costs should continue.

In this connection, you will recall that, in his letter of 10 August to John King, Iain Sproat said that the Government's position is that, once the new arrangements start, the Government should no longer have any liabilities for the Concorde project, and that the Department of Industry will therefore seek the manufacturers' agreement to the termination of the Government's existing unlimited liabilities.

Direct contracts between the airline and the manufacturers under which British Airways organise and procure in-service support in agreement with the manufacturers and without HMG participation (as has been the case with the recent negotiations for the minimum level of support to which Mr Robins refers) clearly carry with them a presumption that a third party, i.e. the Government, cannot be held financially responsible for costs which derive from a situation in which it is not involved. The proposed new contracts will need to be drafted to reflect this, and in so doing specifically to exonerate the Government from any liability they might otherwise be thought to have under these contracts, or under any contracts which they replace.



The last paragraph of Mr Robins' letter indicates the importance that Rolls-Royce rightly attach to the involvement of French counterparts in discussions on the future of Concorde. The Government appreciate the need for such involvement; and I therefore hope that we shall be able to make a public announcement confirming this shortly after we receive John King's letter. This would in turn enable me to write to the French Minister of Transport, and thus set in train the discussions to which Mr Robins refers.

I am copying this letter to Iain Sproat, and to John King and Austin Pearce.

NORMAN LAMONT

*Yours
Norman*

ROLLS-ROYCE LIMITED

65 Buckingham Gate, LONDON SW1E 6AT
Telex: 918091 Telephone: 01-222 9020

CONFIDENTIAL



24th November, 1982.

Iain Sproat, Esq., M.P.,
Parliamentary Under-Secretary of State,
Department of Trade,
1 Victoria Street,
London, SW1H 0ET.

TO	COPIES TO
Mr Clarke	PS/SOS
FOR ADVICE (AND	PS/MR LAMOND
DRAFT REPLY IF	PS/SECRETARY
APPROPRIATE)	MR KNIGHT
PLEASE BY:	MR CHOYE
7.12.82	MR BLANKS
	MR HULLCO
	MR ROBERT
	MR FORTNA
	MR MACTAY

Dear Mr. Sproat,

Since you wrote to Sir John King outlining the Government's proposals for the future of Concorde we have held meetings with British Airways and British Aerospace to discuss our policy, particularly with respect to support costs and contractual arrangements.

One principle which has emerged clearly from these meetings is that all parties believe that the existing contractual arrangements should remain, including the continuation of H.M.G's indemnity against unplanned and unforeseeable costs.

In addition, we have held a series of detailed discussions with British Aerospace to establish the minimum level of Olympus 593 operating costs consistent with British Airways' planned operation with the Concorde aircraft and substantial agreement has now been reached on this matter.

You will be aware that the manufacturers have the same contractual obligations to Air France as to British Airways and that we have a collaboration agreement with the French engine company SNECMA. It will, therefore, be essential that discussions between the U.K. parties and their French counterparts are held in parallel if we are to obtain the agreement of the French to these new proposals.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'R. H. Robins'.

R.H. ROBINS
COMMERCIAL DIRECTOR

4/29/11

c.c. Sir John King, Chairman, British Airways
Sir Austin Pearce, Chairman, British Aerospace.

RHR/SC - 24.11.82.

British Aerospace

PUBLIC LIMITED COMPANY

Brooklands Road
Weybridge
Surrey KT13 0SJ

From the Chairman,
SIR AUSTIN PEARCE, CBE

Mr. Norman Lamont,
Minister of State,
Department of Industry,
Ashdown House,
123 Victoria Street,
London, SW1E 6RB.

FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE) PLEASE BY: 26/11	Copies To Mr MacFarish Mr Butcher Mr Croft Mr Hudson Mr Poyor.
--	---

Telephone: Weybridge (0932) 45522
Telegrams: Britair Weybridge
Telex: 27111

18 NOV 1982
COMMUNICATIONS
UNIT

16th November, 1982.

Dear Norman

Since the Government put forward its proposals concerning the future of Concorde in May, there have been many meetings of all the parties concerned to examine possible contractual arrangements and realistic support cases.

Lord McFadzean joined with me in a policy discussion with Roy Watts on September 1st at which we established complete agreement on the contractual matter. It was our joint view that, if Concorde is to continue, the contractual arrangements would need to remain as-is, at least for some appreciable time. BAe supported this view in the knowledge that not only is the task of changing all contractual relationships extremely complicated and time consuming but also we considered there are certain key items where there is not yet any practical alternative to the Government continuing to carry its present responsibilities.

At the September meeting, we also set the experts to examine jointly means by which on-going support costs could be reduced. In consequence, my people have worked very closely with British Airways over the past two months on the engineering and technical aspects of support and their related costs. I can confirm Sir John King's view in his recent letter to Iain Sproat that we expect shortly to have agreement on minimum cost levels in these areas, conforming with BA's redefined operational objectives.

However, BA have been made aware that there are other significant costs which, whilst not relating to engineering/technical support for in-service operations, nevertheless cover tasks which fall within BAe's present contractual arrangements with HMG. The basis of funding these cost elements will need to be discussed and agreed in the context of British Airways' detailed proposals which, from Sir John's letter of 18th October to the Department of Trade, should be tabled in December.

Yours sincerely,

T. M.

cc: Mr. Iain Sproat, Minister of State, Department of Trade.
Sir John King, Chairman, British Airways.
Lord McFadzean, Chairman, Rolls-Royce.

THE MINISTER OF STATE
MINISTRY OF TRANSPORT
246 Boulevard Saint-Germain
Paris

Mr Norman Lamont
Minister of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1

Dear Minister

Thank you for your letter of 6 August concerning the future of Concorde, which was forwarded by the British Embassy in Paris.

Your recap of our recent conversations on this matter, and the conclusions which you draw from them, do not appear to be in accordance with the principles which I thought we had agreed in the course of our last few meetings.

What I actually said to you, in view of my ever-present desire to work in close co-operation, is that I was prepared to examine any possibility which would take account of British concerns, in order to arrive at a solution agreeable to both countries on the question of a termination which will have to be contemplated sooner or later. However, I did not say at our last meeting that the French Government wished to proceed immediately to examine possible arrangements for terminating the project. Furthermore, following our meeting, I made the necessary arrangements for financing the 1983 expenditure arising from a continuation of Concorde flights by Air France, including the French share of in-service support for both airlines.

There is also some misunderstanding about the words "termination of the project". During our October 1981 meeting I said that, as far as France was concerned, the ending of in-service support as a result of the withdrawal of one or other of the Governments would mean the end of airline operations. This position is partly based on the 1962 agreement which makes our two Governments jointly

responsible for the overall project including the present spares production phase, and partly on the well-established principle of our co-operation whereby Government services are responsible for the management of the programme while the aircraft are in operation. In such circumstances I cannot accept that the Governments should withdraw and transfer their responsibilities to the airlines.

You yourself expressed doubts on the net operating profits which could be achieved by British Airways in the next few years, and on the airline's capacity to finance in-service support.

It is true that your unilateral decision to reduce the fatigue test programme may contribute to a reduction in the British costs for in-service support, but this alone does not seem sufficient to make profitable operation by British Airways a plausible hypothesis.

I am therefore obliged to ask myself whether the British Government is not in fact contemplating stopping all Concorde flights. If that is the case, we would need to discuss the matter openly so that we could work together, as agreed, towards a mutually acceptable solution. I can confirm that the French Government is still prepared to continue operation of the aircraft, while of course taking all possible steps to reduce costs.

I am at your disposal for any further contact or discussion which you may consider appropriate on this subject, and I remain, etc

(Signature)

Parliament, Dec 8th, Concord.

27 DEC 1892

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CONFIDENTIAL

Prime Minister (2)

Ms 7/12

Foreign and Commonwealth Office

London SW1A 2AH

6 December 1982

From the Parliamentary Under Secretary of State



Dear Leon,

ms

FUTURE OF CONCORDE

Thank you for sending me a copy of your letter of 25 November to Norman Lamont about the future of Concorde. I agree that it is our general view that Concorde should now be kept flying, and that we should pursue our objective of transferring in-service support costs from HMG to British Airways. I also agree that we should try to negotiate these arrangements with reasonable speed, once Sir John King has let us have his definitive reply.

However, I should recall the note of warning which I sounded in my letter to Norman Lamont on 29 July about the attitude of the French Government. We must remember that their formal position, as set out in the French Minister of Transport's letter received by Norman Lamont on 6 September is as follows:

'I cannot accept that the Governments should withdraw and transfer their responsibilities to the airlines.'

The French are clearly suspicious that we are intending to withdraw from involvement in the Concorde programme, leaving them to support the project by themselves. They may also be concerned that under the new arrangements British Airways could terminate Concorde operations at any time without consultation, whereas at present this is a matter for the two governments under the terms of the 1962 treaty. Without French co-operation under the Treaty, we cannot of course proceed with the transfer of in-service support costs to BA.

I recognise that French officials have a good understanding of our intentions through informal contacts between Norman Lamont's officials and the French Department of Transport. I understand that we have explained to the French that our new arrangements need not affect the existing cross-Channel

/contractual

Rt Hon Leon Brittan Esq QC MP
Chief Secretary
HM Treasury
Parliament Street
LONDON SW1

CONFIDENTIAL

CONFIDENTIAL



- 2 -

contractual ties. I know that we intend the Treaty should remain in force, and that the Concorde management board should continue to meet. There is thus a fair prospect of persuading the French that their fundamental interests will not be adversely affected. But we will have to be careful how we approach them if we are to succeed in persuading them of our point of view. That approach should not be long delayed if our negotiations with BA and the French are to be kept in phase: it would clearly be embarrassing and potentially dangerous if our commitments to BA got out of line with those to the French.

As soon as Sir John King's reply is received and there has been a chance to consider it, I should therefore like our officials to discuss what to say to the French and at what level. It might be best for a senior official to visit Paris to make our opening bid, or for the Ambassador to take this on. Our initial approach could be followed by technical discussions in the Concorde Management Board. Meanwhile we have asked the Embassy to consider what arrangements for the future of the project would satisfy the French once BA have taken on support costs.

A final point. I hope that we can show some flexibility in our negotiations with BA on the date of the hand-over of responsibility to them. As I said in my letter of 29 July to Norman Lamont, if BA withdraw Concorde from service because we refuse to offer support for a few more months we would be subjected to very considerable criticism both at home and abroad.

I am copying this letter to the recipients of yours.

Yours ever,
Malcolm Rifkind

Malcolm Rifkind

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Select Committee Records

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Parliament

10 DOWNING STREET

From the Private Secretary

29 November 1982

Dear John,

FUTURE OF CONCORDE

The Prime Minister has seen the letter dated 25 November to your Minister from the Chief Secretary to the Treasury about the future of Concorde.

Mrs. Thatcher has commented that if British Airways make profits from their Concorde operation (and she hopes that they will do) they should be allowed to retain those profits.

I am sending a copy of this letter to the other members of E(EA), John Gieve (Chief Secretary's Office, HM Treasury), David Heyhoe (Lord President's Office), George Kidd (Parliamentary Under Secretary of State for Trade's Office), John Macgregor (Parliamentary Under Secretary of State for Foreign and Commonwealth Affairs' Office), Colin Balmer (Lord Trenchard's Office, Ministry of Defence), Murdo Maclean (Government Chief Whip's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

John Alty, Esq.,
Department of Industry

CONFIDENTIAL

HL



Prime Minister (4)

MES 25/11

Treasury Chambers, Parliament Street, SW1P 3AG

Norman Lamont Esq MP
Minister of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

*If they make no loss
(and hope they do) let them
retain those profits*

25 November 1982

2 Norman,

FUTURE OF CONCORDE

Thank you for sending me a copy of your letter of November 11 to Iain Sproat, enclosing a draft letter for you to send to Sir John King. I have seen Iain Sproat's reply of November 19. I have no comments on the draft but would like to make a couple of points about Sir John King's letter to Iain Sproat.

Sir John King raises the question of the current arrangements for sharing cumulative profits and suggests that if British Airways accepts the in-service support costs from a mutually agreed date it should retain all future profits. We do not need to settle this now but I would suggest that our attitude will be partially dependant upon the date that British Airways are willing to take over the in-service support costs.

If they are willing to accept them from our proposed date of April 1983 then I think we can be relatively forthcoming. However, if they insist that they cannot accept these costs until April 1984 and the Government ended up paying up to £10 million of support costs in 1983-84 I would be less favourably disposed to BA retaining all future Concorde profits.

On the actual date of takeover I am sure that it is right to continue to take the line with BA that the Government's position is that the transfer of in-service support costs should take place by April 1983. This will keep up the pressure on the airline and the manufacturers to secure maximum savings in these support costs. This will be a benefit to the public sector and a real resource saving to the economy.

You will recall that following the last round of correspondence it was the general view that Concorde should be kept flying. As BA will not now be privatised in the next financial year the question of whether the Government or BA bears the in-service support costs next year is a second order one. The costs will be

incurred within the public sector and so our focus should be on arrangements that cause the least disruption. My main concern now is that the arrangements should be settled fairly quickly so that BA can concentrate on operating Concorde services profitably in the run up to privatisation. I therefore hope that we can negotiate the terms of future support for Concorde and announce a decision quickly after we have BA's final response to the proposals that we put to them.

One final point. Sir John King talks in the ante-penultimate paragraph of his letter about a "reduction in the depth of the indemnity safety net provided by HMG". He is clearly envisaging some Government indemnities continuing after the transfer of in-service support costs to BA. This is unacceptable since our objective is to withdraw completely from responsibility for Concorde and continuing indemnities would be inconsistent with this. As it is unlikely that the unconditional indemnity will ever be called I do not see why the airline and manufacturers need to be so concerned about HMG withdrawing it.

I am copying to the Prime Minister, the members of E(EA), John Biffen, Iain Sproat, Malcolm Rifkind, Tom Trenchard, Michael Jopling and Sir Robert Armstrong.



LEON BRITTAN

Parliament

Concordat

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DEPARTMENT OF TRADE
1 Victoria Street
London SW1H 0ET

Tel Direct Line 01-215
Switchboard 01-215 7877

With the Compliments of
the Parliamentary Under Secretary
of State for Trade's Office

Yvonne MILLS

8 December 1982



From the
Parliamentary Under Secretary of State

PS/SOS
PS/Secy
Mr Knowlton
Mr Croft
Mr Blanks
Mr Hudson
Mr Roberts
Mr Fortnam
Mr Mactanish
Mr George Smith

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✓

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01 215 372
SWITCHBOARD 01 215 787

NBPM

rus 8/12

Norman Lamont Esq MP
Minister of State
Department of Industry
Ashdown House
123 Victoria Street
London
SW1

19 November 1982

Dear Mr Lamont,

FUTURE OF CONCORDE

Thank you for your letter of 11 November.

I have written to Sir John King on the lines that you propose; and I attach a copy of my letter to him.

I should like to add just one point. While I can see that from the financial point of view there are considerable attractions in BA negotiating contracts directly with the manufacturers as you propose, rather than working on the basis of existing contracts, there seems a risk that these arrangements could prove unacceptable to the French. I understand for example that M. Fiterman has already shown some opposition to British Government disengagement. There is a danger therefore of BA's engaging in a considerable amount of detailed work on renegotiating contracts which could prove abortive if the arrangements prove unacceptable to the French.

I realise it may be difficult to get any clearer response from the French than we already have; but I hope you can take every opportunity of probing the French attitude on the future of Concorde to avoid the danger I have described.

I am copying this letter to the recipients of yours.

Yours sincerely,

Mr IAIN SPROAT

(approved by the Minister and signed in his absence)

CONFIDENTIAL



From the
Minister of State
Norman Lamont MP

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

Iain Sproat Esq MP
Parliamentary Under Secretary
of State
Department of Trade
1 Victoria Street
London SW1

MS
Prime Minister (2)

Ms 12/11

// November 1982

Dear Iain

FUTURE OF CONCORDE

John King copied to me his letter to you of 18 October in which he sets out British Airways' latest thinking on the future of Concorde, in reply to your letter to him of 10 August.

Most of the points in John King's letter can be considered in the context of his definitive reply. However, I suggest that it would be helpful to John King if you were to let him know soon the Government's attitude to the contractual points raised in his letter, so that it can be taken into account before he sends his definitive reply.

John King says in the fourth paragraph of his letter that, because of the time needed to restructure and reassign them, BA would probably suggest that it should continue to deal with the manufacturers through the existing Government contracts.

In-service support costs would be agreed on a year-by-year basis and paid direct by BA to HMG provided they made commercial sense to BA.

John King's letter is not entirely clear as to whether he is proposing these as long-term arrangements. But I think we should make it clear that the Government would much prefer BA to negotiate contracts direct with the manufacturers. Under the arrangements proposed by John King, the Government would continue to be involved indefinitely in Concorde in-service support; Ministers would still be accountable to Parliament for it; and the Government could at some unknown time in the future find itself once again responsible for funding Concorde in-service support, or terminating it. All this would be most undesirable, and could negate much of the benefit we see flowing from disengaging the Government from the project.

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Before, however, we can say to BA that this is our firm view, officials will need to discuss with French officials the arrangements the Government prefers; to ensure that the French Government would not object to them; or, if they should raise objection, to advise on whether they have such substantial grounds for doing so as to require us to think again. At this stage therefore, I suggest that all you need do is to put down a marker indicating to BA our likely position. I attach a draft indicating the sort of reply to John King which we would find helpful.

I am copying this letter and attachment to the Prime Minister, the members of E(EA), to John Biffen, Malcolm Rifkind, Tom Trenchard and Michael Jopling, and to Sir Robert Armstrong.

NORMAN LAMONT

Yours
Norman



DRAFT LETTER FOR MR LAMONT TO SEND TO:

Sir John King
Chairman
British Airways
PO Box 10
Heathrow Airport (London)
Hounslow
TW6 2JA

Thank you for your letter of 18 October.

I was pleased to learn of your progress in considering the future of Concorde, and that you have received the full co-operation of British Aerospace and Rolls-Royce in this. I look forward to receiving your definitive proposals in early December. In the meantime, there is just one point in your letter on which I thought it would be helpful if I were to clarify the Government's attitude.

In the fourth paragraph of your letter you say that you expect to suggest that BA should continue to deal with the manufacturers through the existing Government contracts. In-service support costs would be agreed on a year-by-year basis and paid direct by BA to HMG, provided they made commercial sense to BA. I should let you know at this stage that the Government would greatly prefer that in-service support costs should, as soon as possible, be organised on the basis of contracts direct between BA and the manufacturers. I should be grateful if you would take this into account when framing your definitive reply.

CONFIDENTIAL



I am copying this letter to Norman Lamont, Austin Pearce and Frank McFadzean.

11 NOV 1982

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From the
Minister of State
Norman Lamont MP

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

Palmanet cc JV
Prime Minister 2

*Wh
3/8*

The Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria St
London
SW1E 6RB

2 August 1982

Dear Patrick

mf

THE FUTURE OF CONCORDE

You should now have received all the replies to my letter to you of 22 July.

MES to hand 30/7

You will have seen that the Prime Minister accepts Arthur Cockfield's view that we should tell BA and the manufacturers that the Government's position is that in-service support for Concorde should end on 31 March 1983 but that we should not at this stage rule out a later date for the termination of in-service support. I believe that this provides a satisfactory way forward and should satisfy Malcolm Rifkind's concern since it leaves for later decision the question of what action the Government would take should BA not agree to take on support from that date. It is obviously important in order to sustain our negotiating position that colleagues should keep this decision confidential and stick firmly to the line, in any dealings with BA or the manufacturers that Government funding of in-service support will cease on 31 March 1983.

I also agree with Arthur Cockfield that BA should be encouraged to reach provisional agreement with Air France and to come back in the early autumn (by which I take him to mean the end of October deadline mentioned in John King's letter) with considered proposals. I believe that the former would be welcomed by the French Government. I note what Arthur says about terminating the Government's present unlimited indemnity; we shall need to consider this question further when negotiations have progressed.

The next step will be for Iain Sproat to reply to John King setting out the Government's position on the terms referred to above. His letter would in other respects make the points suggested in my letter of 22 July thereby indicating to BA that the Government considered that it could be in BA's own interest to



5 AUG 1982



take on in-service support from an early date. I shall be writing to the French Minister for Transport to inform him of the basis on which British Airways have been asked to take on in-service support and to seek confirmation of the French Government's position on the Anglo-French aspects of this proposal.

I also propose to inform the Select Committee in confidence that BA have been asked to consider taking on in-service support from the Government on 1 April 1983 and that the Government is awaiting BA's response. Our proposal to BA is, of course, entirely consistent with the Select Committee's own recommendation that in-service support from public funds should be terminated at the earliest practicable date.

I am copying this letter to the Prime Minister, the members of E(EA), to John Biffen, Malcolm Rifkind, Tom Trenchard and Michael Jopling and to Sir Robert Armstrong.

*Yours
Norman*

NORMAN LAMONT



bcc: J. Vereker.

10 DOWNING STREET

From the Private Secretary

30 July, 1982

Dear John,

The Future of Concorde

The Prime Minister has been following the correspondence commencing with Mr. Lamont's letter of 22 July to Mr. Jenkin about the next steps on Concorde policy.

The Prime Minister accepts that the Government's current negotiating position with British Airways should be that Government support for Concorde will end on 31 March, 1983. She agrees, however, with Lord Cockfield's view, in his letter of 29 July, that until the Government has considered British Airways' reaction to the 1983 deadline, it would be premature to rule out as a fall back position the possibility of a later termination date of Government support. The Prime Minister has minuted that termination of Concorde operations would have a bad effect on morale in Britain.

I am copying this letter to the Private Secretaries to members of E(EA), the Leader of the House, the Parliamentary Under Secretary of State at the Foreign and Commonwealth Office, the Minister of State for Defence Procurement, the Chief Whip, and Sir Robert Armstrong.

Yours sincerely,

Michael Scholer

John Alty, Esq.,
Department of Industry

FROM: J M HALLIGAN
DATE: 29 July 1982

PA

MUS 30/7

MR MATHEWS

CONCORDE

Mr Lamont has proposed that HMG funding of Concorde in-service support costs should end by April 1983. If British Airways wish to continue operating Concorde they must accept responsibility for in-service costs from 1 April 1983. If they refuse to do so Concorde will be cancelled provided that this can be agreed with the French. [French officials have said that cancellation is their objective but if British Airways continue services Air France would do so as well].

2 British Airways have said that they wish to continue flying Concorde and are willing to pay the in-service support costs from April 1 1984. However, they could not accept the in-service costs in 1983-84 and seek a continuation of the present arrangement of HMG funding next year.

3 The Chief Secretary has supported Mr Lamont's view as have Mr Younger and Mr Heseltine.

4 British Airways have argued that Concorde is a commercial proposition. Column 1 below sets out the estimated in-service support costs. Column 2 sets out British Airways estimates of the Concorde operating surpluses.

	<u>£M</u>	(Sept'81 prices)
	<u>In-service Support Costs</u>	<u>British Airways Surpluses</u>
1983	14.4	6.7
1984	8.3	8.3
1985	4.5	8.7
1986	3.1	8.7
1987	0.8	8.7
1988	<u>0.1</u>	<u>8.7</u>
TOTAL	<u>45.5</u>	<u>53.9</u>

5 If British Airways believe their own figures they would gain £8.4 million (1981 prices) net between 1983-8 if they accepted liability for Concorde from January 1 1983. In fact, they are only being asked to accept full responsibility from April 1 1983. However, their position is that they will not accept responsibility until Concorde surpluses will finance the in-service

costs and that is not due to happen until 1984. In 1983-84 financial year in-service support costs will be £13.5 million (cash) compared with an estimated operating surplus of £7.1 million - a deficiency of £6.4 million. In 1984-85 estimated costs of £6.7 million compare with estimated surpluses of £8.9 million - a benefit of £2.2 million

6 DOI and Treasury Ministers take the view that if British Airways believe their own figures they should accept full responsibility from April 1 1983. As an investment proposition a deal yielding net income of £8.4 million on expenditure of £45.5 million over 6 years would pass the 5 per cent real return test. Their unwillingness to do so could be for one of two reasons:

either (a) they wish to avoid the initial cost in 1983-84;

or (b) they doubt the size of the surpluses and wish to give themselves an additional margin.

7 If (a) is the reason British Airways is simply trying to improve its financial position at the expense of HMG. As HMG has already supported Concorde to the tune of over £1 billion in constant money the time has come to relieve it of this burden.

8 If (b) is the reason there is doubt as to whether Concorde really is a viable operation. The costs are fairly certain but the surpluses highly uncertain. They depend on traffic growth forecasts which British Airways have not forecast accurately since they started flying Concorde. Previous British Airways forecasts for 1981-82 were that Concorde would make £6 million profit. Provisional figures are of a £2 million surplus and this is likely to be reduced further. It is possible that British Airways have only put these forecasts forward to convince Government to continue Concorde. They were provided on the assumption that the existing arrangements, whereby Concorde in-service support is financed by the Government would continue. Therefore as long as British Airways expected to make any money at all flying Concorde it was in their interests for it to continue. When asked to put their own money on then their reluctance to do so could indicate uncertainty about their achievement.

9 Ministers' proposals to British Airways is therefore designed to establish how much confidence they have in their own figures. If they have insufficient confidence to back Concorde now the probability is that it is not worth spending any further money on and should be cancelled.

J. M. Halligan.

J M HALLIGAN

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

29 July 1982

From the Parliamentary Under Secretary of State

Dear Norman,

FUTURE OF CONCORDE

In your letter of 22 July to Patrick Jenkin you asked for agreement on the next steps on Concorde policy.

We are all, of course, agreed that we must send British Government in-service support for Concorde in the near future in consultation with the French Government. The main issue now, as I see it, is the timing. You may recall that at the meeting of E(EA) on 20 April I and others suggested that the timing of the withdrawal of our support might be linked to British Airways' claim that Concorde would break even after a certain period. British Airways now tell us that they may be prepared to take over responsibility for in-service support to British manufacturers from 1 April 1984. If that position is confirmed but HMG insists on a 1983 deadline, I think many people, abroad as well as at home, will find it very difficult to understand why HMG could not maintain for a further 12 months support which it has been giving at a considerably higher level for many years. The Government would be subjected to very considerable criticism and 1983 will be likely to be an important year for us.

I therefore suggest that British Airways should be told that provided they are prepared to give a firm commitment soon that they will assume HMG's liabilities on 1 April 1984, or any earlier date that might be agreed, we should be prepared to meet them that far. If they are unable to give such a commitment there could be no remaining objection to the proposed date of 1 April 1983.

We shall, of course, need to keep the French Government fully informed of the way our thinking is developing and to take their reaction into account. Their co-operation will be essential if the British Government is to withdraw support while Concorde remains in service and the French Government retains liabilities towards French manufacturers. But the latest discussions between your officials and the French seem to indicate that the French Government may be prepared to accept such a situation. Nevertheless, they will clearly need careful handling and we should give them soon a full account of our thinking.

We must also keep a close watch on the implications of any developments over termination for the cost-sharing problem.

I am copying this letter to the recipients of yours.

Yours ever
Malcolm

Malcolm Rifkind

Norman Lamont Esq MP
Minister of State
Department of Industry

CONFIDENTIAL

29 JUL 1982





2 RP

From the Secretary of State

CONFIDENTIAL

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

29 July 1982

Dear Patrick,

THE FUTURE OF CONCORDE

I have seen a copy of Norman Lamont's letter to you of 22 July.

I accept that we should tell BA and the manufacturers that the Government sticks to its intention that support for Concorde should end at the earliest practicable date, and that our current negotiating position with BA should be that it ends on 31 March 1983. BA must be given a fair opportunity to put forward adequately costed proposals for the continuation of Concorde, if they so wish, on this basis. On the same basis they should be encouraged to reach provisional agreement with Air France on how Concorde might be operated once HMG's support ends, including arrangements for notice of termination as mentioned in Sir John King's letter of 12 July. They should be able to come back to us in the early Autumn with considered proposals.

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From the Secretary of State

CONFIDENTIAL

However I do not accept Norman's proposal that we should rule out now the possibility of a later date for the termination of Government support should this prove to be the only stumbling block to BA's continued operating of Concorde. Until we have considered BA's reaction to our proposed deadline of 31 March 1982, I think it would be premature to rule out, as a fall-back position, the possibility of a later termination date.

I also note what Norman says about seeking to terminate the Government's present unlimited indemnity over Concorde. I accept that this should be our negotiating aim with BA and that we should not at this stage indicate otherwise to them; but presumably termination of the indemnity will require the agreement of the manufacturers, who may not have much incentive to agree. Again, if this proves to be the only sticking point over BA taking over the costs of Concorde support, I think we should not rule out such a possibility prematurely at this stage.

I am copying this letter to the recipients of Norman's.

John
Arthur

LORD COCKFIELD



Prime Minister

ms 28/7

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of JV

2 pps

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

2 Patience,

I think this will have a bad effect on morale in Britain. Support for Concorde must continue. If BA are willing to accept the costs of in-service support until 1 April 1984, negotiations about the details of the new arrangement can continue.

28 July 1982

THE FUTURE OF CONCORDE

I have seen Norman Lamont's letter of 22 July to you about this subject.

I am in complete agreement with his proposals but would like to make one additional point. Sir John King's letter states that British Airways could not accept the costs of in-service support until 1 April 1984. This may be a tactical position which might be modified when the Government responds. However, it is essential that we clear up the financial position very quickly. If British Airways are willing now to accept the costs of in-service support from 1 April 1983 negotiations about the details of the new arrangement can continue. But, if they are not willing to accept this fundamental point there is no point in further discussions and we should make arrangements to terminate Concorde operations.

I am copying to the recipients of your letter.

Handwritten initials/signature

LEON BRITTAN

28/11/1982

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SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

dc 5v

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

NBSM

ms 28/7

27 July 1982

Dear Patrick,

THE FUTURE OF CONCORDE

This is simply to confirm that I do not dissent from the proposals set out by Norman Lamont in his letter of 22 July and do not, for my interest, see a need for the matter to be taken at a meeting of E(EA).

I am copying this letter to the Prime Minister, the members of E(EA), John Biffen, Douglas Hurd, Tom Trenchard, Norman Lamont and Michael Jopling, and to Sir Robert Armstrong.

Yours ever,

Cuney

28 JUL 1982



CONFIDENTIAL

Pauline
cc



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

From the
Minister of State
Norman Lamont MP

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria St
London SW1

MS

Prime Minister (2)

Mr Lamont proposes ending the Concorde operating subsidy from 31/3/83,

22 July 1982
notwithstanding that BA are not committed to subsidising these operations from then.

Dear Secretary of State

THE FUTURE OF CONCORDE

E(EA)(82)4th meeting, on 20 April, agreed that the Government's objective should be to secure the earliest possible end to in-service support for Concorde. My meeting with M Fiterman on 6 May paved the way to achieving this objective but colleagues agreed subsequently in correspondence that British Airways should first be given the opportunity to take over the Government's responsibilities for financing in-service support for Concorde.

John King has now replied to this proposal, which Iain Sproat and I put to him, his letter is attached. He says that he is strongly in favour of continuing Concorde operations but his letter records a number of difficulties, particularly that BA could not contemplate taking over in-service support for Concorde until 1 April 1984 at the earliest, and he gives no guarantee that BA would ultimately be prepared to take on in-service support.

I consider that we need to ensure that BA press ahead and reach an early decision on a realistic basis as to whether or not they wish to take on in-service support. Otherwise there is the danger that the negotiations will drag on and ultimately come to a negative conclusion. That would be the worst of all worlds since the taxpayer would have met the heavy costs of keeping Concorde flying in the interim (which could be a period of years) and would then have to foot the bill for cancellation. Moreover the timing would be less favourable both politically and, I imagine, for our privatisation plans for BA.

We must therefore hold to our original decision and terminate Government funding for in-service support for Concorde on 31 March 1983. That decision is still valid and funding beyond that date would erode the savings inherent in it by at least the

CONFIDENTIAL

ML 622/7



£13.5 million cost of in-service support in 1983/84. I believe that we would still be giving BA every opportunity to continue Concorde if they were willing to pay the full commercial cost.

The principal contractual and financial uncertainties which could cause negotiations to drag on and will need to be sorted out to enable BA to decide whether or not they wish to take on in-service support are that:

- It has emerged that it would not be feasible for British Airways just to take over HMG's existing contracts with the manufacturers, even appropriately modified. They would also wish to ensure that a limit was placed on the obligations of the British manufacturers to Air France. This would require negotiating new contracts between the British and French manufacturers and between them and Air France and these negotiations would involve both Governments. It seems to me open to doubt whether the French Government would co-operate in such negotiations which would both worsen Air France's contractual terms and facilitate continued operation of Concorde by British Airways when the preferred French option is mutually agreed termination. However John King says that he could resolve these problems in a few months.

- The French Government have indicated that Air France may reduce their services still further which would add to the in-service support costs for British Airways, particularly in the early years.

I also propose that BA would be expected to take on all HMG's present liabilities and that the Government should seek to terminate the present unlimited indemnity (ie the indemnity in respect of any liabilities over and above those for which the manufacturers are assured), to which John King refers, which BA are reluctant to pick up. HMG's Concorde property would be transferred to BA or the manufacturers on a commercial basis. If BA decided to take on in-service support from 1 April 1983 on this basis and their forecast Concorde operating surplusses are realised, the airline should be able to make an acceptable rate of return over a period of four years on the investment required to fund in-service support in 1983/84. Our attitude would therefore be reasonable, defensible and a good commercial test.

The French Government's preference is for termination of Concorde operations by both Air France and British Airways. But the French Minister of Transport would be prepared to countenance continued operations, provided both Air France and British Airways were involved, and the French Government would be prepared to continue financing in-service support for both airlines by the French manufacturers. The French Minister's guiding principle is that we should take joint decisions with no recriminations by either side.



If colleagues agree that we should terminate Government in-service support on 31 March 1983, my next step would be to write to the French Minister, informing him of the Government's decision. We would then need to explain the decision to British Airways and the British manufacturers on the following lines:

- i that any assumption by British Airways of in-service support for Concorde would have to date from 1 April 1983 and be on a fully commercial basis;
- ii on the basis of the forecast Concorde operating surplusses supplied by British Airways for the joint Anglo French studies on the future of Concorde it appeared that BA could make an adequate rate of return over a period of four years on the, relatively modest, investment it would need to make to fund the net cost of in-service support in 1983/84;
- iii the Government would therefore be terminating in-service support for Concorde on 31 March 1983, subject to discussions with the French Government.

If, in the face of this decision by Government, BA decided not to take on in-service support of Concorde; termination of Concorde services by both airlines would be inevitable. I believe that we could explain such a decision to Parliament as follows:

- i on assumptions made by British officials, there was a significant likelihood that, in the event, continuation would be more expensive than cancellation since the costs of in-service support were certain whereas BA's revenues depended on an uncertain market;
- ii studies had shown that continuation was also more expensive than cancellation for the French Government;
- iii against this background, the Government had thought it right to ask BA whether they wished to take on in-service support;
- iv although BA had not ruled out taking on in-service support eventually, they had given no commitment to do so nor had they been prepared to do so on a timescale which would allow the Government to reap the benefits of withdrawal of support;
- v and therefore, the Government would be terminating in-service support from an early date agreed with the French Government.



Accordingly I invite colleagues to agree:

- i that Government funding should stop funding in-service support for Concorde on 31 March 1983;
- ii that I should inform M Fiterman of that decision;
- iii that presentation of our decision to BA, the manufacturers and Parliament should follow the lines I have indicated.

I believe the issues and the way ahead are reasonably clear cut. But if colleagues so indicate in their responses to this letter, no doubt you will convene a meeting of E(EA). I would be grateful for replies by close of play on Wednesday 28 July.

I am copying this letter and attachments to the Prime Minister, the members of E(EA), to John Biffen, Douglas Hurd, Tom Trenchard and Michael Jopling and to Sir Robert Armstrong.

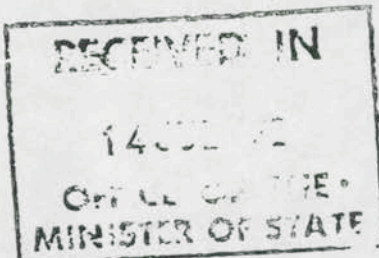
yours sincerely

John Atty

NORMAN LAMONT

(approved by Mr Lamont and signed in his absence)

Concorde
**British
airways**



British Airways Head Office

PO Box 10
Heathrow Airport (London)
Hounslow TW6 2JA
Telephone: 01-759 5511
Telegrams: Britishair

Chairman: Sir John King

12th July 1982

Iain Sproat, Esq., M.P.,
Parliamentary Under Secretary of State,
Department of Trade,
1 Victoria Street,
London SW1H 0ET.

FOR INFORMATION

*Mr MacTavish
PS/Saf S
PS/Mr Butcher
PS/Secretary
Mr Croft
Mr Hudson.*

At first reading, your letter of 1 July suggests that there is an irreconcilable conflict between the Government's criterion for a total withdrawal from the Concorde programme, and British Airways' essential need to protect itself from open-ended future liabilities.

Because I am strongly in favour of continuing Concorde operations, I asked that a further examination of alternative options should be made before closing the door on your proposal for future funding by British Airways. A meeting was held here on 6 July between representatives of British Airways, British Aerospace and Rolls Royce and attended by officials from the Departments of Trade, Industry and Defence.

As a result of that meeting, I can now put to you some alternative proposals about the terms on which British Airways would be willing to continue negotiations with British Aerospace and Rolls Royce to take over the funding of the Concorde support programme.

I am told that the contracts between HMG and the two British manufacturing companies contain a provision (Clause 9) that continues the indemnity cover after the termination of the basic contract. It would seem, therefore, that if agreements could be made by which British Airways assumed responsibility for the net project costs, and HMG terminated its agreements with the French Government and the British manufacturers, you would have achieved the essential objectives of your policy, and we would still have the essential safeguards of the indemnities provided by Clause 9.

Our concern about being put in the position of providing financial support for continuing Air France Concorde operations can probably be met, as you have suggested, by an inter-airline agreement. We would have to negotiate an agreement with Air France, providing that each airline would give the other at least one year's notice of its intention to terminate Concorde services. The presumption would be that a simultaneous cessation of service would then follow, but we would want an escape clause to provide that either airline could continue, if it took on the total net project support costs of both countries.

- 2 -

There is a third issue, which I think I must raise with you before taking the negotiations with the manufacturers further, and this is the starting date for any new agreement. The estimates made by the Department of Industry for the year-by-year net costs for Concorde support show £14.4m for 1983 falling to £8.3m in 1984. The 1983 cost exceeds our estimate of Concorde operating surplus by £7.7m and you will readily understand that I could not agree to a worsening of our results in this way at such a critical stage of the privatisation programme. It is for this reason that I have to say that 1 April 1984 is the earliest date from which I could contemplate the start of new financial arrangements for Concorde support.

If you agree with my proposed solutions to the three foregoing issues, we would proceed immediately with detailed negotiations with British Aerospace and Rolls Royce. In view of the complexity of the agreements to be disentangled and renegotiated, I think we shall need several months.

I must repeat what I said in my previous letter that we cannot be certain of success in these negotiations but it would be my objective to conclude agreements in principle before the end of October.

I hope very much that we shall be able to reach an agreement on these lines.

I am sending copies of this letter to Norman Lamont, Frank McFadzean and Austin Pearce.

John King

BRITISH AIRWAYS
22 JUL 1982

CONFIDENTIAL

Top



c. HMT - CS

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SO

DEnv

10 DOWNING STREET

DI

DEmp

Parliament

From the Private Secretary

24 May 1982

THE FUTURE OF CONCORDE

The Prime Minister has seen recent correspondence about the future of Concorde.

She has commented that if the French keep in-service support going, we shall have to do so too.

I am sending copies of this letter to the Private Secretaries to Members of E(EA), the Lord President and Chief Whip and to Stephen Lamport (Foreign and Commonwealth Office), Colin Balmer (Ministry of Defence) and David Wright (Cabinet Office).

M. C. SCHOLAR

John Alty, Esq.,
Department of Industry.

CONFIDENTIAL

ds

Prime Minister (4) CE JV

MUS 18/5



If the French keep in-service support - we shall have to not

Foreign and Commonwealth Office

London SW1A 2AH

17 May 1982

From the Parliamentary Under Secretary of State

FUTURE OF CONCORDE

In your letter of 11 May to Patrick Jenkin you invited comments on Concorde policy in the light of your meeting with M. Fiterman on 6 May.

I am pleased to hear that your meeting went well, and that the way is now clear for us to reach agreement with the French in pursuit of our objective to terminate Government support for Concorde. I agree that our next step should be an approach by our Ambassador in Paris to M. Abraham in the Department of Transport, and I understand that our officials are in the process of agreeing on his instructions. It is important that you and M. Fiterman have agreed that neither side will seek to take political advantage of the other's position in these negotiations, and we shall want our Ambassador to remind the French of this.

I also agree with your thoughts on cost sharing. It is still possible that the French will relent on some degree in the context of an overall settlement, since termination is after all going to save them more money than us. If not, arbitration may be a way out, but we shall need to be certain before proposing this that there is no prospect of an answer from the arbitrators which we would not welcome. Our Legal Advisers are looking into this now and I note that you will be consulting the Attorney-General.

British Airways' views will clearly be of great importance: indeed, should they decide to continue the Concorde service without HMG's financial support, the French, I understand, may not feel able to terminate their own in-service support to Air France. I hope, therefore, that departments will consult carefully on the line to be taken with Sir John King, in the light of the Ambassador's interview with M. Abraham.

I am copying this letter to the recipients of yours.

Malcolm Rifkind
(Approved by the Minister
and signed in his absence)

Norman Lamont Esq MP
Minister of State



Prime Minister (L)
ms 18/5
2 m/s
ck JV

CONFIDENTIAL

From the Secretary of State

Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
London SW1

17 May 1982

Patrick

FUTURE OF CONCORDE

I have seen a copy of Norman Lamont's letter to you of 11 May, and also the Chief Secretary's comments in his letter of 17 May.

I broadly agree with the action Norman suggests, including his proposal that I should see Sir John King to seek his views on whether British Airways would wish to continue to operate Concorde in the absence of British Government funding. As Norman points out, it is important that we give BA this opportunity.

It is of course conceivable, though I think unlikely, that BA will wish to operate Concorde even if British Government support is terminated. BA may argue, for example, that despite the uncertainty over forecasts, the "halo" effect of Concorde helps to justify its continuation on commercial grounds, and they may also point to their reorganisation - aimed at establishing separate profit centres - which may well put BA's management of Concorde onto a more profit-conscious basis. It may of course be difficult for BA to come to a clear decision one way or the other - though I shall encourage them to do so - when some of the costs to them of continuation may not be known: these will depend in part on whether in the last resort continuation by BA will be the determining factor of the French Government's continued support of the project. I therefore welcome Norman's intention to obtain as much clarification as possible of the French Government's attitude via our Ambassador before I see Sir John King.



From the Secretary of State

I am also prepared to make it clear to Sir John that any proposals he puts forward for continuation of Concorde will be subject to further agreement of colleagues, and I shall therefore report back to you his views when I have obtained them.

I am copying this letter to the recipients of Norman's.

Wm. Arthur
LORD COCKFIELD



WJV
Prime Minister (4)

ms 18/5

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
 Secretary of State
 Department of Industry
 Ashdown House
 123 Victoria Street
 London SW1E 6RB

17 May 1982

Dear Secretary of State,

Norman Lamont's account of his meeting with the French on 8 April on the future of Concorde seems to offer a promising prospect that a joint agreement on termination can be achieved. It appears that our objective that a decision should be simultaneous on the part of the two Governments is accepted by the French. It is clearly of immense political importance that neither party should be in a position to blame the other party for a decision to cease operations.

I hope, therefore, that following further discussions between our Ambassador and the French Director General of Civil Aviation the way will be clear to take a firm decision at the proposed meeting in July.

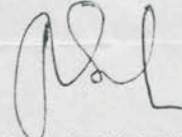
If there are any doubts now they arise in connection with our obligation to consult BA to see if they are prepared to operate Concorde on a full commercial basis. The general presumption is that BA would not be prepared to fly the aircraft on these terms, but there is a possibility that contrary to our expectations they may take the opposite view. As Norman Lamont rightly says if they should take this line we shall need to think again. There is little point in speculating at this stage on what we should do in this event, but I can see that it would put the French into a very awkward dilemma. Norman's letter suggests that the French Government would not be prepared for Air France to discontinue Concorde services so long as BA are flying the aircraft. It seems to follow that if BA wish to continue we could be stuck with Concorde indefinitely. From our point of view, although BA may believe that the aircraft is now a commercial proposition if this should prove mistaken the Government will one way or another have to pick up the tabs. While therefore I do not dissent from the view that Arthur Cockfield should see Sir John King along the lines you suggest I would

have thought there would be considerable value if Arthur puts the possibility of BA continuing with Concorde on their own responsibility as a tentative proposition on which the Government might have further views should BA decide in favour of continuing. I should also emphasise that if we are to come to a joint decision with the French by the time of the July Ministerial meeting, we cannot afford to give BA too much time to decide their attitude.

As for the problem of cost sharing I agree that we should continue to press our claims, but that we should not let the issue stand in the way of an agreement on termination. Norman's proposal that we should offer arbitration seems to me to be sensible in the circumstances, and we must hope that the French will agree to this.

I am copying this to the Prime Minister, John Biffen, Douglas Hurd, Tom Trenchard, Norman Lamont and other members of E(EA) and Michael Jopling and Sir Robert Armstrong.

yours sincerely



LEON BRITTAN

for

(approved by the Chief

Secretary & signed in his absence)

Palmer



DEPARTMENT OF INDUSTRY
 ASHDOWN HOUSE
 123 VICTORIA STREET
 LONDON SW1E 6RB
 TELEPHONE DIRECT LINE 01-212 5902
 SWITCHBOARD 01-212 7676

From the
 Minister of State
 Norman Lamont MP

The Rt Hon Patrick Jenkin MP
 Secretary of State for Industry
 Department of Industry
 Ashdown House
 123 Victoria Street
 London SW1

Prime Minister (2)

The French are believed
 to acquiesce in the

May 1982 termination of

Concorde services. An
 announcement not before July,

Mes 14/5

Dear Patrick

FUTURE OF CONCORDE

In my letter to you of 8 April 1982 I set out the policy I proposed for the future of Concorde. On the basis of that letter, and the attached report by the Department's officials and my own oral report, E(EA) committee agreed on 20 April that the Government's objective should be the ending of in-service support for Concorde, on a basis agreed with the French Government and as a simultaneous decision of the two Governments. The question of timing and presentation were to be considered later. The Committee agreed, in the light of this objective, on the approach I should adopt at the Anglo-French Ministerial meeting on Concorde on 6 May and invited me to report on the outcome of that meeting.

I met M Fiterman, as planned, in Paris on 6 May. He said that, having considered the joint studies on the Future of Concorde, the French Government were willing to consider any option for the future of Concorde, "even if this represented an effort for the French Government", provided the decision ultimately reached were a joint one. He went on to say should the British position develop in such a way that at some time we were to propose cancellation, the French Government would not use such a situation to attempt to place the blame for cancellation of Concorde on the British. Likewise he hoped that the British Government would act similarly should the French propose cancellation. As agreed by E(EA), I did not tell M Fiterman the British objective on the future of Concorde. But I took his position as a clear indication that the French Government (on whose behalf he made clear he spoke) were seeking an agreed termination of in-service support provided this could be achieved without politically damaging repercussions. I therefore told M Fiterman that I entirely agreed with what he had said about either party not wanting to be in a position to blame the other party for a decision to cease operations. In the light of this agreement I believe that the way is now clear for us to reach a common position with the French on



termination of in-service support for Concorde at the further meeting which, as authorised by E(EA), I agreed with M Fiterman should take place in July.

I suggest that the next step should be for the Ambassador in Paris to see the French Director General of Civil Aviation (who is known personally to support cancellation of Concorde), as soon as possible. He would confirm our understanding of the French position and HMG's willingness to enter into negotiation for mutually agreed withdrawal from the project. The Concorde Management Board could then prepare the ground for a decision to be taken at the July meeting.

It is clear that the French wish to terminate funding both of Concorde operations and Concorde in-service support; and, M Fiterman later indicated to me in conversation, they could not envisage the termination of funding for in-service support without also terminating Air France services. It follows that, should British Airways wish to continue Concorde services, then the French Government would wish Air France also to continue. Government relations with BA, in contrast to the position in France, make it theoretically possible to envisage BA continuing to fly Concorde without funding either from the British or the French Government. It is important from a political point of view therefore to give BA the opportunity to continue with Concorde so long as the company is prepared to accept full financial responsibility. If, as expected, BA feel unable to accept this, the way would be clear for a decision in July to terminate Concorde. Because of its sensitivity I suggest that Arthur Cockfield should see Sir John King as soon as possible after our Ambassador has reported on his discussion with the French Director General, emphasising to him that a decision by BA to continue with Concorde would depend on their accepting the full financial implications. As I have said, I do not anticipate that BA would be prepared to continue on this basis. However if they take the contrary view we shall need to think again. On the assumption that BA do decline the offer we would be able to say when announcing the decision that the possibility of BA continuing to fly Concorde without Government funds had been explored, but that BA were not prepared to continue with the aircraft on this basis.

E(EA) also agreed that I should restate the Government's case for a satisfactory settlement of the problem of the cost-sharing imbalance between the United Kingdom and France. I pressed M Fiterman very hard on this matter. However he had no proposal to make and stuck to the line that his officials had advised him that there is an imbalance in the opposite direction. In these circumstances we can continue to press our claim at political level in the hope of receiving a French offer, drop it or try to secure a settlement by other means. Since the French have more to gain from termination than we do I do not believe that we should stop pressing our claim at this stage, particularly since



termination is likely to cost us more than them. But we should not let this issue obstruct the path to our ultimate objective. I am therefore urgently considering the possibility that we should put our claim to arbitration, whether this should be binding or non-binding and how the arbitration should be carried out. I would consult the Attorney General and E(EA) colleagues before reaching a decision on this. If we decide to go to arbitration, I suggest that HM Ambassador might see M Abraham again. After referring to my remarks on this subject to M Fiterman and my indication that I would need to consult colleagues, he would say that if the French Government did not propose a satisfactory solution at the July meeting, HMG would propose that the agreed outcome of that meeting would include the submission of HMG's claim to arbitration. This seems to me the only alternative to complete abandonment of our case, and defensible in public. It may prove acceptable to the French as a way of securing agreement to harmonious and mutually agreed termination of the project.

One other matter which I discussed was the further exploration of the possibility of the lease of aircraft to Federal Express. M Fiterman said that his officials were now ready to take part in further discussions should the need arise but I said that I would need to reflect further. In practical terms there now seems little point in this since a lease of aircraft would only be possible if BA and Air France were to continue operations. On the other hand, there could be advantages, when we come to present a decision to terminate Concorde, in being able to show that we have explored all possibilities. I believe that there would be little lost in doing so since either such a visit would confirm, as seems likely, that Federal Express have lost interest in a European operation or that the guarantees they require would be unacceptable to the two Governments. I therefore propose that officials should seek a meeting with Federal Express to clarify the carrier's intentions and the position on the lease of aircraft and on guarantees. (Contact by correspondence could be protracted and risks formalising the position when all we seek is an exchange of views.)

... In the light of all these developments I propose to make a holding statement in a written answer to Parliament which would simply draw attention to the agreed communique, a copy of which I attach. In my letter of 26 April to the Select Committee on Industry and Trade, the amended text of which was cleared by E(EA), I said that I would discuss with M Fiterman what information from the studies should be made available to the two Parliaments. In his acknowledgement, Sir Donald Kaberry said that the Committee had decided to await more information from me and did not intend to publish my letter until it had received a fuller and more considered reply from the Government. M Fiterman's response on the question of disclosure was that this would not be helpful at the present time. I agreed that I would try to avoid publication



but said that if I came under pressure I might have to publish summary figures from the British input into the studies. (If so, I would want to let M Fiterman know what I had in mind.)

In these circumstances I propose to write to Sir Donald Kaberry as soon as Lord Cockfield has seen Sir John King, to say that pending the July meeting it would not be appropriate to disclose the results of the studies but that BA had been asked whether they would wish to continue commercial services or discontinue them in the event of the Government's withdrawal of funding for in-service support. I would expect to make a fuller statement to Parliament after the July meeting.

In conclusion, I would emphasise that, whilst we no longer have the opportunity to blame a decision to cancel Concorde on the French, nor to place responsibility for deciding on cancellation on British Airways, we now have a much clearer path to mutually agreed termination of support. In view of the need to initiate the preparations for the July meeting and the need to keep to the timescale involved in the attached outline of the expected sequence of events, I would be grateful for comments from colleagues by Monday 17 May.

I am copying this letter and attachments to the Prime Minister, the members of E(EA), to John Biffen, Douglas Hurd, Tom Trenchard and Michael Jopling and to Sir Robert Armstrong.

John Biffen
Norman

NORMAN LAMONT

COMMUNIQUE: ANGLO-FRENCH DISCUSSIONS ON AERONAUTICAL COLLABORATION

As agreed at their previous meeting on October 29, 1981, M Charles Fiterman, Minister of State, Minister of Transport, and Mr Norman Lamont MP, Minister of State for Industry, met in Paris on May 6, 1982 to discuss Concorde and Airbus matters.

The Ministers expressed satisfaction at the success of 'Airbus Industrie' which had 53% of the market for middle and long-range aircraft in 1981 and is one of the two most important civil aeronautical constructors.

They noted the progress made in the preparations for the A320 project. This project appears to be well suited to future needs for medium capacity aircraft.

In these circumstances, they have decided to discuss in greater depth with their partners, the launching of the programme.

As to Concorde, they noted with satisfaction the progressive reductions in Concorde expenditures in both countries, which would be continued.

The Ministers considered the joint report submitted by British and French officials on the future of Concorde with they had commissioned at their earlier meeting and also took note of reports dealing with cost sharing between the two countries.

Following this discussion the two Ministers agreed to report back to their respective Governments with a view to a further meeting in July.

6 May 1982

SEQUENCE OF EVENTS

Future of Concorde

1. Colleagues reply to reporting letter (2nd week in May)
- ↓
2. (a) Ambassador sees Abraham (3rd week in May)
(b) Written answer to Parliament (3rd week in May)
- ↓
3. Lord Cockfield sees Sir John King (3rd/4th week in May)
- ↓
4. (a) Letter to Select Committee (4th week in May/1st week in June)
(b) British and French officials (CMB) meet to consider preparations for July meeting (1st week in June)
- ↓
5. Visit to Federal Express (3rd week in June)
- ↓
6. British Airways replies on assuming financial responsibility (4th week in June)

Arbitration

1. Colleagues reply to reporting letter (2nd week in May)
- ↓
2. Ambassador sees Abraham (on same occasion as at 2(a) opposite) to repeat case on cost sharing
- ↓
3. (a) Consideration of strength of case for arbitration
(b) Consideration of forum for and type of arbitration
- ↓
4. Put possibility of arbitration to E(EA)
- ↓
5. Ambassador sees Abraham again
- ↓
6. French reply to proposal on arbitration (may not come before July meeting)

7. Put position on future of Concorde and arbitration to E(EA) (end of June/beginning of July)

8. British and French officials meet to finalise papers for July meeting (1st full week in July)

9. July meeting (2nd or 3rd week in July)



MSM

ms 23/4

CV JV

Foreign and Commonwealth Office

London SW1A 2AH

23 April 1982

SELECT COMMITTEE REPORT ON CONCORDE

1. Thank you for your letter of 22 April enclosing a draft letter from Mr Lamont to the Chairman of the House of Commons Select Committee on Industry and Trade. *with mcs today*
2. As you know, we are concerned that anything said in public about Concorde, particularly before Mr Lamont meets M Fitermann on 6 May, should not prejudice our chances of gaining the best possible deal from the French when Government support for the Concorde is withdrawn. We think it would help to secure this if you could agree to two minor alterations of your proposed text.
3. In paragraph 5 on page 2 we would like to see the passage quote whether the studies are conclusive, and if so unquote deleted, since this implies that we do not have much confidence ourselves in the studies. In the following paragraph we would like to see the passage quote to the maximum extent possible unquote deleted.
4. I appreciate that we do not wish to mislead the Select Committee by appearing to place more confidence in the results of the studies than is in fact the case. The demands of our negotiation with the French and of your Minister's relations with the Select Committee are to some extent conflicting. I hope that our proposed amendments by leaving intact certain caveats in the text, take care of both concerns.
5. I am copying this letter to the Private Secretary to the Prime Minister and to the Private Secretaries to E(EA) members, the Leader of the House, the Minister of State for Defence Procurement, and Chief Whip and Sir Robert Armstrong.

John Alty Esq
PS/Minister of State
Department of Industry
Aldershot House

J M Macgregor
PS/Mr Rifkind

CONFIDENTIAL

Prime Minister (4)



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
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pus 22/4

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gc BT

From the
Minister of State

PS/Norman Lamont MP

Jonathan Spencer Esq
Private Secretary to the
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
London SW1

22 April 1982

Dear Jonathan

SELECT COMMITTEE REPORT ON CONCORDE

At the meeting of E(EA) on 20 April it was agreed that a revised draft of Mr Lamont's letter to the Chairman of the Select Committee, giving the Government's considered reply to the Committee's recommendations, should be circulated for approval.

I now attach a revised draft, as agreed by my Minister. Changes from the original are indicated by underlining or sidelining. I would be grateful for any comments from recipients by lunch time Friday 23 April.

It is proposed that the letter be sent to the Chairman on the morning of Monday 26 April. Mr Lamont would inform the House of his reply, but not of its contents, in an answer to an arranged written PQ later that day. The Committee would then take final decisions on early publication at their business meeting on Wednesday 28 April.

I am copying this letter and enclosure to the Private Secretary to the Prime Minister, and to the Private Secretaries to E(EA) members, the Leader of the House, the Parliamentary Under Secretary of State at the Foreign and Commonwealth Office, the Minister of State for Defence Procurement, the Chief Whip, and Sir Robert Armstrong.

yours,
John

JOHN ALTY
Private Secretary

CONFIDENTIAL

DRAFT LETTER FROM MINISTER OF STATE FOR INDUSTRY TO SEND TO THE
CHAIRMAN OF SELECT COMMITTEE ON INDUSTRY AND TRADE

INDUSTRY AND TRADE COMMITTEE REPORT ON CONCORDE

I am writing to let you have the Government's reply to the recommendations contained in the Committee's second report on Concorde (HC 193) which was published on 25 February last.

The Committee recommend (paragraph 22(a)) that, in agreement with the French, figures should be drawn up and published showing the balance of advantage at the earliest date recognised as practicable for cancellation. Paragraph 22(b) defines cancellation as requiring that a terminal date for support from public funds should be fixed and announced; and this forms the Committee's second recommendation.

As I explained to the Committee on 9 December, joint Anglo-French studies were being carried out to compare the relative costs in the two countries of continuation of Concorde services and their termination. You will know from my written Answer on 20 April these have now been completed and a report made to the two Governments.

The calculations, using up-dated estimates of the project costs of support and revised airline operating forecasts provided by British Airways, agree with Table B of the Department of Industry's memorandum of 2 December 1981, in indicating that British Airways Concorde surpluses, as estimated by the airline

would exceed estimated net project expenditures by 1984-85. They suggest too that this date might be advanced to 1983-84 if the airline were to lease aircraft to Federal Express for a transatlantic parcels service. The joint studies also indicate that there is no foreseeable possibility of Air France realising surpluses on their Concorde operations which might be such as to cover the French manufacturers losses in providing in-service support to Air France and British Airways.

I shall be discussing these studies with the French Minister of Transport, M Fiterman, on 6 May. We shall then consider whether the studies are conclusive, and if so their implications. I shall also discuss what information could be made available to the two Parliaments.

At our meeting I shall also seek to negotiate with M Fiterman to the maximum extent possible a settlement of outstanding cost sharing imbalances, which forms the subject for the Committee's third recommendation (in paragraph 22(c)). I have already reminded him of my statement at our meeting on 29 October 1981 that the future of Concorde would not be settled satisfactorily without a just and equitable solution to the question of these imbalances. Lord Carrington also drew the attention of M Cheysson, the French Foreign Minister, to this question at their meeting on 15 March.

I welcome the Committee's interest and support; but there are of course very considerable complexities and constraints surrounding this issue. (See my answer to Mr McNally (Question 6), and Sir Peter Emery, (Question 58), at the hearing on 9 December.)

SECRET



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dfg

*cc Members of E(EA)
+ Defence
FLO*

10 DOWNING STREET

From the Private Secretary

13 April 1982

THE FUTURE OF CONCORDE

The Prime Minister has seen Mr. Lamont's letter of 8 April to the Chairman of E(EA) about the future of Concorde.

Subject to the views of colleagues, she would be content with the decisions proposed in Mr. Lamont's letter.

I am sending copies of this letter to Jonathan Spencer in your Secretary of State's Office, and to David Wright (Cabinet Office).

M. A. PATTISON

John Alty, Esq.,
Minister of State's Office,
Department of Industry.

L

SECRET

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From the
Minister of State
Norman Lamont MP

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
London SW1

Prime Minister

Agree, subject to the views of
colleagues, to a, b, c

8 April 1982

at X
overleaf?

MIS 8/4

Dear Patrick

THE FUTURE OF CONCORDE

I have now received the joint studies by British and French officials covering the three options agreed with the French Minister of Transport last Autumn (i) continuation without Federal Express, (ii) continuation with Federal Express and (iii) rundown and termination of services by British Airways and Air France on 1 April 1984. These studies together with the purely British study on mutually agreed cancellation from 1 October 1982 have been evaluated by my officials in consultation with other Departments. I attach a copy of their report, to which I have added an abstract of the British Airways component of the options set out in Tables A, B and C of the report. The next steps are to identify the underlying objective we should pursue at the Anglo-French Ministerial meeting on 6 May.

British Objectives

I agree with the conclusion of the report that it is in both this Department's interests and the wider national interest to seek the earliest possible termination of Government financing of in-service support for Concorde. The costs to the Government of providing continuing financial support for Concorde operations are certain to be incurred; the revenue offset from British Airways is very uncertain. There is a high probability that the cancellation options could be as attractive as any of the continuation options. Continuation with Federal Express in particular could lock the Government into funding support by the manufacturers for a long period of time. I believe that the risks that net public expenditure on continuation of Concorde will be greater than that on cancellation are sufficiently high to justify termination of support.

Moreover, our investigation of British Airways' own forecasts has not only confirmed the extreme sensitivity of the assumptions used but has also uncovered weaknesses in BA's



methodology and approach which lead me to place little confidence in their current assessments. I believe this situation will persist so long as the Government continues to fund in-support costs. Only when BA are faced with bearing all the costs are we likely to obtain a realistic indication of where the true balance of advantage lies. The Secretary of State for Trade may therefore wish to invite British Airways at the appropriate time to make their own decision on whether to continue operations; this would involve making their own arrangements with the manufacturers for support and negotiating with Federal Express on the basis that Government guarantees of continued support would not be available. Because of the absence of Government guarantees (an unacceptable, open-ended commitment for us), I would expect Federal Express to decide against continuation of their scheduled services.

French Objectives

These are not yet clear. The French may propose continuation as a means of testing our position. In that event I would propose to probe the French Government's own true intentions by insisting (a) on a satisfactory deal in cost sharing (see below) and (b) on joint exploration of the Federal Express option (to which we know the French Ministry of Finance is firmly opposed). The more likely French preference, however, is for cancellation.

A substantial reduction in Air France's services is already in prospect. Financial pressures on the French budget could lead to their complete withdrawal by the end of the year. If Air France services are terminated the French Government will no longer have any domestic reason for financing French manufacturers. Should the French Government decide on termination to save money they are unlikely to entertain British claims on cost sharing. Because French expenditures on termination will be significantly less than British expenditures, we can expect the French to argue that each party should pick up its own costs of rundown and termination. Such an approach would, according to our legal advice, be contrary to the letter and spirit of the 1962 Agreement. But this will not necessarily stop the French from trying to walk away from their Treaty obligations, if necessary by means of unilateral termination. I have registered our claims to an equitable solution on cost sharing in a recent letter to the French Minister. Firmness and persistence will be needed to make our claims stick but the outcome must be uncertain.

Reply to Select Committee Report

This is due by 24 April. I attach an essentially holding draft for my colleagues' approval, and also an explanatory note with whose recommendations I agree.



Timing Considerations

To avoid undermining our negotiating position we need to maintain strict security within Government. We should give no forewarning to British Airways, or to the manufacturers, of any intention to withdraw Government support; but, if a decision in this sense is taken, it should be implemented at the earliest practicable date after negotiations, taking account of British Airways' intentions.

Points for Decision

I accordingly invite my colleagues:-

a To concur that the UK's underlying objective in the negotiations should be to secure the earliest possible termination of Government financing of in-service support. We should seek ultimately to secure termination of in-service support on an agreed basis and as a simultaneous decision of the two Governments.

b To avoid any public comment about our views on the future of Concorde before the Anglo-French meeting. At the meeting, for tactical reasons and to secure the best possible deal on cost sharing, our initial position should be that we consider that on balance the evidence points in favour of British continuation.

c To authorise me to negotiate with M Fiterman accordingly; and should he propose withdrawal by mutual agreement to agree to consider this without commitment and subject to his producing tangible indications of French good faith by negotiating a satisfactory settlement on cost sharing. Should the French, contrary to present expectations, persist in arguing for continuation, I should, of course, seek further guidance from colleagues.

d To approve my proposed reply to the Select Committee Report.

Finally, we need to take decisions in the week beginning 19 April to enable British and French officials to make final preparation for the Ministerial meeting on 6 May.

I am copying this letter and enclosures to the Prime Minister, the members of E(EA), to John Biffen, Douglas Hurd, Tom Trenchard and Michael Jopling and to Sir Robert Armstrong.

Yours a
Norman

NORMAN LAMONT

GOVERNMENT REPLY TO SELECT COMMITTEE'S
SECOND REPORT ON CONCORDE

Report to the Minister of State for Industry

1. The Select Committee on Industry and Trade published a second report on Concorde on 25 February 1982 (Second Report from the Industry and Trade Committee Session 1981-82 Concorde HC 193). This note, and the draft reply attached, analyses for Department of Industry Ministers and the other members of the E(EA) Committee the substance of the Committee's report, and indicates the reasons for replying to it in the way suggested

Timing and Form of Reply

2. Under the general procedures applying to Select Committee reports the Government's reply should be given within two months of the report's publication, ie by 24 April. On the assumption that the E(EA) Committee meet on 19 April to consider Concorde matters generally and to approve the reply, this should be just about feasible.

3. However the Government traditionally has some latitude in replying to such reports (the reply to the Committee's first report on Concorde was presented to Parliament three months afterwards). The determining factor in this case is the impending Anglo-French Ministerial meeting on Concorde now arranged for 6 May. The outcome of this meeting is, and is likely to remain, highly uncertain. A Government reply made before the meeting, on the lines of the attached draft, could however be quite straightforward and phrased in such a way as not to prejudice the forthcoming negotiations.

4. In this connection the form of the Government's reply is also relevant. The report is too insubstantial to warrant a White Paper reply (as with the first report); and the Clerk has suggested that, in this instance, the reply could appropriately take the form of a letter from the Minister for Industry to the Chairman of the Committee. The letter would be evidence to the

Committee; and it would be for the Committee to decide if, when and in what manner to publish it.

5. If, however, E(EA) were to decide that the Government's reply were best made after the Anglo-French Ministerial meeting, rather than shortly before it, it might be possible to include that reply in whatever statement the Minister were to make to the House on the outcome of his meeting with the French Minister of Transport. However, this might not be desirable if the meeting is inconclusive, or the prelude to further intergovernmental negotiations (both of which seem possible), and this were to be reflected in a somewhat bland and unspecific statement.

6. Our preference is therefore for a reply to be given before the meeting, as carrying the lowest risks and being within the two months period; and, despite the restrictions on publication, for this to be done in the form of a letter to the Committee Chairman along the lines of the attached draft.

The Committee's Report

7. In contrast to the Department's memorandum of 2 December 1981, which the Committee recognise as having transformed the previous picture, the Committee's report adds little to what has been said previously. The principal features are:-

- (a) The Committee query the assumptions used in compiling the figures, and make whatever they can of the admitted uncertainties in forecasts of this kind (this constitutes the bulk of the report).
- (b) They assert that much more effort needs still to be made to ensure that the British taxpayer does not have to provide more money (paragraph 21).
- (c) They recommend (paragraph 22(a)) that, in agreement with the French, figures should be drawn up and published showing the balance of advantage

at the earliest date recognised as practicable for cancellation, and that a terminal date for support from public funds should be fixed and announced (paragraph 22(b)).

- (d) They recommend (paragraph 22(c)) that HMG should take the earliest opportunity of negotiating in detail with the French Government the implementation of the 1962 cost sharing agreement in letter and in spirit.

The Government's Reply

8. While still critical, the thinness of the latest report suggests that the Committee, despite diligent searching, do not have too much more to say at this stage. The Government, in our view, should prolong this by keeping its reply low keyed and anodyne. This is particularly necessary now that the Anglo-French discussions and negotiations on the future of Concorde are about to enter a critical phase.

9. This in turn suggests that the reply should not seek to deal with the Committee's observations, but should concentrate on their recommendations. There are a number of inaccuracies in the former. But putting them right would require disproportionate attention being drawn to relatively detailed matters, and could lead to further fruitless exchanges. It should also be noted that, apart from one small aside, the Committee have not pursued, in their report, earlier suggestions that the substantial reductions now foreseen in Concorde net project expenditures had only been brought about because of the Committee's decision to inquire into Concorde finances, and that no evidence had been offered previously to indicate that there might be such sharp reductions in expenditure.

10. The recommendations are of a more positive character. That recommending a statistical exercise, to be conducted jointly with the French and presented to the House of Commons and to the French National Assembly (paragraph 22(a)), could not be implemented without seeking French agreement, and is not therefore

worth pursuing. By concentrating instead on fixing and announcing a terminal date for support from public funds (paragraph 22(b)), the draft reply sidesteps this and manages an informative response to the Committee's main concern, in which an assessment originally contained in the Department's memorandum of 2 December 1981 on the British possibilities is updated, and an indication given for the first time of the French possibilities. In accordance with past practice, the British Airways results are as estimated by the airline.

11. The reply to the Committee's final recommendation, that for negotiations with the French Government on cost sharing (paragraph 22(c)), also contains previously undisclosed information, both about the Government's general attitude to this matter, and about what is being done to achieve progress. Details of both aspects, and of the omissions in the Committee's report (to which reference is made in the draft reply), have already been reported to E(EA) in the exchange of correspondence between Mr Lamont and the Minister of State, Foreign and Commonwealth Office (Mr Douglas Hurd).

Department of Industry
6 April 1982

DRAFT LETTER FROM MINISTER OF STATE FOR INDUSTRY TO
CHAIRMAN OF SELECT COMMITTEE ON INDUSTRY AND TRADE

Industry and Trade Committee Report on Concorde

I am writing to let you have the Government's considered reply to the recommendations contained in the Committee's second report on Concorde (HC 193) which was published on 25 February last.

The Committee recommend (paragraph 22(a)) that, in agreement with the French, figures should be drawn up and published showing the balance of advantage at the earliest date recognised as practicable for cancellation. Paragraph 22(b) defines cancellation as requiring that a terminal date for support from public funds should be fixed and announced; and this forms the Committee's second recommendation.

As I explained to the Committee on 9 December joint Anglo-French studies were being carried out to compare the relative costs in the two countries of continuation of Concorde services and their termination. These have now been completed and a report made to the two Governments.

The calculations, using up-dated estimates of the project costs of support and revised airline operating forecasts provided by British Airways, agree with Table B of the Department of Industry's memorandum of 2 December 1981, in indicating that British Airways Concorde surpluses, as

estimated by the airline, would exceed estimated net project expenditures by 1984-85. They suggest too that this date might be advanced to 1983-84 if the airline were to lease aircraft to Federal Express for a transatlantic parcels service. The joint studies also indicate that there is no foreseeable possibility of Air France realising surpluses on their Concorde operations which might be such as to cover the French manufacturers losses in providing in-service support to Air France and British Airways.

I shall be discussing these studies with the French Minister of Transport, M Fiterman, on 6 May to reach conclusions on them. We shall also consider whether or not a terminal date should be set for support of Concorde from public funds in each country, and if so what the date should be.

At our meeting I shall seek to negotiate with M Fiterman a settlement of outstanding cost sharing imbalances, which forms the subject for the Committee's third recommendation (in paragraph 22(c)). I have already reminded him of my statement at our meeting on 29 October 1981 that the future of Concorde would not be settled satisfactorily without a just and equitable solution to the question of these imbalances. Lord Carrington also drew the attention of M Cheysson, the French Foreign Minister, to this question at their meeting on 15 March.

While I welcome the Committee's interest and support, I feel it only appropriate to draw your attention to the complexities surrounding this issue as I explained them in my answer to Mr McNally (Question 6), and to the constraints that I described in my answer to Mr Emery, as he then was, (Question 58), at the hearing on 9 December 1981.

STUDIES ON THE FUTURE OF CONCORDE

Report to the Minister of State, Department of Industry

1. At their meeting on 30 November 1981, E(EA) Committee invited the Minister of State, Department of Industry, to arrange for his officials, in consultation with those of the Treasury, the Foreign and Commonwealth Office, the Department of Trade, the Scottish Office and, as necessary, other Departments, to evaluate the options of cancellation of Concorde from October 1982, early phased rundown of Concorde and continuing support for Concorde, taking into account the points made in discussion and in the Chairman's summing up; and to report by the beginning of March 1982. This report is submitted to the Minister of State in response to the Committee's request and as a basis for his own report to the Committee.

Studies Undertaken

2. The evaluation of the options for the future of Concorde has been undertaken by British officials within the framework of the following four exercises:

- The joint Anglo-French studies on the future of Concorde, commissioned by the British and French Ministers responsible for Concorde at their meeting on 29 October 1981.
- The examination of a number of aspects of the methods used in the above study by an interdepartmental economist's group, set up for the purpose.
- The purely British study of cancellation of Concorde from early October 1982 and of rundown and termination at a range of dates.
- A separate examination by the Department of Industry, in conjunction with the Ministry of Defence, of the future costs to Government of in-service support for Concorde.

Each of these studies has evaluated, as appropriate, the costs listed in the annex to this paper.

3. The joint Anglo-French studies on the future of Concorde considered the costs to the British and French public sectors of the following options:

Option 1: Continuation of Concorde services by British Airways and Air France at their present level.

Option 2: As Option 1, but with the lease of four aircraft to the US small parcels carrier Federal Express to operate a transatlantic service.

Option 3: Phased rundown and termination of services on 1 April 1984.

These studies evaluated the costs of each option, in terms of public expenditure in each country, over the period 1 April 1982 to 31 December 1988, on the basis of information supplied by the British and French manufacturers, British Airways and Air France. An agreed report has now been prepared by British and French officials.

4. The interdepartmental group of economists was set up to advise on a number of aspects of the method used in the British input into the Anglo-French studies with a view to their advice being taken into account in the presentation of these results to British Ministers. The group reported that:

- The costs of each option should be presented to Ministers primarily in terms of resource costs but the costs in terms of public expenditure should also be presented (the latter only are shown in the joint report on the Anglo-French studies and in memoranda to the Select Committee).
- The British Airway's forecast operating surpluses

in the two continuation cases should be replaced, in the results presented to Ministers, by figures based on a more conservative set of assumptions, which the group termed "the realistic case", (the joint report on the Anglo-French studies uses BA's own assumptions and figures).*

- There was considerable doubt about British Airways' forecast of the expected increase in their subsonic revenues in the event of cancellation. The group considered that BA's forecast was too conservative. They noted that a small increase in the number of subsonic passengers, in addition to that assumed by BA, would significantly increase revenues from, and hence reduce the cost of, cancellation.
- That there was a small additional benefit both in resource cost and in public expenditure terms from locating the Federal Express European terminal at Prestwick as opposed to Shannon (the two sites proposed by Federal Express).

More generally, in presenting their report the group expressed serious reservations about using the information in the joint studies as the basis for a decision on the future of Concorde, in view of the sensitivity of the British Airways figures to small changes in assumptions. They noted that there was a high risk of an adverse outcome under each option.

5. The purely British study of cancellation on 1 October 1982 ("Option 4") has been carried out by officials, without consulting either the British manufacturers, British Airways or French officials. This study also considered, in broad terms only, the cost of rundown and termination at dates later than the date of 1 April 1984 used in the joint Anglo-French studies. The results of the purely British study have been prepared taking into account the comments of the group of economists on the joint Anglo-French studies. In particular they show both resource costs and public expenditure and adopt the

"realistic case" for British Airways results.

6. The separate examination by the Department of Industry and Ministry of Defence of the cost of continued support for Concorde over the period 1981-82 to 1985-86 has also been completed. It confirms that there is no scope for further significant economies in in-service support in addition to those implemented in the major review of costs undertaken in 1981, assuming Concorde services continue as at present.

Anglo French Aspects

7. In considering the future of Concorde, the Minister of State will wish to know the position shown in the joint Anglo-French studies of the costs to the French public sector of each of the options. In the French case there are considerable costs whichever option is adopted since the capital used to purchase Air France Concordes was largely raised commercially and repayments of interest and capital continue at least until 1988. The French results in the joint Anglo-French studies show that, including repayments of capital and interest up to 1988, Option 3, rundown and termination on 1 April 1984, is the least costly option.

8. In addition to the jointly studied options, we understand that French officials have studied two further options:

- A variant of Option 2 involving continuation but with cancellation of Air France's service to Mexico City and restriction of the Paris-New York service to seven flights per week, two of which would go on to Washington, plus the lease of aircraft to Federal Express.
- A variant of Option 3 involving termination of Air France services on 31 December 1982.

We believe that both these options would be less costly

than any of the options studied jointly but we do not know, of the two, which is the less costly.

9. We understand however that French Finance Ministry officials are strongly opposed to any lease of aircraft to Federal Express because this would lock the French Government into supporting Air France's losses for the seven year period of the guarantee. We also understand that French officials have been exploring not only the termination of Air France services from 31 December 1982 but also the cessation, possibly unilateral, of intergovernmental arrangements under the 1962 Agreement for the support of British Airways services from that date. The French manufacturers would however be free to continue to support British Airways Concorde, but would not receive funding to do so from the French Government.

10. We are unable to assess at this stage which of the three options jointly studied, or the two variants on them, French Ministers are likely to prefer. There would, of course, be serious difficulties in HM Government withdrawing financial support for Concorde if the French Government decided that they wished to continue with the project.

Evaluation of the Results

11. We accept the view of the economists group that resource costs are the conceptually correct way to evaluate the economic merits of each option. However we consider that Ministers, having evaluated those merits, would wish to consider the public expenditure implications of the choice, if any, those merits determine. Should the public expenditure costs prove to be significantly in excess of those of one of the other options, Ministers would undoubtedly wish to re-examine their earlier evaluation of the economic case. We therefore consider that both resource costs and public expenditure costs should be given equal prominence in presentation to Ministers. However we agree that the British Airways' Concorde operating surplus

presented should be that implied by more conservative "realistic case" assumptions, as proposed by the economists

12. Table A therefore sets out the resource costs and public expenditure implications of the options studied jointly by British and French officials (Option 1, 2 and 3) and of Option 4, cancellation on 1 October 1982, using the "realistic case" for British Airways Concorde operating results. This shows that in resource cost terms Option 2, continuation with Federal Express, is most attractive but that there is little to choose between the other options. The public expenditure figures also rank continuation with Federal Express as the most attractive option in terms of public expenditure, but show that both of the cancellation options are considerably more costly than continuation without Federal Express.

13. However, in evaluating these results, we are particularly mindful of the sensitivity of the results to changes in the assumptions about British Airways' Concorde and subsonic results and of the possibility that the costs of each option in practice could be considerably in excess of those shown. Option 1 carries with it the risk that, despite the more conservative assumptions used in these figures as compared to those supplied by British Airways, BA's Concorde operating surplus could be significantly less than now forecast. Option 2 carries the risk that, since Federal Express would only be prepared to go ahead in return for a guarantee of continued Government support for Concorde for a period of some seven years, the Government could be locked into funding support by the manufacturers for a long period of time. This could prove costly should an airworthiness problem require considerable additional expenditure to enable HMG to meet its guarantee. Options 3 and 4 carry with them the possibility that British Airways' subsonic results could be significantly better without Concorde, and hence that the costs of those options could prove less in practice than shown.

14. Whilst the forecast future revenues are open to considerable doubt, it is certain that significant expenditures on in-service support will continue to be needed over the next few years. In these circumstances we consider that the figures shown in Table A provide no clear policy prescription. This view is reinforced by the work on the costs of termination at dates later than 1 April 1984, which show no clear case for or against delaying termination. Moreover, we do not consider that further studies would make the overall position any more clear.

Views of Interested Departments

15. Since no clear picture emerges from consideration of the public sector overall, Departmental interests become important. Table B sets out those of the cost of each option which would fall in each year to be carried on the Department of Industry Vote whilst Table C sets out year by year the remaining public expenditure on Concorde. These tables show that the costs of each of the four options to the Department of Industry Vote are almost identical in 1982 and 1983 taken together, but that the two cancellation options are substantially cheaper than continuation over the whole period 1982-88. Indeed cancellation on 1 October 1982 is only just half as expensive as continuation without Federal Express (the current hypothesis used for PES and other purposes) over the whole period. Moreover, as has already been noted, we believe that these project support figures are inherently more reliable than the other elements of cost in view of the experience of forecasting built up by the manufacturers over the years and the good overall record of forecasting by the Department of Industry of expenditure on Concorde support in recent years (as opposed to a poor record for development and production costs in earlier years). Finally there are no reasons of Departmental aerospace, general industrial, or other policy for supporting continued expenditure on Concorde.

16. In these circumstances DoI recommend that the Minister of State should ask his colleagues to agree to termination of Government funding for support for Concorde by the British manufacturers at the earliest practicable opportunity. The precise timing of the termination of support will depend partly on what the French want to do and partly on whether British Airways wish to continue Concorde services and fund in-service support themselves. We recommend, however, that there should not be a protracted period before termination and therefore envisage that support would be terminated some time in the period 1 October 1982 to 31 March 1983. Faced with such a recommendation it would be for Ministers collectively to determine the Government's policy on the future of Concorde. It should be reiterated that termination of Government support need not mean an end to Concorde services if BA were prepared and in a position to meet the future costs of support by the manufacturers. In principle BA ought to be able to make a better informed and more realistic decision about where the true balance of advantage lies when faced with all the costs of continued operation of Concorde, in contrast to the present position in which it bears only some of these. However in practice there must be strong doubts if BA would continue Concorde without Government support.

17. The Treasury supports the Department's view. The cost savings imply a release of real resources which can be used more productively elsewhere in the economy. These resource savings are of long term benefit to the economy, helping to strengthen its underlying competitiveness. It may be that in the short run the public financing costs of closure will exceed these real resource savings adding therefore to the public sector borrowing requirement (PSBR). These costs are mainly transfer payments and include severance costs, higher unemployment outgoings and losses of revenue. They are once for all or in time will diminish as the released resources are re-absorbed into the economy. In the Treasury view a short term worsening of the PSBR is acceptable if the alternative is to incur real resource costs

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on a continuing basis with the consequence that the economy is denied the economic benefit which might follow if these resources were diverted into more productive use. The Treasury also shares the Department's doubt about the proposition that British Airways would be able to operate future Concorde services at a profit and that it would fail to pick up more than the small fraction of existing Concorde passengers on its existing subsonic services. Moreover, the Treasury notes that whereas the project costs of continuation can be estimated with reasonable confidence the revenue offsets calculated by British Airways are highly uncertain. The Treasury also notes that on some scenarios the public expenditure costs of early cancellation could exceed those of continuation. However it considers that a Federal Express service is so uncertain a prospect that it should not affect the decision. The comparison should be between early cancellation and continuation without Federal Express.

18. FCO officials have no substantive comment to make on the industrial case for or against Concorde, and are principally concerned with the implications for our relationship with the French. If Ministers agree that British Government funding should be terminated, the interests of the two Governments would appear to coincide. But the FCO see the negotiation on termination as being the only realistic opportunity to reach a settlement of the cost sharing problem, and therefore believe that it would be prudent to maximise our bargaining strength by giving no indication at this stage that we might see advantage in termination (as the Anglo-French studies indicate). The FCO's preliminary view is that the French would not be entitled unilaterally to withdraw Government support from the project if the negotiations break down. This point and negotiating tactics generally, will, however, need to be considered carefully by the FCO before the meeting with M. Fiterman.

19. There are three aspects to the Department of Trade's interest in the future of Concorde:-

- (i) As potential beneficiaries of the 80 per cent/20 per cent profit sharing arrangement with British Airways - on the basis of the estimates in this paper BA will not make good accumulated losses and become due to make payments until about 1985;
- (ii) As sponsors of the UK airline industry and of British Airways in particular - Concorde is forecast to contribute about 3 per cent of BA's revenue and 4½ per cent of their operating profits in 1982/83 (proportions which are expected to decline in later years); and
- (iii) As future vendors of British Airways' shares to the public.

The Department accept that there is considerable uncertainty about BA's forecast Concorde operating results (which BA have seriously over-estimated in the past), and that this uncertainty must be reflected in the decision on Concorde's future. However, this decision, as well as taking account of the quantifiable costs and benefits of the various options to the UK economy and to the Exchequer, will need also to reflect a judgement on the effect of Concorde on the competitive position of BA, both now and when privatised, in the world travel market. DoT Ministers will wish therefore to weigh up the significance of Concorde in the UK civil aviation policy when reaching a view on the withdrawal of Government support for the project.

20. British Airways themselves are quite likely to oppose a decision to end Government support for Concorde; they may even campaign publicly for its continuation, claiming that without it they will not be able to maintain Concorde in service. Ministers will therefore be held responsible not only for withdrawing Government support, but also for grounding the aircraft; and they will need to be able to explain publicly why both are in the national interest.

21. If British Aerospace were to become aware that HMG might take a decision to withdraw financial support which would lead to termination of Concorde services in the near future, the negotiations by MOD of HMG's claim against BAe in respect of Concorde spares destroyed by fire at Weybridge in 1980 would be adversely affected. The claim is being assessed on the basis of the replacement cost of the lost spares, and that cost is dependent on the spares actually being replaced. If Concorde ceases to operate most of the spares would not need to be replaced and the amount of the claim would be assessed by reference to the value to HMG of the spares as they were on the shelf at the time of the fire. That value is essentially the potential sales value, but if Concorde services are terminated and there is no sales outlet for the spares their destiny becomes the scrapheap. Thus the value of HMG's claim would be only the scrap value of the lost spares, because that is all HMG would have obtained for them. Quantifying the devaluation of HMG's claim on this account is extremely hazardous. But, taking into account MOD(PE)'s current legal advice that HMG could not expect to recover or retain more than its true loss, the best indication which can be given is that it could be reduced by as much as £20M, or by as little as £15M, depending on negotiations.

22. The Department of Employment advise that the majority of jobs which would be lost if BA felt unable to take over financial responsibility for Concorde are located in the relatively buoyant labour markets of Bristol and the South East. On the other hand, the Rolls Royce workers at Coventry face a rather more bleak immediate future if made redundant. The unemployment rate there is currently 15.6 per cent though this shows a slight fall from the January 1982 rate of 16 per cent. By the time Concorde workers begin to be laid off (October 1982) it is possible that some improvement in the underlying economy of the area will enhance the job prospects of the highly skilled ex Concorde workers.

23. The concern of the Scottish Office has been to ensure that, if Option 2 were to be chosen, Prestwick should be the European hub for the Federal Express parcels operation. The Scottish Office do not, however, regard the additional benefit accruing from the use of Prestwick as a determining

factor in Ministers' decision on the options before them and do not, therefore, dissent from the conclusion in para 14 above.

Further Action

24. Once the Minister of State has reached a view on the recommendations in this report we suggest that he should circulate it under cover of a note setting out his own views, to his E(EA) and other colleagues, for subsequent discussion and decision by Ministers collectively. A meeting of E(EA) needs to take place in the week beginning 19 April if officials are to have time to advise Ministers, in the light of their decision on the future of Concorde and of the latest information about the preferred French option, on the tactics the Minister of State should adopt at his meeting, expected on 6th May, with the French Minister for Transport. Ministers may well need to meet again to consider this advice sufficiently early in the week beginning 26 April, the week before the proposed Anglo-French meeting, to allow preliminary discussions to take place between British and French officials should these be considered desirable.

DEPARTMENT OF INDUSTRY
8th APRIL 1982

COSTS EVALUATED IN CONCORDE STUDIES

Resource Costs

1. In all options, Department of Industry expenditure on in-service support by British manufacturers.
2. In the event of termination, Department of Industry expenditure under its contracts with the manufacturers for compensation for lost profit and contribution to overheads, less an allowance for sale of redundant parts and materials.
3. In all options, British Airways Concorde operating results.
4. In the case of termination, the additional fixed costs incurred on BA's subsonic services, arising as a result of cancellation of Concorde.
5. In the case of termination, the increase in British Airways' subsonic revenues from carrying passengers who would otherwise have flown Concorde.

Public Expenditure

1. All the above resource costs plus:
2. In each case, the cost to HMG of severance costs at the manufacturers arising from a reduction in Concorde work.
3. In each case, any severance costs in respect of Concorde employees of British Airways.
4. In each case, the "other public sector costs" comprising the loss to the Exchequer in reduced income tax and national insurance contributions and increased payments of unemployment and supplementary benefit payments, arising from the reduction in that case in Concorde employment.

CONCORDE: NET COSTS AND BENEFITS

RESOURCE COSTS IN £M, DISCOUNTED AT 5%, AT SEPTEMBER 1981 PRICES

Option and case Year	Option 1 Continuation without Federal Express	Option 2 Continuation with Federal Express	Option 3 Rundown and Termination on 1.4.84	Option 4 Cancellation on 1.10.82
1982	(10.2)	(10.2)	(11.1)	(15.0)
1983	(8.5)	(7.2) to (6.7)	(5.3)	(7.2)
1984	(2.3)	0.9 to 2.4	(2.6)	(1.8)
1985	0.9	4.1 to 5.6	(3.5)	2.7
1986	2.0	5.0 to 6.5	1.3	2.8
1987	3.5	6.9 to 8.4	3.1	3.1
1988	3.3	6.9 to 8.4	3.1	3.1
NPV	(12.7)	1.6 to 8.2	(15.7)	(14.1)

PUBLIC EXPENDITURE COSTS UNDISCOUNTED IN £M, AT SEPTEMBER 1981 PRICES

Option and case Year	Option 1 Continuation without Federal Express	Option 2 Continuation with Federal Express	Option 3 Rundown and Termination on 1.4.84	Option 4 Cancellation on 1.10.82
1982	(10.2)	(10.2)	(12.5)	(30.5)
1983	(10.2)	(8.8) to (8.3)	(8.1)	(15.9)
1984	(3.6)	(0.4) to 1.1	(10.1)	(7.7)
1985	(0.2)	3.0 to 4.5	(11.6)	(0.6)
1986	1.4	4.4 to 5.9	(1.8)	2.6
1987	2.5	5.9 to 7.4	2.3	3.0
1988	2.8	6.4 to 7.9	3.0	3.1
TOTAL	(17.5)	0.3 to 8.3	(38.8)	(46.0)

- Notes: (1) 1 April 1982 to 31 December 1982 only.
(2) Amounts in brackets are costs/expenditures, other amounts are revenues/receipts.

EXPENDITURE ON CONCORDE CARRIED ON DEPARTMENT OF INDUSTRY VOTE⁽²⁾
IN £ M AT SEPTEMBER 1981 ECONOMIC CONDITIONS

	Option 1 Continuation without Federal Express	Option 2 Continuation with Federal Express	Option 3 Rundown and termination on 1.4.84	Option 4 Cancellation on 1.10.82
1982 ⁽¹⁾	(14.3)	(14.3)	(16.1)	(23.5)
1983	(14.4)	(14.5)	(12.1)	(3.5)
1984	(8.3)	(7.4)	(2.6)	0.3
1985	(4.5)	(3.8)	(2.4)	0.0
1986	(3.1)	(2.6)	0.2	0.1
1987	(0.8)	0.1	0.4	0.4
1988	(0.1)	1.0	0.4	0.4
TOTAL	(45.5) of which (28.7) in 1982 and 1983	(41.5) of which (28.8) in 1982 and 1983	(32.2) of which (28.2) in 1982 and 1983	(25.8) of which (27.0) in 1982 and 1983

Notes: (1) 1 April 1982 to 31 December 1982 only.

(2) Expenditure comprises net project costs for all options plus contractual costs of cancellation and project severance costs for options 3 and 4.

(3) Amounts in brackets are expenditures, other amounts are receipts.

PUBLIC EXPENDITURES ON CONCORDE⁽²⁾ OTHER THAN THAT CARRIED ON
DEPARTMENT OF INDUSTRY VOTE IN £M AT SEPTEMBER 1981 ECONOMIC CONDITIONS

	Option 1 Continuation without Federal Express	Option 2 Continuation with Federal Express	Option 3 Rundown and termination on 1.4.84	Option 4 Cancellation on 1.10.82
1982 ⁽¹⁾	4.1	4.1	3.6	(7.0)
1983	4.2	5.7 to 6.2	4.0	(12.4)
1984	4.7	7.0 to 8.5	(7.5)	(8.0)
1985	4.3	6.8 to 8.3	(9.2)	(0.6)
1986	4.5	7.0 to 8.5	(2.0)	2.5
1987	3.3	5.8 to 7.3	1.9	2.6
1986	2.9	5.4 to 6.9	2.6	2.7
TOTAL	28.0 of which revenues of 8.3 in 1982 and 1983	41.8 to 49.5 of which revenues of 9.8 to 10.3 in 1982 and 1983	(6.6) of which revenues of 7.6 in 1982 and 1983	(20.2) of which costs of (19.4) in 1982 and 1983

Notes: (1) 1 April 1982 to 31 December 1982 only.

(2) Comprises all BA costs and revenues, the project severance costs met by HMG from the Redundancy Fund under Options 1 and 2 and other public sector costs (lost taxation and national insurance revenues and increased supplementary and unemployment benefit payments).

(3) All amounts are receipts except where indicated by brackets.

BRITISH AIRWAYS RESULTS

1. This addendum sets out, at the request of the Minister of State, the British Airways component of the costs of each of the options set out in the main paper.
2. Table 1 sets out the British Airways Concorde operating result for option 1, continuation without Federal Express, as implied by the more conservative "realistic" set of assumptions proposed by the interdepartmental group of economists. There is a clear risk that British Airways results could be worse than those in the table, particularly in view of the recent downward revision in British Airways' forecast Concorde operating result for 1981/82 which was not taken into account by the economists.
3. Table 2 sets out British Airways Concorde costs and revenues arising under option 2, continuation with Federal Express. The operating surplusses on scheduled services are somewhat higher than in the case of option 1 since it is assumed that a proportion of the fixed costs of those services would be borne by Federal Express. Nevertheless the risks referred to for option 1 also apply to these results. The lease rental and contribution to fixed costs from Federal Express which are shown are subject to the outcome of negotiation with Federal Express but are as at present proposed by British Airways and Federal Express. It is intended that Federal Express should be required to obtain a third party guarantee for payment of their lease rental but no such proposal has yet been put to them. For their part, Federal Express have said that they would require a guarantee of support from the British and French Governments for a period of seven years and that they would be prepared to offer counter guarantees. Should an airworthiness problem arise during that seven year period it could require considerable extra expenditure to correct if HMG were to meet its obligations under such a guarantee. Should Federal Express wish to cease operations during the seven year period, whatever the position about lease rentals, British Airways would lose the contribution by Federal Express to its Concorde fixed costs and the costs of its scheduled services would be increased by the amount of fixed costs formerly attributed to Federal Express. The range for the estimated loss of cargo revenue is that provided by BA. The view of the group of economists was that, BA may have over estimated this loss and that therefore a loss at the lower end of the range was more likely.

4. Tables 3 and 4 set out the costs and revenues to BA of the cancellation options 3 and 4, involving cancellation on 1 April 1984 and 1 October 1982 respectively. The Concorde operating results shown up to the dates of termination are as for the case of continuation without Federal Express. The fixed costs of Concorde continuing after rundown are those fixed costs a portion of which is at present attributed to Concorde but which after termination of Concorde services would have to be borne entirely by BA's subsonic services. BA estimate that after a period of two years from termination their subsonic services would have grown sufficiently to absorb fully these costs. It is difficult to estimate the accuracy of BA's assessment of the continuing fixed costs but it is interesting to contrast their view with that taken by Air France, whose Concorde operation is of a similar size to BA's, that their continuing fixed costs would be at about one quarter of the BA level and would be eliminated within six months of termination. The improvement in BA's subsonic result derives from the increased traffic BA would expect to carry once the alternative of Concorde was no longer available. They estimate that some 9% of Concorde passengers would transfer to their subsonic services. The economists' group regarded this assumption as conservative but did not provide an alternative assumption since BA were not able to provide them with a coherent explanation of what they expected to happen to subsonic traffic in the event of cancellation of Concorde. They pointed out however that one extra first class subsonic passenger in each direction would reduce the cost of termination by almost £ $\frac{1}{2}$ m for each year after termination. Finally, for option 4, cancellation on 1 October 1982, the figures in table 4 include severance costs in respect of almost all of BA's Concorde workforce. They are expected to be made redundant in the event of termination at short notice. On the other hand in the case of rundown and termination on 1 April 1984 BA expect to be able to shed or redeploy all these employees before the date of termination and say that therefore, no severance costs arise.

Table 1

Option 1: British Airways Concorde Operating Results (Realistic Case)

<u>Year</u>	<u>Surplus in £M (September 1981 Economic Conditions)</u>
1982 ⁽¹⁾	4.1
1983	5.9
1984	6.0
1985	5.4
1986	5.1
1987	4.3
1988	<u>3.4</u>
<u>Total</u>	<u>34.2</u>

Note: (1) 1 April 1982 to 31 December 1982

Table 2

Option 2: British Airways Costs and Revenues (Realistic Case)

Amounts in £M at September 1981 Economic Conditions

<u>Year</u>	<u>Operating Result: Scheduled Services</u>	<u>Lease Rental From Federal Express</u>	<u>Federal Express Contribution to Fixed Costs</u>	<u>Fixed Costs Attributable to Federal Express</u>	<u>Lost Cargo Revenue With Federal Express</u>	<u>Net Total</u>
1982 ⁽¹⁾	4.1	-	-	-	-	4.1
1983	6.8	1.6	0.7	(0.6)	(1.2) to (0.7)	7.3 to 7.8
1984	7.7	4.3	1.6	(1.9)	(3.4) to (1.9)	8.3 to 9.8
1985	7.3	4.3	1.6	(1.9)	(3.4) to (1.9)	7.9 to 9.4
1986	7.0	4.3	1.6	(1.9)	(3.4) to (1.9)	7.6 to 9.1
1987	6.2	4.3	1.6	(1.9)	(3.4) to (1.9)	6.8 to 8.3
1988	5.3	4.3	1.6	(1.9)	(3.4) to (1.9)	5.9 to 7.4
<u>Total</u>	<u>44.4</u>	<u>23.1</u>	<u>8.7</u>	<u>(10.1)</u>	<u>(18.2) to (10.2)</u>	<u>47.9 to 55.9</u>

Note: (1) 1 April 1982 to 31 December 1982

Table 3

Option 3: British Airways Costs and Revenues (Realistic Case)

Amounts in £M at September 1981 Economic Conditions

<u>Year</u>	<u>Concorde Operating Result</u>	<u>Fixed Costs Continuing after Termination</u>	<u>Increased Subsonic Revenues</u>	<u>Net Total</u>
1982 ⁽¹⁾	4.1	-	-	4.1
1983	5.9	-	-	5.9
1984	1.5	(4.8)	2.0	(1.3)
1985	-	(6.4)	2.7	(3.7)
1986	-	(1.6)	2.7	1.1
1987	-	-	2.7	2.7
1988	-	-	2.7	2.7
Total	<u>11.5</u>	<u>(12.8)</u>	<u>12.8</u>	<u>11.5</u>

Note: (1) 1 April 1982 to 31 December 1982

Table 4

Option 4: British Airways Costs and Revenues (Realistic Case)

Amounts in £M at September 1981 Economic Conditions

<u>Year</u>	<u>Concorde Operating Result</u>	<u>Fixed Costs Continuing after Termination</u>	<u>Increased Subsonic Revenues</u>	<u>Severance Costs</u>	<u>Net Total</u>
1982 ⁽¹⁾	2.8	(1.6)	0.7	(8.9)	(7.0)
1983	-	(6.4)	2.7	-	(3.7)
1984	-	(4.8)	2.7	-	(2.1)
1985	-	-	2.7	-	2.7
1986	-	-	2.7	-	2.7
1987	-	-	2.7	-	2.7
1988	-	-	2.7	-	2.7
Total	<u>2.8</u>	<u>(12.8)</u>	<u>16.9</u>	<u>(8.9)</u>	<u>(2.0)</u>

Note: (1) 1 April 1982 to 31 December 1982



From the
Parliamentary Under Secretary of State

Norman Lamont Esq MP
Minister of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 3781
SWITCHBOARD 01 215 7877

Mr Dwyer

To see &

return please

*(I'm not copying to
you in case you are*

not interested and

of work).

NLS 27/11

Mr Schuler

*A wise decision. The intention
for Concorde is also cost-minimising.
I think we should have Dept's
to find the solution that best
meets it. (It's on the (EAT) agenda
for Monday.) No further comment.*

26 November 1981

27/11

Dear Norman,

CONCORDE FINANCES

I have seen a copy of your Private Secretary's letter of 20 November to Patrick Jenkin's Private Secretary.

I am content with the draft memorandum to the Select Committee and proposed answer to the Parliamentary Question, broadly as drafted. However, I know that a number of further suggestions have been discussed between our officials since that draft was circulated; and I assume these will be incorporated into the final version before it is sent to the Select Committee.

I note what you say about the intended timetable for further studies into the future of Concorde, leading up to the next Anglo-French Ministerial meeting. I hope that it will be possible for this proposed timetable to be adhered to, in a way which allows time for full collective Ministerial consideration of the options for the future of Concorde before the next Anglo-French Ministerial meeting. Although the draft memorandum appears to show a big advantage in continuation as against cancellation, the margin of error in the forecasts is great and the economic balance of advantage between the options is in fact less clear cut, particularly when the various options of phased rundown are taken into account. In these circumstances we need to satisfy ourselves that the course we follow genuinely minimises calls on the PSBR by (among other things) offering British Airways the best prospect of profitability.

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I also think early Ministerial consideration of the options is important for another reason. Prolonged delay in reaching a decision on Concorde could well be the most damaging course of all. In particular, delay could be sufficient in itself to frustrate agreement between British Airways and Federal Express for the leasing of Concorde. Federal Express have requested that the Government commit itself by early next year to support Concorde. We must not, of course, let ourselves be hustled by such pressure into a premature and ill-considered decision; but the Federal Express contract would be a valuable one (not only to BA, but possibly also to Prestwick Airport and the surrounding Ayrshire economy) and it would be a great pity if it were lost simply through our indecision.

I hope therefore you will ensure that there is adequate time for full inter-Departmental consideration of the issues involved well before the next Anglo-French Ministerial meeting.

I am copying this letter to recipients of your Private Secretary's.

Yours ever,

A handwritten signature in dark ink, appearing to be 'Iain Sproat', written over a vertical line.

IAIN SPROAT

25 NOV 1981



RESTRICTED

CONFIDENTIAL



From the
Minister of State

Norman Lamont

Richard Riley Esq
Private Secretary to the
Secretary of State for Industry
Ashdown House
123 Victoria Street
London SW1

DEPARTMENT OF INDUSTRY
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123 VICTORIA STREET
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TELEPHONE DIRECT LINE 01-212 5902
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26 November 1981

Dear Richard,

CONCORDE FINANCES

Peter Mason wrote to you on 20 November enclosing the final draft of the memorandum which we hoped to lay before Parliament today and also of the proposed arranged written PQ and Answer.

Terry Mathews wrote on the Chief Secretary's behalf on 24 November asking for publication to be delayed until the matter had been discussed in E(EA). The item will, therefore, be taken at a meeting of the Committee on the morning of Monday 30 November.

In preparation for this meeting I enclose the Final Version of the memorandum and of the PQ and Answer, both dated 24 November. These incorporate the editing amendments to which the Department drew attention when submitting the final drafts for the Secretary of State's approval on 19 November.

I am copying this letter and attachments to recipients of Peter Mason's letter of 20 November.

*Yours ever,
Cecily*

CECILY MORGAN
Private Secretary

24 November 1981

CONCORDE

DRAFT ARRANGED WRITTEN PQ

To ask the Secretary of State for Industry, what action he has taken to reduce the incidence of the costs of Concorde to public funds, as recommended in the report of the Select Committee on Industry and Trade; when the results of the review of the relative costs to public funds of continuation and of cancellation of Government financial support for Concorde, referred to in the Government's reply, will be made available to Parliament; and what options are being considered in the joint studies on the future of Concorde commissioned by the British and French Governments on the occasion of the September Anglo-French Summit.

MR PATRICK JENKIN

In conjunction with the manufacturers, the Procurement Executive of the Ministry of Defence, who act as the Department's agents in the day to day technical and financial control related to the project, have undertaken a comprehensive examination of the support required for Concorde in present circumstances, and of project expenditures and receipts. The results of that examination, and of the review of the relative costs of continuation and of mutually agreed early cancellation, are set out in a memorandum by the Department of Industry which, in accordance with the Government's undertaking of last July, has today been placed in the Library of the House. Copies have also been sent to the Select Committee.

In a report to the Ministerial meeting between my hon Friend, the Minister of State for Industry (Mr Lamont), and the French Minister of Transport on 29 October British and French officials proposed that they should study three options on the future of Concorde, namely early cancellation (ie from 1 April 1982) mutually agreed, a phased rundown, and indefinite continuation.

The Ministers agreed that the first option need not be the subject of further joint study. The officials will therefore now consider the two remaining options, with a view to presenting a report on them to the two Governments early in 1982. As recorded in the Communique, of which a copy has been placed in the Library of the House, the Ministers have agreed to meet again in the first quarter of 1982 to reach conclusions on them.

I have accepted an invitation by the Select Committee to appear before them on 9 December to assist in their consideration of these matters. I shall be accompanied by my hon Friend, the Minister for Industry.

CONCORDE: REDUCTIONS IN COSTS TO PUBLIC FUNDS AND
REVIEW OF RELATIVE COSTS OF CONTINUING AND CANCELLING
GOVERNMENT SUPPORT

Memorandum by the Department of Industry

Introduction

1. In its reply of 14 July 1981 (Cmnd 8308) to the Second Report from the Industry and Trade Committee for the Session 1980-81 (HC 265) the Government:-

- (a) Indicated that it was already taking action, as described in the reply, in line with the Committee's first alternative for a reduction of the incidence of Concorde costs to public funds.
- (b) Stated that action will be continued across a broad front to achieve further reductions in public expenditures, and to increase Concorde project receipts.
- (c) Advised that the Department of Industry were currently reviewing comprehensively the relative costs of continuation and of mutually agreed cancellation of Government financial support for Concorde, as previously given to the Committee, to reflect changes in circumstances generally.
- (d) Undertook to make the results of this review known to Parliament.

2. The present memorandum accordingly:-

- (a) Describes, in paragraphs 7 to 11, the action taken over the past twelve months to reduce the incidence of Concorde costs to public funds, as in the first of the Committee's alternative recommendations.

- (b) Quantifies the expected overall financial results of such action, and compares current estimates of costs of in-service support with estimates, in respect of a generally higher level of in-service support activities, as given to the Committee earlier in 1981 (paragraph 9 and Table A).
- (c) Provides fresh projections by British Airways of their Concorde operating surpluses (which, in terms of the net costs of Concorde to public funds, form an offset to net project expenditures), and the airline's explanations of the basis of their calculations (paragraphs 16 to 20 and Table B).
- (d) Compares the estimated total cost to public funds so obtained (the costs of continuation) with the estimated costs of mutually agreed cancellation of financial support with effect from 1 April 1982 (paragraphs 12 to 31 and Table B). The reasons why 1 April 1982 was chosen for the purposes of the comparison are set out in paragraph 21.

Developments Affecting Concorde Calculations

3. The most recent comprehensive set of calculations relating to the Concorde project to be placed before Parliament were those contained in:-

- (a) The Department of Industry's memorandum of 3 March 1981 to the Select Committee, which contained summary estimates of Concorde project finances (Table D), and estimates of the relative costs to public funds of continuing British Government contracts for Concorde in-service support, and of cancelling them with effect from 1 October 1981 (Table E).
- (b) The Department's memorandum of 23 March 1981, which gave an analysis of Concorde project expenditures and

receipts by Financial Estimates forecast headings (Table F), and by British Aerospace and Rolls-Royce Production Brochure headings (Tables G to J).

4. Since then there have been a number of developments which affect the content and presentation of Concorde calculations, both in the present memorandum and in any subsequent exercise:-

- (a) On the occasion of the Anglo-French Summit of September 1981, the British and French Governments commissioned joint studies by British and French officials, as represented on the Concorde Management Board, on the future of Concorde (paragraphs 5 and 6 below).
- (b) The Government, having laid before Parliament Financial Estimates for 1981-82 calculated at 1981-82 forecast outturn prices, has now decided that Public Expenditure Survey (PES) calculations, as made for inclusion in the next Public Expenditure White Paper, shall be in cash (ie forecast outturn) terms, rather than at constant economic conditions, as previously (paragraph 33).
- (c) The comprehensive reassessment of Concorde support activities referred to in paragraph 1 (b) above, has now been completed, and the financial results expected from such reassessment evaluated (paragraphs 7 to 11 and Table A attached).

The implications of these changes are described below.

Anglo-French Studies on the Future of Concorde

5. This is the first occasion, since the project was inaugurated by Treaty between the two Governments in 1962, that joint British and French studies will have been undertaken that have, as one possible outcome, the termination of the project. At the Anglo-French Ministerial meeting on 29 October 1981 British and French officials proposed that their studies should cover three options, namely those of:-

- (a) Early cancellation, ie from 1 April 1982, mutually agreed This is the option for which British officials had been producing calculations in connection with the review of the relative costs of continuing and of cancelling British Government contracts for the in-service support of Concorde, as set out in the present memorandum. However, the Ministers decided that this matter need not be the subject of the joint studies.
- (b) A phased rundown As indicated below, this is capable of several meanings; and, for this and other reasons, it can best be evaluated on a joint Anglo-French basis. It has not therefore been the subject of previous studies by British officials, even on a hypothetical basis, in the same way as the two other options.
- (c) Indefinite continuation In the British context, this has been studied and reported upon on a number of occasions, including the present memorandum; and, in the Anglo-French context, as part of the cost sharing studies made by British and French officials (Annex E to Department of Industry's memorandum to the Select Committee of 6 October 1980, and paragraphs 4 and 5 of covering letter).

6. A phased rundown could be taken to mean:-

- (a) Only the cessation of Government financial support for their respective manufacturers to meet any losses in discharging the manufacturers' contractual obligations to their airline customers for Concorde in-service support (such financial underpinning being currently given by both Governments).
- (b) Or additionally the cancellation of financial support to meet losses incurred on Concorde airline operations (such support being given only in France).

- (c) Or, in addition to (a) and (b), that Concorde airline operations should cease in both countries. This is the meaning attached by the Select Committee who, in the second and alternative recommendation of their report, proposed that, depending on the results of a total reappraisal of current and future costs of operating Concorde, HMG should be ready to enter early discussions with all interested parties to ensure a speedy agreement to discontinue the operation of the aircraft at the earliest possible date, which the Committee hoped would occur no later than 1985. (Conclusion viii (b)).

The Ministers agreed that all three aspects should be studied.

Action Taken to Reduce Concorde Project Costs and to Increase Receipts

7. Concorde entered airline service with British Airways and Air France in January 1976. In the period to mid-1980 utilisation of the aircraft increased markedly. However, the manufacturers' support activities in both countries, past, present and future, were geared to support a much higher level of utilisation, both by the nine British Airways and Air France Concordes originally purchased, and also by the remaining five aircraft which the two Governments had decided in 1979 should be placed with the two airlines.

8. From mid-1980 onwards it became increasingly clear that, not only had airline utilisation peaked (at least temporarily), but that the level at which it had peaked was well below that which had been postulated when plans for in-service support were originally drawn up. Additionally, many of the support activities in the early in-service period, eg the post certificate of airworthiness development of the airframe and engines, the building up of stocks of spares, etc had been completed or had reduced to a stable and predictable programme to completion. The stage was thus set for a vigorous and wide ranging review of all aspects of support, their costs, and the receipts to which it was expected they would give rise.

9. The costed outcome of this review is summarised in Table A, which updates the estimates contained in Table D of the Department's memorandum of 3 March 1981. Over the five year period 1982-83 to 1986-87 this shows a reduction in estimated net expenditures of some £46 million (£82 million in project expenditures and £36 million in estimated receipts) compared with estimates made at the time of the earlier memorandum. Compared with the estimates shown in Table D, which covered only the three year period to 1984-85, a reduction in net expenditures of some £28 million is expected to take place. On a year-by-year basis, net expenditures are down by 33, 56 and 53 per cent for 1982-83, 1983-84 and 1984-85 respectively, and by even greater percentages for subsequent years.

10. The decrease in estimated expenditure is brought about by:-

- (a) Curtailment of the major fatigue and related programmes (an estimated £36 million of savings over the five year period). Such decrease was foreshadowed in paragraphs 5 and 6 of the Government's reply. The curtailment has since been recosted to enable budgetary provision to be made for a programme of much less costly testing. This entails only localised heating and cooling of certain parts of the major fatigue specimen, in place of the programme carried out hitherto, in which the entire specimen is heated and cooled. By concentrating the thermal aspects of the testing on those parts of the specimen that have hitherto been undertested, the new programme is expected to demonstrate an adequate fatigue life of the structure, and hence of the aircraft in service, at less cost than would have been the case had the existing, more comprehensive, programme been continued.
- (b) A scaling down of the engine spares provisioning programme, to reflect current expectations of a static level of utilisation of British Airways Concorde and a reduced level of Air France operations, as well as increased operating lives of key engine components,

and the ability, in many instances, to draw upon substantial stocks which have resulted from earlier manufacturing programmes (an estimated £7 million).

- (c) A corresponding scaling down of airframe spares production, occasioned mainly by the fact that production of spares and other support items for sale to independent Concorde operators is no longer required now that the two remaining British assembled Concordees have been placed with British Airways, and the three French aircraft with Air France (£5 million).
- (d) The restriction of the engine in-service support programme (formerly in-service development) to that required for the maintenance of airworthiness and reduction of warranty expenditures (£9 million). This restriction was foreshadowed in paragraph 45 of the Department's memorandum of 6 October 1980, and is being progressively and rapidly implemented.
- (e) Reductions in funding required for Rolls-Royce work in progress in the production of engine spare parts (£5 million).
- (f) Reduced costs of insurance £4 million).
- (g) Reduced amounts of VAT payable on the lower level of engine in-service support expenditures £3 million).
- (h) A package of lesser measures, arising out of a comprehensive search for economies in in-service support conducted jointly with French officials and the manufacturers in both countries, and announced on the occasion of the 29 October 1981 Ministerial meeting (£9 million).
- (i) A residual £4 million in respect of reductions in a wide range of other items.

11. The changes in estimated receipts are due to:-

- (a) A reduction in estimated receipts from the sale of engine spares, the result of a reappraisal of the requirements of British Airways and Air France in the changed circumstances described in paragraph 10(b) above (£16 million).
- (b) An offsetting £6 million arising from a weighted average 13 per cent increase in the real price of Rolls-Royce Olympus 593 spares from 1 February 1982, and the structuring of future spares catalogues to maintain the higher margins so achieved. This increase has been proposed in line with the Government's general policy of reducing the incidence of the costs of Concorde to public funds, by reducing expenditures and increasing receipts.
- (c) A reduction of £17 million in the estimated receipts from the sale of airframe spares, the counterpart of the reassessment of airframe spares production requirements referred to in paragraph 10(c) above.
- (d) The elimination of an estimated £6 million of receipts in 1982-83 from compensation for the loss of airframe spares. This is because a full and final settlement of the claim is now expected in 1981-82.
- (e) A residual £3 million decrease in respect of other items.

The Estimated Costs of Continuation and of Cancellation

12. Table B sets out the Department's estimates of the relative costs to public funds of continuation and of cancellation on 1 April 1982 of British Government contracts for Concorde in-service support. The Table is similar in format to Table E of the Department's memorandum of 3 March 1981, but with the following changes:-

- (a) The figures are expressed at September 1981 economic

conditions, instead of September 1980 conditions.

- (b) The estimates cover a five year period commencing on 1 April 1982 (the now earliest date assumed feasible for mutually agreed cancellation - see paragraph 21), instead of a three and a half year period commencing 1 October 1981. Within this period the figures are now analysed according to financial years.
- (c) To compare the results with the estimates furnished in March 1981, totals for the latter figures, adjusted and extended as necessary, have been added at the bottom row of Table B.

For the five year period 1982-83 to 1986-87 Table B shows that the estimated net costs of continuation are £6 million, which is some £28 million less than the estimated net costs of cancellation. The Table also shows that, at the time of the earlier memorandum, the estimated costs of continuation at £57 million were greater than the cancellation costs by some £9 million. The main features of each column of figures are set out below.

Net Project Expenditures

13. Table B figures are derived from the estimates in the last column of Table A. The figures have been established in accordance with the procedures described in paragraph 4 of the Department's memorandum of 23 March 1981, and reflect the latest annual returns provided by British Aerospace and Rolls-Royce.

14. In accordance with Government accounting conventions, contingent items are excluded from both expenditures and receipts. Most of the items set out in the Annex to the Department's memorandum of 3 March 1981 have since become sufficiently firm for the relevant amounts to be included in the present estimates. The remaining contingent items are now confined to the following:-

- (a) Potential additional receipts from the sale of airframe spares, should there be a real increase in prices similar to that in course of implementation for engine

spares (paragraph 9 of the Annex, and paragraph 11(b) above). A decision on this is not due to be taken until fairly well into 1982.

- (b) Additional receipts should the eventual settlement of negotiations for compensation for the loss of airframe spares (as referred to in paragraph 12 of the Annex) result in a payment being received in 1982-83 or subsequently, contrary to the expectations held out in paragraph 11(d) above that a full and final settlement of the claim is now likely in 1981-82. The amount of such receipts would depend upon the outcome of the negotiations for a settlement in the current financial year, which are still in progress, and cannot therefore be quantified.
- (c) Additional expenditures arising from the need to give in-service support to a possible transatlantic parcels service by Federal Express using leased Concordes, and additional receipts resulting from the sale of airframe and engine spares and other support items for such a service. This contingent item has arisen since the March 1981 list was compiled. The amounts and timing of such expenditures and receipts, and whether they take place at all, will depend upon the outcome of negotiations currently in hand between the carriers concerned. It has been agreed that they shall be evaluated in the context of the Anglo-French studies referred to in paragraphs 5 and 6 above.

15. Contingent items relate only to foreseen events. It follows that, during the period covered by these estimates, there could arise other items which, not being currently foreseeable, could result in changes of expenditures or receipts over and above those included in Table A or referred to in paragraph 14 above.

British Airways Operating Results

16. As with previous submissions, the figures for the British

Airways Concorde operating results are based on estimates provided by British Airways themselves, and for which the airline therefore take responsibility. To the extent that they reduce British Airways' potential borrowing requirements, they represent a reduction in the Public Sector Borrowing Requirements (PSBR) and hence of the costs of Concorde to public funds (footnote (4) to Table B). The only adjustment the Department have made to the airline's estimates is to add an allowance to the airline's projected expenditures, and consequently to reduce their forecast operating surpluses, to cover the increase in the real price of Rolls - Royce engine spares, as referred to in paragraph 11(b) above and in footnote (4) to Table B.

17. British Airways have not prepared detailed estimates of Concorde operating results beyond 1983-84. They consider it to be a reasonable basis for estimation, however, to continue their forecast 1983-84 operating surplus into later years so as to enable the Department to present a comprehensive assessment of the total costs of continuation at constant September 1981 economic conditions over a five year period. Table B has therefore been drawn up on this basis.

18. As a result of their latest review British Airways' forecast operating surpluses are now somewhat larger than in the calculations presented last March. The increases reflect the following British Airways assumptions:-

- (a) Concorde services, now confined to New York and Washington, continue on these routes only, no allowance being made for any new services or for the lease of aircraft to Federal Express for a possible transatlantic parcels operation (on which see paragraph 20).
- (b) Passenger numbers reflect a decline in the total market in 1981-82, relative to the previous twelve months, of 10 per cent, followed by nil growth in 1982-83, and by 2 per cent per annum growth thereafter. However, retimings and additional frequencies from

October 1981 are assumed to contribute once and for all increases in passenger numbers of 31 percent in Winter 1981-82, and of 10 percent in Summer 1982, on the New York route; and of 17 percent in Winter 1981-82, and 3½ percent in Summer 1982, on the Washington route. After allowing for the 10 percent decline in the total market, the percentage increases in Winter 1981-82 for the New York and Washington routes consequently come out at 21 and 7 percent respectively, these being the percentages actually used in calculating the estimated number of passengers during that period, and hence the total revenue yield. The sensitivity of the calculations to the foregoing assumptions is indicated in paragraph 19 below.

- (c) Except where there are abnormally sharp movements (which may impose a temporary time lag), increases in the cost of bought in supplies, particularly fuel and oil, can be passed on in the shape of higher fares without significant loss of revenues.
- (d) Cost increases under British Airways' direct control, mainly wages, salaries and overheads, will be limited in line with the airline's general policies of cutting costs and improving its productivity in response to current financial challenges.
- (e) The benefits of reduced costs and improved productivity arising under (d) above, when coupled with a sustained level of revenue yields, will produce higher operating margins and increased operating surpluses above expected 1981-82 levels.

19. As will be apparent from the year by year comparisons of net project expenditures and British Airways surpluses, as shown in Table B, the net total costs to public funds of continuation are sensitive to whether or not the airline's Concorde operating results turn out as forecast. In order therefore to test the sensitivity of the airline's Concorde results to changes in

traffic forecasts, and thus the sensitivity of the total net continuation costs, British Airways have, at the Department's request, assessed the effect of removing from their calculations the benefit of the improved frequencies and retimings. British Airways estimate that this would reduce their forecast operating surplus by some £3.5 million in 1982-83, and by an equivalent amount at constant September 1981 economic conditions in each subsequent year, making a total reduction of £17.5 million over the five year period 1982-83 to 1986-87. These projections, and their sensitivities, will fall to be reassessed in early 1982 in the context of the Anglo-French studies referred to in paragraphs 5 and 6 above, when some experience will have been gained of the initial impact of the new schedules and frequencies on passenger numbers.

20. British Airways' projected operating surpluses are also susceptible to adjustment in an upward direction, should the current negotiations with Federal Express due for completion by April 1982 lead to the lease of Concorde for a transatlantic parcel service, and to a contract for their maintenance. For this reason it has been agreed that the Anglo-French studies should not only evaluate Concorde finances (as does the present memorandum) on the basis of continuation without a possible Federal Express operation, but also take account of the implication of such an operation.

Contractual Costs of Cancellation

21. These are mainly the costs that would be incurred by the Government in invoking the standard three months break clause in its contracts with British Aerospace and Rolls-Royce, less receipts from the manufacturers during that period. They are therefore sensitive to the date on which it is assumed that formal notice of termination of their contracts with HMG is given to the manufacturers. Thus, because the calculations assume mutually agreed cancellation to be implemented with effect from 1 April 1982, instead of from 1 October 1981 as previously, they now exclude both the £11 million of airframe spares compensation stage payment postulated to fall due in the financial year 1981-82, and

the £6 million of former 1982-83 receipts referred to in paragraph 11(d) above which are now assumed to fall due in 1981-82. This in turn results in the balance between payments and receipts now showing a substantial net payment by HMG to the manufacturers in the event of cancellation, compared with the net receipts by HMG from the manufacturers shown in the March 1981 calculations. The date of 1 April 1982 represents an agreed assessment by British and French officials of the earliest date by which formal notice of termination of contracts could have been given, had the Ministers at their meeting on 29 October 1981 decided to begin negotiations between the two Governments, the two British and two French manufacturers, and the two national airlines, for early cancellation by mutual agreement between all the parties concerned, and to a mutually agreed timescale. It is also assumed, when making the calculations that, until formal notice of termination of contracts is given to the manufacturers, the tasks designated under the contracts continue to be performed and to be paid for, and that Concorde airline operations, and hence the need for support and manufacturers' and Government revenues from support, also continue.

Severance Costs of Cancellation

22. These are derived by taking the number of jobs lost as a result of cancellation of the Government's contracts with the manufacturers, and by the consequent cessation of Concorde airline operations, as assessed by the employers in question, multiplied by each employer's assessment of the average amount of severance pay that would need to be given in respect of each employee leaving under a voluntary redundancy scheme. Such amounts would be met partly out of receipts from the statutory Redundancy Fund. The balance would be met:-

- (a) In the case of British Aerospace and Rolls-Royce, by payments made by MOD (PE) under their contracts with the manufacturers. Severance payments at the rates assumed by these firms would be in accordance with established MOD (PE) practice in implementing the standard cancellation provisions as applying to Government contracts generally.

- (b) In the case of those sub-contractors and suppliers to Rolls-Royce who have a contractual relationship with the manufacturer of a kind that could entitle them to have severance payments to their employees met out of the Department's Concorde Vote, by payments made by MOD (PE) of a similar amount per employee to that assumed for Rolls-Royce. There are no such sub-contractors and suppliers to British Aerospace.
- (c) In the case of British Airways, there being no specific contracts between the Government and the airline which would cover severance payments, by payments out of the airline's general funds. In current circumstances this would add to the airline's borrowing requirement, and hence to the Public Sector Borrowing Requirement.

Table B shows the total amount of all severance payments, however arising.

23. The reduction in total estimated severance payments compared with the figures included in the March 1981 calculations, as shown on Table B, results from substantially smaller total numbers (an estimated 1,700 compared with some 3,200) now considered to be employed on Concorde at the later date now assumed for cancellation, namely 1 April 1982. As against this, as was foreshadowed in paragraph 9(d) of the Government's reply to the Select Committee's report, there is no longer scope to transfer labour at British Aerospace and Rolls-Royce to defence contracts. The assumptions included in the present calculations as to redeployment possibilities, and how they compare with those assumed for the purposes of the March 1981 calculations, are therefore that:-

- (a) In the case of British Aerospace, any job losses arising out of Concorde cancellation would have to be met by a corresponding reduction in the firm's total workforce, and could not be partially offset by redeployment within the firm, for which an allowance of 25 per cent of total numbers was included in the previous calculations.

- (b) In the case of Rolls-Royce, some 15 per cent of Concorde workers would be retained, compared with 25 per cent assumed for the previous calculations, and would in due time fill expected future vacancies.
- (c) In the case of Rolls-Royce's suppliers and sub-contractors, any job losses arising out of Concorde cancellation would have to be met by a corresponding reduction in their total workforce (a similar assumption was made previously).
- (d) In the case of the Royal Aircraft Establishment, Farnborough, the relatively small numbers made surplus by cancellation of Concorde contracts could be reabsorbed in full within the organisation.
- (e) In the case of British Airways, reflecting the airline's general moves to reduce manning, any job losses arising out of Concorde cancellation would have to be met by a corresponding reduction in the airline's total workforce over and above the reduction envisaged by current manning policies (a similar assumption was made previously, though not in the context of current general moves to reduce manning).

24. The calculations are statistically sensitive to the following factors:-

- (a) For purposes of calculation only, it is assumed that, given the relatively small numbers now involved, any reductions in the workforce of the employer concerned as a result of cancellation of Concorde contracts would be brought about by a voluntary redundancy scheme, and not by compulsory severance. Under such a scheme the employees leaving would not necessarily be those formerly employed Concorde. However, for the purposes of calculating the average amount of severance pay, it is assumed that the age, sex and skill profiles of those leaving would be similar to that of the existing Concorde labour force (including, where appropriate, indirect as well as

direct employees). This assumption is in turn used when calculating the other PSBR costs of cancellation, as referred to in paragraphs 25 to 31 below. A different profile of actual jobs lost could produce different results; the difference could be either positive or negative depending upon the amount by which such profiles differed from the Concorde employee profile, and the direction of such differences.

- (b) In the case of British Aerospace and Rolls-Royce (whose combined Concorde employment accounts for about two thirds of the figure of 1,700 referred to in paragraph 23 above), it has been possible to include an allowance for employees not specifically allocated to Concorde, as well as direct employees, when calculating the number of jobs lost through cancelling contracts. However, in the case of British Airways, it has been possible to take account only of direct employees, ie those employees who are clearly identifiable with Concorde operations. To that extent the severance costs to British Airways associated with cessation of Concorde operations on 1 April 1982 are understated, as are the other PSBR costs of cancellation.

Other PSBR Costs of Cancellation

25. These consist of additional Exchequer costs payable in Unemployment Benefit, including Earnings Related Supplement, and revenue losses from direct taxation and National Insurance contributions. They assume that the number of jobs lost is as described in paragraph 23 above, less an allowance for jobs that would be lost even if the project continued, but including an allowance for jobs lost at vendors, ie firms supplying directly to the airlines, for whom no requirement therefore exists to meet severance payments out of public funds.

26. The figures depend upon the speed with which the workers

made redundant as a result of cancellation find other jobs. The characteristics of the existing Concorde workforce, and the evidence of a number of redundancy studies, suggest that the ex-Concorde workers (or their equivalents under a voluntary severance scheme) would find work relatively quickly. However, it is much harder to predict the extent that their re-employment would displace other unemployed people who would otherwise have found employment. The calculations in Table B have used a faster rate for net re-employment of the displaced workers (assuming no displacement of other job seekers) than was used in previous calculations. Thus they assume that 25 percent of those discharged find work by the end of the three months rundown period for Government contracts referred to in paragraph 21 above, ie on 1 July 1982; that jobs are created for a further 25 percent at the end of 1982-83; for a further 25 percent at the end of 1983-84; and a further 25 percent at the end of 1984-85 (by which time all those losing their jobs as a result of Concorde cancellation are assumed to be reabsorbed).

27. This new assumption, which is one of a possible range, partly reflects more detailed information about the composition of the Concorde labour force than was available when the previous estimates were made, and about job opportunities in the areas where the redundancies would occur. It also gives greater weight to more general factors affecting the speed of labour market adjustment.

28. Concorde cancellation would increase unemployment for a period in the local area concerned. But it is the impact on national employment levels of that decision that is much more difficult to assess. In the long run the level of national unemployment will depend on a number of factors, but will be unaffected by individual closure decisions. However, over the shorter period being considered here, a decision to cancel Concorde would lead to some increase in overall national, as well as local, unemployment above its underlying long run level.

29. Reflecting the new assumptions about the rate of job creation set out in paragraph 26 above, the current estimates of other

PSBR costs, as shown in Table B, are less than one third of the March 1981 estimates. It is therefore worthwhile measuring the sensitivity of the calculations to the changed assumptions. In this connection the effect of the new assumed rate of job creation can best be judged by estimating what other PSBR costs would be on the new job loss figures, but at the previous assumed rate of job creation. This calculation would increase the other PSBR costs from the £10.4 million shown in Table B to £18.3 million. This is still little more than half the March 1981 estimates, but is in line with the reduction of the assumed Concorde workforce, as indicated in paragraph 23 above, of whom a rather greater proportion would now stand to be added to the numbers of job seekers in the event of cancellation than was the case with calculations made earlier this year.

30. In practice another important consideration affecting unemployment levels would be the way in which a cancellation decision might be announced. Sudden closure without warning is much more likely to result in longer periods of higher unemployment than if a longer period of notice is given, because the discharged workers would all be thrown onto the labour market at once. The assumption of a 25 percent re-employment within three months of termination of the project is unlikely to be consistent with an unexpected and sudden decision to cancel. It would, however, be consistent with a decision of the Anglo-French Ministerial meeting on 29 October 1981 to propose for consideration by the parties concerned cancellation with effect from 1 April 1982, had such a decision been taken. On the other hand, a decision taken at some time in the future to cancel giving longer notice than this would, by spreading out Concorde redundancies, reduce the PSBR costs of unemployment from cancellation below those calculated in Table B.

31. Overall there has been a very considerable reduction in the estimated PSBR costs of cancellation compared with the previous calculations. This reflects:-

- (a) A sharp reduction in the numbers taken to be employed on Concorde at the time of cancellation since the last set of calculations was made.

- (b) More detailed information about the composition of the Concorde labour force, and about job opportunities in areas where the redundancies would occur.
- (c) An assumed more rapid rate of job creation, both for reasons specific to Concorde and as a result of giving greater weight to general factors affecting the speed of labour market adjustment.

Other Considerations

32. The estimates in Tables A and B, and the figures of the preceding paragraphs, are all at constant September 1981 economic conditions. There are, however, other ways of measuring the incidence of Concorde expenditures and receipts, of which the following are the most important.

(a) Forecasts in Cash Terms

33. As indicated in paragraph 4(b) above, forecasts of public expenditure are in future to be presented to Parliament in cash, ie forecast outturn, terms rather than at constant prices. This will make it easier for Parliament, both generally and in respect of individual programmes such as Concorde, to assess the likely impact on the level of public expenditures and revenues. At present, however, such estimates cannot be made for Concorde beyond 1983-84 for all the items listed in Table B; and, even for earlier years, definitive figures are not, as yet, available.

(b) Discounted Figures

34. The net costs to public funds of mutually agreed cancellation are estimated to be £34 million for the five year period reviewed, and compare with net costs over the same period for continuation of £6 million. Discounting both revenue and costs would take account of the value placed on money at different points in time, but would, in this case, have a negligible effect on the relative cost of continuation and cancellation, and therefore has not been presented.

(c) Resource Costs and Transfer Payments

35. The cost figures presented here may be viewed in principle either as cash flows between the Exchequer and the private sector or, in the case of cost items in the continuation option, they can equally be viewed as resource costs which measure the total loss of income to society. It is arguable that the cost of contractual payments in the case of cancellation can also be seen as a resource cost. The other cancellation costs (redundancy costs and the loss of tax receipts plus higher unemployment payments) are transfer payments between individuals, and consequently do not represent a loss of national income. They do, however, represent additional public expenditures which, if they are incurred, can only be met by corresponding reductions elsewhere in public expenditures, or by higher taxes, or by increased borrowing.

Conclusion

36. In its reply to the Select Committee's report the Government noted that there were substantial opportunities for bringing down the total costs of continued Government financial support for Concorde, and stated that action will be continued across a broad front to achieve further reductions in public expenditures, and to increase Concorde receipts.

37. The results of this action are set out in paragraphs 7 to 11 above, and in Table A. The latter indicates that estimated net project expenditures for the three years 1982-83 to 1984-85 show reductions of 33, 56 and 53 percent respectively on the previous corresponding figures; even more substantial reductions are forecast for the two subsequent years for which calculations are now presented.

38. The Government's reply also indicated that additionally the Department of Industry were currently reviewing comprehensively the relative costs of continuation and of cancellation, as previously given to the Committee, to reflect changes in circumstances generally. The results of this action are set out

in paragraphs 12 to 35 above, and in Table B. The latter indicates that, for the five year period 1982-83 to 1986-87 now adopted, the estimated costs of mutually agreed cancellation, at some £34 million, are considerably higher than the net cost of continuation, at some £6 million.

39. In presenting this comparison the Department note that this memorandum provides, on the one hand estimates of the costs to public funds of continuing Government financial support for Concorde under existing contracts between the Government and British manufacturers, and on the other hand the estimated cost to public funds of mutually agreed cancellation of Government financial support for Concorde with effect from 1 April 1982 by termination of these contracts. This comparison follows the lines of earlier evidence to the Select Committee. But the Department recognise that the choice of action would not necessarily lie simply between early cancellation, ie from 1 April 1982, of support, or indefinite availability of support. There is also, as noted in paragraphs 5 and 6, the possibility of a phased rundown of Government support, which would have different public expenditure implications. The various aspects of a phased rundown are being studied by British and French officials with a view to their reporting on this option, and on that of indefinite continuation, to the two Governments early in 1982.

40. The estimates in this memorandum and its tables represent the best assessments that can be made today of the costs to public funds of continued Government financial support of Concorde, and of how this relates to the costs of early cancellation. As was the case with previous forecasts, great care has been taken to avoid bias in these calculations; and contingent items, which on balance would have a favourable impact on Government expenditure and revenues, have been excluded from the calculations. As indicated above, the individual items which go to make up these estimates are, however, subject to varying degrees of statistical sensitivity, depending upon the fulfilment or non-fulfilment of the assumptions on which the calculations are based; and new events may further alter the figures. Therefore it remains the case that, as noted in the Government's reply to the Select

Committee's report, frequent adjustment of figures must be expected with any programme, such as the Concorde programme, which is undergoing rapid change. However, where adjustments have been made, the reasons have been given; and attention has been drawn wherever possible to adjustments which may be required in the future.

Department of Industry

[] December 1981

TABLE A: CONCORDE PROJECT FINANCES

£ million
at constant September 1980
economic conditions

Year	JANUARY 1981 FORECASTS			MARCH 1981 FORECASTS			PRESENT FORECASTS		
	Expend- itures	Receipts	Net Expend- itures	Expend- itures	Receipts	Net Expend- itures	Expend- itures	Receipts	Net Expend- itures
1982/83	50.7	22.6	28.1	52.0	25.9	26.1	31.1	13.5	17.6
1983/84	46.1	23.8	22.3	40.7	20.0	20.7	21.3	12.2	9.1
1984/85	45.0	24.2	20.8	33.1	18.5	14.6	18.8	12.0	6.8
Total									
1982/83- 1984/85	141.8	70.6	71.2	125.8	64.4	61.4	71.2	37.7	33.5
1985/86	NA	NA	NA	30.4	16.5	13.9	15.5	12.0	3.5
1986/87	NA	NA	NA	28.0	16.7	11.3	15.7	11.8	3.9
Total									
1982/83- 1986/87	NA	NA	NA	184.2	97.6	86.6	102.4	61.5	40.9

- NOTES: (1) Basis of forecasts This table updates forecasts of Concorde project expenditures and receipts, as given to the Select Committee on Industry and Trade by the Department of Industry on 3 March 1981 and reproduced by the Committee at page 106 of the Committee's Minutes of Evidence. They represent the Department's best estimates of the costs of carrying out agreed Concorde tasks, and of receipts therefrom.
- (2) Economic conditions All figures are at September 1981 economic conditions.
- (3) Concorde Vote items The present forecasts (unlike those in Table D of the Department's memorandum of 3 March 1981) take account of forecast receipts from capital assistance rentals of some £0.3 million annually. Since the previous forecasts were presented these receipts have been reclassified by Treasury as a Public Expenditure Survey (PES) item.
- (4) Contingent items In accordance with Government accounting conventions contingent items, as set out in paragraph 14 of the memorandum, are excluded from both expenditures and receipts.
- (5) January 1981 forecasts The estimates are as given in Table C of the Department's memorandum of 27 January 1981 (and subsequently in Table D of the memorandum of 3 March 1981), revalued to September 1981 economic conditions.
- (6) March 1981 forecasts The estimates are as given in Table D of the Department's memorandum of 3 March 1981, revalued to September 1981 economic conditions.
- (7) Figures for 1985-86 and 1986-87 The January 1981 and March 1981 forecasts, as included respectively in the Department's memorandum of 27 January and 3 March 1981, covered the period to 1984-85. In the latter case, calculations for 1985-86 and 1986-87 were, however, also made for project planning purposes, but were not included in the 3 March 1981 memorandum. To give a basis of comparison between previous and present forecasts, both in this table and in Table B (which likewise covers a five year period), they are now included, revalued to September 1981 economic conditions.
- (8) NA: Not available

TABLE B - RELATIVE COSTS TO PUBLIC FUNDS OF CONTINUING AND CANCELLING
BRITISH GOVERNMENT CONTRACTS FOR CONCORDE IN-SERVICE SUPPORT

£ million
at constant September 1981
economic conditions

Period	Costs of Continuation			Costs of Cancellation			
Financial Year	Net Project Expenditures	British Airways' Surpluses	Net Total	Contractual Costs/Receipts(+)	Severance Costs	Other PSBR Costs/Savings (+)	Net Total
1982-83	17.6	(+) 5.4	12.2	12.2	14.5	5.5	30.4
1983-84	9.1	(+) 7.4	1.7	(+) 0.3	Nil	4.0	3.7
1984-85	6.8	(+) 7.4	(+)0.6	(+) 0.3	Nil	1.9	1.6
1985-86	3.5	(+) 7.4	(+)3.9	(+) 0.3	Nil	(+) 0.5	(+)0.8
1986-87	3.9	(+) 7.4	(+)3.5	(+) 0.2	Nil	(+) 0.5	(+)0.7
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
PRESENT TOTALS	40.9	(+)35.0	5.9	9.3	14.5	10.4	34.2
PREVIOUS TOTALS	85.0	(+)28.3	56.7	(+) 8.2	19.8	35.9	47.5

- NOTES: (1) Basis of forecasts This table revises the estimates given by the Department of Industry to the Select Committee on Industry and Trade on 3 March 1981, and reproduced at page 107 of the Committee's Minutes of Evidence. Estimates for two further years, 1985-86 and 1986-87, have been added; and estimates are now expressed on an updated price basis (September 1981 instead of September 1980).
- (2) All figures are at September 1981 economic conditions, and except where indicated by a (+) sign represent a cost to public funds.
- (3) Net project expenditures are for total costs to public funds, as met out of the Department of Industry's Concorde Vote. Thus they comprise expenditures less receipts as shown in Table A.
- (4) British Airways surpluses are as estimated by the airline, less £0.5 million for each year to allow for a real increase in the price of Rolls-Royce Olympus 593 engine spares. They represent savings in the amount of the Government's Public Sector Borrowing Requirement (PSBR), and as such are deducted to arrive at a net total of the cost to public funds of continued Government financial support for Concorde.
- (5) Contractual costs of cancellation assume mutually agreed cancellation with effect from 1 April 1982. In 1982-83 they are net of receipts from the manufacturers during the three month break period of the contracts. They also include outstanding payments by British Aerospace under the Simulator Operating Agreement. For each year they reflect continuing income from capital assistance item rentals, which are also taken into account in the costs of continuation.
- (6) Severance costs as shown include all severance payments. Thus payments met by HMG under its contracts with British Aerospace and Rolls-Royce in respect of their discharged employees, as well as any settlements by Rolls-Royce when terminating contracts with suppliers and subcontractors in respect of employees discharged by such suppliers and sub-contractors (estimated at £1 million), are included in this column and not under the contractual costs of cancellation. Similarly redundancy payments arising in other ways, eg out of the statutory Redundancy Fund, or by British Airways in respect of their own employees, are included in this column, and not as other PSBR costs.
- (7) Other PSBR costs The savings shown for 1985-86 and 1986-87 arise because certain of the employees assumed to be made redundant in 1982 are, if the project continues, also assumed to have ceased working on Concorde between 1983 and 1987. Thus making them redundant in 1982 results in jobs being recreated earlier than in the case of continuation, leading to savings in PSBR costs towards the end of the five year period.

- (8) Previous totals are those in Table E of the Department of Industry's memorandum of 3 March 1981, adjusted to allow for the postponement of the assumed date of mutually agreed cancellation from 1 October 1981 to 1 April 1982, the extension of the calculations to include estimates for 1985-86 and 1986-87, and the revaluation of the figures from September 1980 to September 1981 economic conditions. Explanations for the principal reasons for the differences between the two sets of estimates are given in the text.



Foreign and Commonwealth Office

London SW1A 2AH

26 November 1981

Dear Peter

CONCORDE FINANCES

Thank you for copying to me your letter of 20 November to Richard Riley, enclosing a memorandum on Concorde for presentation to Parliament and a draft inspired PQ.

We understand that the Chief Secretary has now suggested that the memorandum should be discussed at a meeting of E(EA), and that this has been fixed for Monday 30 November. The Lord Privy Seal will be attending the meeting, and will put his views then.

I am copying this letter to the recipients of yours.

Yours ever

A handwritten signature in cursive script, appearing to read 'M A Arthur'.

M A Arthur
PS/Lord Privy Seal

P E Mason Esq
PS/Minister of State
Dept of Industry
Ashdown House
LONDON SW1E 6RB

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

Peter Mason Esq
Private Secretary to the
Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

24 November 1981

Dear Peter,

CONCORDE FINANCES

The Chief Secretary has seen the letter of 20 November from Mr Lamont's Private Secretary to you attaching a proposed arranged written PQ and answer and a draft memorandum about Concorde, which it is proposed to lay before Parliament. He realises that you are now up against a tight deadline from the Select Committee but feels that the issue is of sufficient importance to warrant collective Ministerial discussion before Government policy is decided and promulgated. He has therefore asked that publication should be delayed until the matter has been discussed in E(EA).

I am copying this letter to the Private Secretaries to the Prime Minister, all members of E(EA), the Lord President, the Lord Privy Seal, the Chancellor of the Duchy of Lancaster, the Chief Whip and the Minister of State for Defence Procurement, and to David Wright (Cabinet Office).

Yours ever

Terry Mathews

T F MATHEWS

Private Secretary

CONFIDENTIAL

25 NOV 1981



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From the
Minister of State

PS/Norman Lamont MP

Richard Riley Esq
Private Secretary to the
Secretary of State
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Ashdown House
123 Victoria Street
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PS/Sec of State
PS/Mr Wakeham
PS/Secretary
Mr Croft
Mr Hudson
Mr Treadgold
Mr Dickson
Mr Chapman
Mr Atkinson
Mr Cumming
Miss Wallace
Mr Hardbattle
Mr Stredder
Mr Novell
Mr MacTavish
(with papers)

20^d November 1981

Dear Richard

CONCORDE FINANCES

My Minister thinks his colleagues on E(EA) will wish to be aware of the background to the memorandum which it is proposed should be laid before Parliament next Wednesday, 25 November. A final draft of this is attached, together with the proposed arranged written PQ and answer. Copies will also be sent on 25 November to the Select Committee on Industry and Trade, who have requested them in connection with their proposed examination of the Secretary of State and Mr Lamont on 9 December.

The Memorandum and the Government's Reply to the Select
Committee's Report

The most recent comprehensive set of calculations relating to Concorde to be placed before Parliament were those in the Department's memorandum to the Select Committee on 3 March 1981. These were necessarily tentative and inconclusive. The Department were, at the time, in the middle of a comprehensive review of Concorde support tasks to adjust them to lower levels of Concorde airline utilisation. The estimates of the costs of these support tasks to public funds, based on the PES 1981 proposals, therefore excluded a large number of PES contingent items, mostly pointing in the direction of lower expenditures and increased receipts, which were expected to become certain events later in the year and consequently taken into account in revised estimates. This in turn meant that a little reliance could be placed on the then comparisons, requested by the Committee, of the relative costs of continued Government financial support of Concorde and its early cancellation by mutual agreement with all the parties concerned.

The Government's reply, published just three months after the Committee's 14 April report and the subject of Mr Tebbit's letter to Sir Keith Joseph of 22 June, provided an interim assessment of the way definitive estimates, both for continuation and for



cancellation, were shaping up. However, the examination of Concorde tasks still had to be completed; and because of this, and the reduced numbers assumed to be employed on Concorde (which meant that estimates costs of mutually agreed cancellation were also falling), the July assessment was also inconclusive. Parliament was therefore promised that:-

- a Action would be continued across a broad front to achieve further reductions in public expenditures, in line with the Committee's first alternative recommendation.
- b Additionally the Department were taking action to review the relative costs of continuation and of mutually agreed cancellation.

The present memorandum provides definitive information on both points, and in both cases the assessments are now clear cut.

The estimated project costs of continuation, as borne on the Department's Concorde Vote and summarised in Table A, are now very substantially below those made last January for PES 1981 purposes and included in the March memorandum. In the context of the present bilateral discussions between the Treasury and spending departments and the preparation of Financial Estimates for 1982-83, the Department's PES 1981 proposals have been adjusted accordingly. Additionally, although this falls outside the period to which the memorandum relates, MOD (PE) are now expecting a substantial additional receipt in the current financial year in full and final settlement of the Government's claim on British Aerospace for the loss of airframe spares. This Appropriation in Aid to will serve to continue and enhance a general trend towards sharply declining net expenditures on Concorde.

Taking account of an expected continuation of operating surpluses on British Airways' North American Concorde services, for which the airline's current estimates are shown in Table B, there is now a reasonable expectation - even on a pessimistic view of the airline's prospects - that the net cost of public funds of Concorde will be well below £10 million from 1983-84 onwards. Indeed, it is not out of the question that a surplus could be attained shortly thereafter.

Compared with the March estimates, the costs of early mutually agreed cancellation, as set out in Table B, have also fallen, but not nearly as steeply as those for continuation. Consequently they now greatly exceed the estimated costs of continuation. This, in itself, would appear to rule out early cancellation as a sensible British objective, even if it were not for the fact that the French Minister of Transport indicated at his meeting with my Minister on 29 October that he too excluded this as a practical option.

Anglo-French Studies on the Future of Concorde

If some aspects of Concorde finances and policies have now been clarified, other important and complex issues have since arisen to



take their place. This results from last September's Summit agreement between the British and French Governments to commission joint studies on the future of Concorde.

As recorded in the memorandum and in the PQ, officials are to study two options, namely those of a phased rundown and of indefinite continuation. The uncertainties about the outcome of these studies, and of the British and French Governmental decisions to which Ministers will subsequently need to address themselves, arise from the facts that:-

a A phased rundown has several meanings (paragraph 6 of the memorandum), all aspects of which are to be studied. The meaning that most appeals to the French and which, if Concorde is to be cancelled, is probably the least costly to British public funds, is that British Airways as well as Air France should cease Concorde operations simultaneously. However, even if the Government had the power to do so, it would be very difficult for Ministers to direct British Airways to cease a profitable Concorde operation merely because Air France could only operate at a loss.

b The indefinite continuation option will need to be assessed both without the expenditures and receipts arising out of a Federal Express transatlantic parcels service using leased British Airways and Air France Concorde (as in the present memorandum), and with such an operation, taking account of airline as well as project aspects.

c Federal Express have indicated that they would go ahead with their - potentially lucrative to British and French interests - operation only if they secure firm assurances from both Governments of their continued willingness to underwrite financial support by their respective manufacturers of Concorde operations for at least the five years 1983-88. The implications of this will require serious consideration, both domestically and on an Anglo-French basis.

d In the British case, it is arguable that - taking the net revenues which British Airways would derive from leasing aircraft to Federal Express, from maintaining them, and from their scheduled airline services - there would be no need for continuing Government subventions to British Aerospace and Rolls-Royce to meet their losses in providing support. This proposition will need to be studied, both from the domestic UK standpoint and in the Anglo-French context (which may dictate, in British national interests, a contrary approach based on a continuation of existing contractual procedures in both countries).

e As foreshadowed in the Government's reply, my Minister put down a marker with M Fiterman on 29 October that any agreement between the two Governments on the future of



Concorde would need to take account of the equal sharing provisions of the 1962 Agreement, and more especially of the imbalance, adverse to the United Kingdom, which Mr Tebbit had discussed with the French Transport Minister on 19 January last. M Fiterman acknowledged that an imbalance existed, and while his proposed method of settling this was quite unacceptable to Mr Lamont, the way is now open for matters to be pursued between the two Governments on a more realistic basis than hitherto.

f All this has to be fitted into a very tight timetable, with officials being required to report early in 1982, and with M Fiterman and Mr Lamont being on public record as having agreed to meet in the first quarter of 1982 to reach conclusions on the two options presented to us.

Presentation and Timing

The memorandum has been prepared in consultation with, and on the advice of, an interdepartmental Concorde Select Committee Calculations Working Group of officials, and represents an agreed assessment. The proposal to present it to Parliament under cover of an arranged PQ, with copies to the Committee, rather than to the Committee alone, reflects the fact that the Committee's report and the Government's reply, to which the memorandum forms a natural sequel, were both made to Parliament.

In order that they can be taken into account in a Steering Brief for our Ministers' appearance before the Committee, comments by Thursday 26 November are desirable.

I am copying this letter and attachments to the Private Secretaries to the Prime Minister, all members of E(EA), the Lord President, the Lord Privy Seal, the Chancellor of the Duchy of Lancaster, the Chief Whip and the Minister of State for Defence Procurement, and to David Wright (Cabinet Office).

Yours ever

Peter

PETER MASON
Private Secretary

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TS/1/664

FINAL DRAFT
(as revised)

17 November 1981

CONCORDE

DRAFT ARRANGED PRIORITY WRITTEN PA

To ask the Secretary of State for Industry, what action he has taken to reduce the incidence of the costs of Concorde to public funds, as recommended in the report of the Select Committee on Industry and Trade; when the results of the review of the relative costs to public funds of continuation and of cancellation of Government financial support for Concorde, referred to in the Government's reply, will be made available to Parliament; and what options are being considered in the joint studies on the future of Concorde commissioned by the British and French Governments on the occasion of the September Anglo-French Summit.

MR PATRICK JENKIN

In conjunction with the manufacturers, the Procurement Executive of the Ministry of Defence, who act as the Department's agents in the day to day technical and financial control related to the project, have undertaken a comprehensive examination of the support required for Concorde in present circumstances, and of project expenditures and receipts. The results of that examination, and of the review of the relative costs of continuation and of mutually agreed^{early} cancellation, are set out in a memorandum by the Department of Industry which, in accordance with the Government's undertaking of last July, has today been placed in the Library of the House. Copies have also been sent to the Select Committee.

In a report to the Ministerial meeting between my hon Friend, the Minister of State for Industry (Mr Lamont), and the French Minister of Transport on 29 October British and French officials proposed that they should study three options on the future of Concorde, namely early cancellation (i.e. from 1 April 1982) mutually agreed, a phased rundown, and indefinite continuation.

The Ministers agreed that the first option need not be the subject of further joint study. The officials will therefore now consider the two remaining options, with a view to presenting a report on them to the two Governments early in 1982. As recorded in the Communique, of which a copy has been placed in the Library of the House, the Ministers have agreed to meet again in the first quarter of 1982 to reach conclusions on them.

I have accepted an invitation by the Select Committee to appear before them on 9 December to assist in their consideration of these matters. I shall be accompanied by my hon Friend, the Minister for Industry.

REDUCTIONS IN CONCORDE COSTS TO PUBLIC FUNDS AND
REVIEW OF RELATIVE COSTS OF CONTINUING AND OF CANCELLING
GOVERNMENT FINANCIAL SUPPORT FOR CONCORDE

Memorandum by the Department of Industry

1. In its reply of 14 July 1981 (Cmnd 8308) to the Second Report from the Industry and Trade Committee for the Session 1980-81 (HC 265) the Government:-
 - (a) Indicated that it was already taking action, as described in the reply, in line with the Committee's alternative for a reduction of the incidence of Concorde costs to public funds.
 - (b) Stated that action will be continued across a broad front to achieve further reductions in public expenditures, and to increase Concorde project receipts.
 - (c) Advised that the Department of Industry were currently reviewing comprehensively the relative costs of continuation and of mutually agreed cancellation of Government financial support for Concorde, as previously given to the Committee, to reflect changes in circumstances generally.
 - (d) Undertook to make the results of this review known to Parliament.

2. The present memorandum accordingly:-

- (a) Describes, in paragraphs 7 to 11, the action taken over the past twelve months to reduce the incidence of Concorde costs to public funds, as in the first of the Committee's alternative recommendations.
- (b) Quantifies the expected overall financial results of such action, and compares current estimates of costs of in-service support with estimates, in respect of a generally higher level of in-service support activities, as given to the Committee earlier in 1981 (paragraph 9 and Table A).
- (c) Provides fresh projections by British Airways of their Concorde operating surpluses (which, in terms of the net costs of Concorde to public funds, form an offset to net project expenditures), and the airline's explanations of the basis of their calculations (paragraphs 16 to 20 and Table B).
- (d) Compares the estimated total cost to public funds so obtained (the costs of continuation) with the estimated costs of mutually agreed cancellation ^{of} financial support with effect from 1 April 1982 (paragraphs 12 to 32 and Table B). The reasons why 1 April 1982 was chosen for the purposes of the comparison are set out in paragraph 21.

Developments Affecting Concorde Calculations

3. The most recent comprehensive set of calculations relating to the Concorde project to be placed before Parliament were those contained in:-

- (a) The Department of Industry's memorandum of 3 March 1981 to the Select Committee, which contained summary estimates of Concorde project finances (Table D), and estimates of the relative costs to public funds of continuing British Government contracts for Concorde in-service support, and of cancelling them with effect from 1 October 1981 (Table E).
- (b) The Department's memorandum of 23 March 1981, which gave an analysis of Concorde project expenditures and receipts by Financial Estimates forecast headings (Table F), and by British Aerospace and Rolls-Royce Production Brochure headings (Tables G to J).

4. Since then there have been a number of developments which affect the content and presentation of Concorde calculations, both in the present memorandum and in any subsequent exercise:-

- (a) On the occasion of the Anglo-French Summit of September 1981, the British and French Governments commissioned joint studies by British and French officials, as represented on the Concorde Management Board, on the future of Concorde (paragraphs 5 and 6 below).
- (b) The Government, having laid before Parliament Financial Estimates for 1981-82 calculated at 1981-82 forecast outturn prices, has now decided that Public Expenditure Survey (PES) calculations, as made for inclusion in the next Public Expenditure White Paper, shall be in cash (ie forecast outturn) terms, rather than at constant economic conditions, as previously (paragraph 34

- (c) The comprehensive reassessment of Concorde support activities referred to in paragraph 1 (b) above, has now been completed, and the financial results expected from such reassessment evaluated (paragraphs 7 to 11 and Table A attached).

The implications of these changes are described below.

Anglo-French Studies on the Future of Concorde

5. This is the first occasion, since the project was inaugurated by Treaty between the two Governments in 1962, that joint British and French studies will have been undertaken that have, as one possible out-come, the termination of the project. At the Anglo-French Ministerial meeting on 29 October 1981 British and French officials proposed that their studies should cover three options namely those of:-

- (a) Early cancellation, ie from 1 April 1982, mutually agreed
This is the option for which British officials had already produced calculations in connection with the review of the relative costs of continuing and of cancelling British Government contracts for the in-service support of Concorde, as set out in the present memorandum. ^{However,} the Ministers decided that this matter need not be the subject of the joint studies.
- (b) A phased rundown As indicated below, this is capable of several meanings; and, for this and other reasons, it can best be evaluated on a joint Anglo-French basis. It has not therefore been the subject of previous studies by British officials, even on a hypothetical basis, in the same way as the two other options.
- (c) Indefinite continuation In the British content, this has been studied and reported upon on a number of occasions, including the present memorandum; and, in

the Anglo-French context, as part of the cost sharing studies made by British and French officials (Annex B to Department of Industry's memorandum to the Select Committee of 6 October 1980, and paragraphs 4 and 5 of covering letter).

6. A phased rundown could be taken to mean:-

- (a) Only the cessation of Government financial support for their respective manufacturers to meet any losses in discharging ^{the} manufacturers' contractual obligations to their airline customers for Concorde in-service support (such financial underpinning being currently given by both Governments).
- (b) Or additionally the cancellation of financial support to meet losses incurred on Concorde airline operations (such support being given only in France).
- (c) Or, in addition to (a) and (b), that Concorde airline operations should cease in both countries. This is the meaning attached by the Select Committee who, in the second and alternative recommendation of their report, proposed that, depending on the results of a total reappraisal of current and future costs of operating Concorde, HMG should be ready to enter early discussions with all interested parties to ensure a speedy agreement to discontinue the operation of the aircraft at the earliest possible date, which the Committee hoped would occur no later than 1985 (Conclusion viii (b)).

The Ministers agreed that all three aspects should be studied.

Action Taken to Reduce Concorde Project Costs and to Increase Receipts

7. Concorde entered airline service with British Airways and Air France in January 1976. In the period to mid-1980 utilisation of the aircraft increased markedly. However, the manufacturers' support activities in both countries, past, present and future, were geared to support a much higher level of utilisation, both by the nine British Airways and Air France Concorde originally purchased, and also by the remaining five aircraft which the two Governments had decided in 1979 should be placed with the two airlines.

8. From mid-1980 onwards it became increasingly clear that, not only had airline utilisation peaked (at least temporarily), but that the level at which it had peaked was well below that which had been postulated when plans for in-service support were originally drawn up. Additionally, many of the support activities in the early in-service period, eg the post certificate of airworthiness development of the airframe and engines, the building up of stocks of spares, etc. were by then near to completion. The stage was thus set for a vigorous and wide ranging review of all aspects of support, their costs, and the receipts to which it was expected they would give rise.

9. The costed outcome of this review is summarised in Table A, which updates the estimates contained in Table D of the Department's memorandum of 3 March 1981. Over the five year period 1982-85 to 1986-87 this shows a reduction in estimated net expenditures of some £46 million (£62 million in project expenditures and £56 million in estimated receipts) compared with estimates made at the time of the earlier memorandum. Compared with the estimates shown in Table D, which covered only the three year period to 1984-85, a reduction in net expenditures of some £28 million is expected to take place.

10. The decrease in estimated expenditures is brought about by:-

- (a) Curtailment of the major fatigue testing and related programmes (an estimated £56 million of savings over the five year period). This decrease was foreshadowed in paragraphs 5 and 6 of the Government's reply. It has since been recosted to provide budgetary cover for a programme of much less costly testing which entails only localised heating and cooling of certain parts of the major fatigue specimen, in place of the programme carried out hitherto, in which the entire specimen is heated and cooled. By concentrating supersonic testing on those parts of the specimen that have hitherto been undertested, the new programme is expected to achieve a greater degree of airworthiness cover, and thus extended aircraft life, than would have been the case had the existing, more generalised, programme been continued.
- (b) A scaling down of the engine spares provisioning programme, to reflect current expectations of a static level of utilisation of British Airways Concorde, and a reduction in Air France operations, increased operating lives of key engine components, and the ability, in many instances, to draw upon substantial stocks which have resulted from earlier manufacturing programmes (an estimated £7 million).
- (c) A corresponding scaling down of airframe spares production, occasioned mainly by the fact that production of spares and other support items for sale to independent Concorde operators is no longer required now that the two remaining British assembled Concorde have been placed with British Airways, and the three French aircraft with Air France (£5 million).

- (d) The restriction of the engine in-service support programme to that required for the maintenance of airworthiness and reduction of warranty expenditures (£9 million). This restriction was foreshadowed in paragraph 45 of the Department's memorandum of 6 October 1980, and is being progressively and rapidly implemented.
- (e) Reductions in funding required for Rolls-Royce work-in-progress in the production of engine spare parts (£5 million).
- (f) A package of lesser measures, arising out of a comprehensive search for economies in in-service support conducted jointly with French officials and the manufacturers in both countries, and announced on the occasion of the 29 October 1981 Ministerial meeting (£9 million).
- (g) A residual £11 million in respect of reductions in a wide range of other items.

11. The changes in estimated receipts are due to:-

- (a) A reduction in estimated receipts from the sale of engine spares, the result of a reappraisal of the requirements of British Airways and Air France in the changed circumstances described in paragraph 10(b) above (£16 million).
- (b) An offsetting £6 million arising from a weighted average 13 per cent increase in the real price of Rolls-Royce Olympus 593 spares from 1 February 1982, and the structuring of future spares catalogues to maintain the higher margins so achieved. This increase has been proposed in line with the Government's general policy of reducing the incidence of the costs of Concorde to public funds, by reducing expenditures and increasing receipts.

- (c) A reduction of £17 million in the estimated receipts from the sale of airframe spares, the counterpart of the reassessment of airframe spares production requirements referred to in paragraph 10 (c) above.
- (d) The elimination of an estimated £6 million of receipts in 1982-83 from compensation for the loss of airframe spares. This is because a full and final settlement of the claim is now expected in 1981-82.
- decrease
- (e) A residual . £5 million/in respect of other items.

The Estimated Costs of Continuation and of Cancellation

12. Table B sets out the Department's estimates of the relative costs to public funds of continuation and of cancellation on 1 April 1982 of British Government contracts for Concorde in-service support. The Table is similar in format to Table 7 of the Department's memorandum of 3 March 1981, but with the following changes:-

- (a) The figures are expressed at September 1981 economic conditions, instead of September 1980 conditions.
- (b) The estimates cover a five year period commencing on 1 April 1982 (the now earliest date assumed feasible for mutually agreed cancellation), instead of a three and a half year period commencing 1 October 1981. Within this period the figures are now analysed according to financial years.
- (c) To compare the results with the estimates furnished in March 1981, totals for the latter figures, adjusted and extended as necessary, have been added at the bottom row of Table B.

The main features of each column of figures are set out below.

Net Project Expenditures

13. Table B figures are derived from the estimates in the last column of Table A. The figures have been established in accordance with the procedures described in paragraph 4 of the Department's memorandum of 27 March 1981, and reflect the latest annual returns provided by British Aerospace and Rolls-Royce.

14. In accordance with Government accounting conventions, contingent items are excluded from both expenditures and receipts. Most of the items set out in the Annex to the Department's memorandum of 3 March 1981 have since become sufficiently firm for the relevant amounts to be included in the present estimates. The items which remain are now confined to the following:-

- (a) Potential additional receipts from the sale of airframe spares, should there be a real increase in prices similar to that in course of implementation for engine spares (paragraph 9 of the Annex, and paragraph 11(b) above). A decision on this is not due to be taken until fairly well into 1982.
- (b) Additional receipts should the eventual settlement of negotiations for compensation for the loss of airframe spares (as referred to in paragraph 12 of the Annex) result in a payment being received in 1982-83 or subsequently, contrary to the expectations held out in paragraph 11(d) above that a full and final settlement of the claim is now likely in 1982-83. The amount of such receipts would depend upon the outcome of the negotiations for a settlement in the current financial year, which are still in progress, and cannot therefore be quantified.
- (c) Additional expenditures arising from the need to give in-service support to a possible transatlantic parcels service by Federal Express using leased British Airways and Air France Concorde, and additional receipts resulting from the sale of airframe and engine spares and other support items for such a service. This contingent item has arisen since the March 1981 list was compiled. The amounts and timing of such expenditures and receipts, and whether they take place at all, will depend upon the outcome of negotiations currently in hand between the carriers concerned. It

has been agreed that they shall be evaluated in the context of the Anglo-French studies referred to in paragraphs 5 and 6 above.

15. Contingent items relate to foreseen events. Additionally, during the period covered by the attached estimates there could be other items arising which, not being currently foreseen, could require expenditures or give rise to receipts over and above those included in Table A or referred to in paragraph 14 above.

British Airways Operating Results

16. As with previous submissions, the figures for the British Airways Concorde operating results are based on estimates provided by British Airways themselves, and for which the airline therefore take responsibility. To the extent that they reduce British Airways' potential borrowing requirements, they represent a reduction of the costs of Concorde to public funds (footnote (4) to Table B). The only adjustment the Department have made to the airline's estimates is to add an allowance to the airline's projected expenditures and consequently to reduce their forecast operating surpluses to cover the increase in the real price of Rolls Royce engine spares, referred to in paragraph 11(b) above and in footnote (4) to Table B.

17. British Airways have not prepared detailed estimates of Concorde operating results beyond 1983-84. They consider it to be a [estimated 1983-84 operating surplus into later years so as to enable the Department to present a comprehensive assessment of the total costs of continuation at constant September 1981 economic conditions over a five year period. Table B has therefore been drawn up on this basis.

reasonable basis for estimation, however, to continue their

17. As a result of the factors mentioned below British Airways' forecast operating surpluses are now somewhat larger than in the calculations presented last March. They reflect the following British Airways assumptions:-

(a) Concorde services, now confined to New York and Washington continue on these routes only, no allowance being made for any new services or for the lease of aircraft to Federal Express for a possible transatlantic parcels operation.

, followed by
nil growth in
1982-83, and
by 2 per cent

(b) Passenger numbers reflect a decline in the total market in 1981-82 of 10 per cent per annum growth thereafter. Moreover, retimings and additional frequencies from October 1981 are assumed to contribute once and for all increases in passenger numbers of 21 per cent in Winter 1981-82, and of 10 per cent in Summer 1982, on the New York route; and of 7 per cent in Winter 1981-82, and 3½ per cent in Summer 1982, on the Washington route. The Winter 1981-82 assumptions, both for New York and for Washington, are after allowance has been made for the 10 per cent decline in the total market, i.e. if it had not been for this factor, the percentage increases assumed to accrue from retimings and additional frequencies would be 31 per cent and 17 per cent respectively. The sensitivity of the calculations to these assumptions is indicated in paragraph 19 below.

(c) Except where there are abnormally sharp movements (which may impose a temporary time lag), increases in the cost of bought in supplies, particularly fuel and oil, can be passed on in the shape of higher fares without significant loss of revenues.

(d) Cost increases under British Airways' direct control, mainly wages, salaries and overheads, will be limited in line with the airline's general policies of cutting costs and improving its productivity in response to current financial challenges.

- (e) The benefits of reduced costs and improved productivity arising under (d) above, when coupled with a sustained level of revenue yields, will produce higher operating margins and increased operating surpluses above expected 1981-82 levels.

19. As will be apparent from the year by year comparisons of net project expenditures and British Airways surpluses, as shown in Table B, the net total costs to public funds of continuation are particularly sensitive to whether or not the airline's Concorde operating results turn out as forecast. In order therefore to test the sensitivity of the airline's Concorde results to changes in traffic forecasts, and thus the sensitivity of the total net continuation costs, British Airways have, at the Department's request, assessed the effect of removing from their calculations the benefit of the improved frequencies and retimings. British Airways estimate that this would reduce their forecast operating surplus by some £3.5 million in 1982-85, and by an equivalent amount at constant September 1981 economic conditions in each subsequent year, making a total reduction of £17.5 million over the five year period 1982-85 to 1986-87. These projections, and their sensitivities, will fall to be reassessed in early 1982 in the context of the Anglo-French studies referred to in paragraphs 5 and 6 above, when some experience will have been gained of the initial impact of the new schedules and frequencies on passenger numbers.

20. British Airways' projected operating surpluses are also susceptible to adjustment in an upward direction, should the current negotiations with Federal Express due for completion by April 1982 lead to the lease of two Concorde for a transatlantic parcels service, and to a contract for their maintenance. While much preparatory work has already been done in confirming the economic attractiveness and practical feasibility of such a service, the commercial aspects have yet to be the subject of substantive negotiations, whether between British Airways and Federal Express, or between Federal Express and Air France, with whom a broadly similar arrangement is proposed. But with Concorde capable of generating revenues when carrying high value parcels up to some three and a half times the revenues that can be generated by conveying passengers, there is clear potential for a marked improvement in the operating results of both airlines, and in the case of British Airways of prospects for the early commencement of payments of 80 per cent of accumulated operating surpluses to the Government, taking account of surpluses from these activities as well as from scheduled passenger services. For these reasons it has been agreed that the Anglo-French studies shall take account of the airline implications, as well as the project effects referred to in paragraph 14(c) above, of a possible Federal Express operation, as well as evaluating Concorde finances (as does the present memorandum) on the basis of continuation without the potential benefits to the two Governments, the four manufacturers, and the two national airlines, of a Federal Express operation.

Contractual Costs of Cancellation

21. These are mainly the costs that would be incurred by the Government in involving the standard three months 'break clause' in its contracts with British Aerospace and Rolls-Royce, less receipts from the manufacturers during that period. They are therefore sensitive to the date on which it is assumed that formal notice of termination of their contracts with HMG is given to the manufacturers. Thus, because the calculations assume mutually agreed cancellation to be implemented with effect from 1 April 1982, instead of from 1 October 1981 as previously, they now exclude both the £11 million of airframe spares compensation stage payment postulated to fall due in the financial year 1981-82, and the £6 million of former 1982-85 receipts referred to in paragraph 11(d) above which are now assumed to fall due in 1981-82. This in turn results in the balance between payments and receipts now showing a substantial net payment by HMG to the manufacturers in the event of cancellation, compared with the net receipts by HMG from the manufacturers shown in the March 1981 calculations. The date of 1 April 1982 represents an agreed assessment by British and French officials of the earliest date by which formal notice of termination of contracts could have been given, had the Ministers at their meeting on 29 October 1981 decided to begin negotiations between the two Governments, the two British and two French manufacturers, and the two national airlines, for early cancellation by mutual agreement between all the parties concerned, and to a mutually agreed timescale. It is also assumed, when making the calculations that, until formal notice of termination of contracts is given to the manufacturers, the tasks designated under the contracts continue to be performed and to be paid for, and that Concorde airline operations, and hence the need for support and manufacturers' and Government revenues from support, also continue.

Severance Costs of Cancellation

22. These are derived by taking the number of jobs lost as a result of cancellation of the Government's contracts with the manufacturers, and by the consequent cessation of Concorde airline operations, as assessed by the employers in question, multiplied by each employer's assessment of the average amount of severance pay that would need to be given in respect of each employee leaving under a voluntary redundancy scheme. Such amount would be met partly out of receipts from the statutory Redundancy Fund. The balance would be met:-

- (a) In the case of British Aerospace and Rolls-Royce, by payments made by MOD (PE) under their contracts with the manufacturers. Severance payments at the rates assumed by these firms would be in accordance with established MOD (PE) practice in implementing the standard cancellation provisions as applying to Government contracts generally.
- (b) In the case of those sub-contractors and suppliers to Rolls-Royce who have a contractual relationship with the manufacturer of a kind that could entitle them to have severance payments to their employees met out of the Department's Concorde Vote, by payments made by MOD (PE) of a similar amount per employee to that assumed for Rolls-Royce. There are no such sub-contractors and suppliers to British Aerospace.
- (c) In the case of British Airways, there being no specific contracts between the Government and the airline which would cover severance payments, by payments out of the airline's general funds. In current circumstances, this would add to the airline's borrowing requirement, and hence to the Public Sector Borrowing Requirement.

23. Table 7 groups all severance payments, however arising, under a single column. Thus, in the case of:-

- (a) British Aerospace, Rolls-Royce, the sub-contractors and suppliers, the amounts concerned are additional to those shown in the previous column in Table B entitled "Contractual Costs of Cancellation".
- (b) British Airways, the amounts concerned are additional to those in the following column in Table B entitled "Other PSBR Costs of Cancellation".

24 . The reduction in total estimated severance payments compared with the figures included in the March 1981 calculations results from substantially smaller total numbers (an estimated 1,700 compared with some 3,200) now considered to be employed on Concorde at the later date now assumed for cancellation, namely 1 April 1981. As against this, as was foreshadowed in paragraph 9(d) of the Government's reply to the Select Committee report, there is no longer scope to transfer labour at British Aerospace and Rolls-Royce to defence contracts. The assumptions included at the present calculations as to redeployment possibilities, and how they compare with those assumed for the purposes of the March 1981 calculations, are therefore that:-

- (a) In the case of British Aerospace, any job losses arising out of Concorde cancellation would have to be met by a corresponding reduction in the firm's total workforce, and could not be partially offset by redeployment within the firm, for which an allowance of 25 per cent of total numbers was included in the previous calculations.
- (b) In the case of Rolls-Royce, some 15 per cent of Concorde workers would be retained, compared with 25 per cent assumed for the previous calculations, and would in due time fill expected future vacancies.
- (c) In the case of Rolls-Royce's suppliers and sub-contractors, any job losses arising out of Concorde cancellation would have to be met by a corresponding reduction in their total workforce (a similar assumption was made previously).

- (d) In the case of the Royal Aircraft Establishment, Farnborough, the relatively small numbers on Concorde could be reabsorbed in full within the organisation.
- (e) In the case of British Airways, reflecting the airline's general moves to reduce manning, any job ^{losses} arising out of Concorde cancellation would have to be met by a corresponding reduction in the airline's total workforce over and above the reduction envisaged by current manning policies (a similar assumption was made previously, though not related to current general moves to reduce manning).

25. The calculations are statistically sensitive to the following factors:-

- (a) It is assumed that, given the relatively small numbers now involved, any reductions in the workforce of the employer concerned as a result of cancellation of Concorde contracts would be brought about by a voluntary redundancy scheme, and not by compulsory severance. Under such a scheme the employees leaving would not necessarily be those of formerly employed Concorde. However, for the purposes of calculating the average amount of severance pay, it is assumed that the age, sex and skill profiles of those leaving would be similar to that of the existing Concorde labour force. (including, where appropriate, indirect as well as direct employees). This assumption is in turn used when calculating the other PSBR costs of cancellation, as referred to in paragraphs 26-33 below. A different profile of actual jobs lost could produce different calculations; the difference could be either positive or negative depending upon the amount by which such profiles differed from the Concorde employee

profile, and the direction of such differences.

- (b) In the case of British Aerospace and Rolls-Royce (whose combined Concorde employment accounts for about two thirds of the figure of 1,700 referred to in paragraph 23 above), it was possible to include an allowance for employees not specifically allocated to Concorde, as well as direct employees, when calculating the number of jobs lost through cancelling contracts. However, in the case of British Airways, it has been possible to take account only of those employees who are clearly identifiable with Concorde operations. To that extent the severance costs to British Airways associated with cessation of Concorde operations on 1 April 1982 are understated, as are the other PSBR costs of cancellation.

Other PSBR Costs of Cancellation

26. These consist of the additional Exchequer costs payable in Unemployment Benefit, including Earnings Related Supplement, and revenue losses from direct taxation and National Insurance contributions. They assume that the number of jobs lost is as described in paragraph 24 above, less an allowance for jobs that would be lost even if the project continued, but including an allowance for jobs lost at vendors, i.e. firms supplying directly to the airlines, for whom no requirement therefore exists to meet severance payments out of public funds.

27. The figures depend upon the speed with which the workers made redundant as a result of cancellation find other jobs. The characteristics of the existing Concorde workforce, and the evidence of a number of redundancy studies, suggest that the ex-Concorde workers (or their equivalents under a voluntary severance scheme) would find work relatively quickly. However, it is much

harder to predict the extent that their re-employment would displace other unemployed people who would otherwise have found employment. The calculations in Table B have used a faster rate for net re-employment of the displaced workers (assuming no displacement of other job seekers) than was used in previous calculations. Thus they assume that 25 per cent of those discharged find work by the end of the three months rundown period for Government contracts referred to in paragraph 21 above, i.e. on 1 July 1982; that jobs are created for a further 25 per cent at the end of 1982-83; for a further 25 per cent at the end of 1983-84 and a further 25 per cent at the end of 1984-85.

28. This new assumption, which is one of a possible range, partly reflects more detailed information about the composition of the Concorde labour force than was available when the previous estimates were made, and about job opportunities in the areas where the redundancies occur. It also gives greater weight to more general factors affecting the speed of labour market adjustment, for the following reasons.

29. Concorde cancellation would increase unemployment for a period in the local area concerned. But it is the impact on national employment levels of that decision that is much more difficult to assess. In the long run the level of national unemployment will depend on a number of factors, but will be unaffected by individual closure decisions. However, over the shorter period being considered here, a decision to cancel Concorde would lead to some increase in overall national, as well as local, unemployment above its underlying long run level.

30. Reflecting the new assumptions about the rate of job creation set out in paragraph 27 above, the current estimates of other PSBR costs, as shown in Table B, are less than one third of the March 1981 estimates. It is therefore worthwhile measuring the sensitivity of the calculations to the changed assumptions. In this connection the effect of the new assumed rate of job creation can best be judged by estimating what other PSBR costs would be on the new job loss figures, but at the previous assumed rate of job creation. This calculation would increase the other PSBR costs from the £10.4 million shown in Table B to £18.3 million. This is still little more than half the March 1981 estimates, but is in line with the reduction of the assumed Concorde workforce, as indicated in paragraph 24 above, of whom a rather greater proportion could now stand to be added to the numbers of job seekers in the event of cancellation than was the case earlier this year.

31. In practice another important consideration affecting unemployment levels would be the way in which a cancellation decision might be announced. Sudden closure without warning is much more likely to result in longer periods of higher unemployment than if a longer period of notice is given, because the discharged workers would all be thrown onto the labour market at once. The assumption of a 25 per cent re-employment within three months of termination of the project is unlikely to be consistent with an unexpected and sudden decision to cancel. It would, however, be consistent with a decision of the Anglo-French Ministerial meeting on 29 October 1981 to propose for consideration by the parties

concerned cancellation with effect from 1 April 1982, had such a decision been taken. On the other hand, a decision taken at some time in the future to cancel giving longer notice than this would, by spreading out Concorde redundancies, reduce the PSBR costs of unemployment from cancellation below those calculated in Table B.

32. Overall there has been a very considerable reduction in the estimated PSBR costs of cancellation compared with the previous calculations. This reflects:-

- (a) A sharp reduction in the numbers taken to be employed on Concorde since the last set of calculations.
- (b) More detailed information about the composition of the Concorde labour force, and about job opportunities in areas where the redundancies would occur.
- (c) An assumed more rapid rate of job creation, both for reasons specific to Concorde and as a result of giving greater weight to general factors affecting the speed of labour market adjustment.

Other Considerations

33. The estimates in Tables A and B, and the figures of the preceding paragraphs, are all at constant September 1981 economic conditions. There are, however, other ways of measuring the incidence of Concorde expenditures and receipts. of which the following are the most important.

(a) Forecasts in Cash Terms

34. As indicated in paragraph 4(b) above, forecasts of public expenditure are in future to be presented to Parliament in cash, ie forecast outturn, terms rather than at constant prices. This will make it easier for Parliament, both generally and in respect of individual programmes such as Concorde, to assess the likely impact on the level of public expenditures and revenues. At present, however, such estimates cannot be made for Concorde beyond 1983-84 for all the items listed in Table B; and, even for earlier years, definitive figures are not, as yet, available.

(b) Discounted Figures

35. The net costs to public funds of mutually agreed cancellation are estimated to be £34 million for the five year period reviewed and compare with net costs over the same period for continuation of £6 million. Discounting both revenue and costs would take account of the value placed on money at different points in time; but, in this case, this would in fact have a negligible effect on the relative cost of continuation and cancellation, and therefore has not been presented.

(c) Resource Costs and Transfer Payments

36. The cost figures discussed here may be viewed in principle either as cash flows between the Exchequer and the private sector or, in the case of cost items in the continuation option, they can equally be viewed as resource costs which measure the total loss of income to society. It is arguable that the cost of contractual payments in the case of cancellation can also be seen as a resource cost. The other cancellation costs (redundancy costs and the loss of tax receipts plus higher unemployment payments) are transfer payments between individuals, and consequently do not represent a loss of national income. They do, however, represent additional public expenditures which, if they are incurred, can only be met by corresponding reductions elsewhere in public expenditures, or by higher taxes, or by increased borrowing.

Conclusion

37. In its reply to the Select Committee's report the Government noted that there were substantial opportunities for bringing down the total costs of continued Government financial support for Concorde, and stated that action will be continued across a broad front to achieve further reductions in public expenditure, and to increase Concorde receipts.

38. The results of this action are set out in paragraphs 7 to 11 above, and in Table A. The latter indicates that estimated net project expenditures for the three years 1982-83 to 1984-85 show reductions of 33, 56, and 53 per cent respectively on the previous corresponding figures; even more substantial reductions are forecast for the two subsequent years for which calculations are now presented.

39. The Government's reply also indicated that additionally the Department of Industry were currently reviewing comprehensively the relative costs of continuation and of cancellation, as previously given to the Committee, to reflect changes in circumstances generally. The results of this action are set out in paragraphs 12 to 36 above, and in Table B. The latter indicates that, for the five year period 1982-83 to 1986-87 now adopted, the estimated net costs of mutually agreed cancellation, at some £34 million, are considerably higher than the net costs of continuation, at some £6 million.

40. In presenting this comparison the Department note that this memorandum provides, on the one hand estimates of the costs to public funds of continuing Government financial support for Concorde under existing contracts between the Government and British manufacturers, and on the other hand the estimated cost to public funds of mutually agreed cancellation of Government financial support for Concorde with effect from 1 April 1982 by termination of these contracts. This comparison follows the lines of earlier evidence to the Select Committee. But the Department recognise that the choice of action would not necessarily lie simply between early cancellation, ie from

1 April 1982, of support, or indefinite availability of support. There is also, as noted in paragraphs 5 and 6, the possibility of a phased rundown of Government support, which would have different public expenditure implications. The various aspects of a phased rundown are being studied by British and French officials with a view to their reporting on this option, and on that of indefinite continuation, to the two Governments early in 1982.

41 , The estimates in this memorandum and its tables represent the best assessments that can be made, at this point in time, of the costs of public funds of continued Government financial support of Concorde, and of how this relates to the costs of early cancellation. As was the case with previous forecasts, continued efforts have been made to avoid bias in these calculations; and contingent items, of a generally favourable potential impact on Government expenditures and revenues, have continued to be excluded from the calculations, both on project and on airline account. As indicated above, the individual items which go to make up these estimates are, however, subject to varying degrees of statistical sensitivity, depending upon the fulfilment or non-fulfilment of the assumptions on which the calculations are based; and new events may further alter the figures. In this connection, it remains the case that, as noted in the Government reply to the Select Committee's report, frequent adjustment of figures must be expected with any programme, such as the Concorde programme, which is undergoing rapid change. Where adjustments have been made, or may be required in the future, the reasons have been explained.

Department of Industry
25 November 1981

TABLE A: CONCORDE PROJECT FINANCES

£ Million

at constant September 1981 economic conditions

Year	JANUARY 1981 FORECASTS			MARCH 1981 FORECASTS			PRESENT FORECASTS		
	Expenditures	Receipts	Net expenditures	Expenditures	Receipts	Net expenditures	Expenditures	Receipts	Net expenditures
1982/83	50.7	22.6	28.1	52.0	25.9	26.1	31.1	13.5	17.6
1983/84	46.1	23.3	22.3	40.7	20.0	20.7	21.3	12.2	9.1
1984/85	45.0	24.2	20.8	33.1	18.5	14.6	18.8	12.0	6.8
Total									
1982/83- 1984/85	141.8	70.6	71.2	125.8	64.4	61.4	71.2	27.7	33.5
1985/86	NA	NA	NA	30.4	16.5	13.9	15.5	12.0	3.5
1986/87	NA	NA	NA	28.0	16.7	11.3	15.7	11.0	4.9
Total									
1982/83- 1986/87	NA	NA	NA	184.2	97.6	86.6	102.4	61.5	40.9

- NOTES: (1) Basis of forecasts This table updates forecasts of British Concorde project expenditures and receipts, as given to the Select Committee on Industry and Trade by the Department of Industry on 3 March 1981 and reproduced by the Committee at page 106 of the Committee's Minutes of Evidence. They represent the Department's best estimates of the costs of carrying out agreed Concorde tasks, and of receipts therefrom.
- (2) Economic conditions All figures are at September 1981 economic conditions.
- (3) Concorde Vote items The present forecasts (unlike ^{those in} Table D of the Department's memorandum of 3 March 1981) take account of forecast receipts from capital assistance rentals of some £0.3 million annually. Since the previous forecasts were presented these receipts have been reclassified by Treasury as a Public Expenditure Survey (PES) item.
- (4) Contingent items In accordance with Government accounting conventions contingent items are excluded from both expenditures and receipts. The principal contingent items, as applying to the March 1981 forecasts, were set out in the Annex to the Department's memorandum of 3 March 1981 (pages 109 to 110 of Committee's Minutes of Evidence). Since that date, the majority of such items have become certain events, and are consequently taken into account in the present forecasts (see paragraph 14 of memorandum).
- (5) January 1981 forecasts The estimates are as given in Table C to the Department's memorandum of 27 January 1981 (and subsequently in Table D of the memorandum of 3 March 1981), revalued to September 1981 economic conditions.
- (6) March 1981 forecasts The estimates are as given in Table D to the Department's memorandum of 3 March 1981, revalued to September 1981 economic conditions.
- (7) Figures for 1985-86 and 1986-87 The January 1981 and March 1981 forecasts, as included respectively in the Department's memoranda of 27 January and 3 March 1981, covered the period to 1984-85. In the latter case, calculations for 1985-86 and 1986-87 were, however, also made for project planning purposes, but were not included in the 3 March 1981 memorandum. To give a basis of comparison between previous and present forecasts, both in this table and in Table B (which likewise covers a five year period), they are now included, revalued to September 1981 economic conditions.

TABLE B - RELATIVE COSTS TO PUBLIC FUNDS OF CONTINUING AND CANCELLING

BRITISH GOVERNMENT CONTRACTS FOR CONCORDE IN-SERVICE SUPPORT

£ million
at constant September 1981 economic conditions

Period	Costs of Continuation			Costs of Cancellation			
Financial Year	Net Project Expenditures	Less BA Surplus	Net Total	Contractual Costs/Receipts (+)	Severance Costs	Other PSBR Costs/Surpluses(+)	Net Total
1982-83	17.6	(+) 5.4	12.2	10.4	14.5	5.5	30.4
1983-84	9.1	(+) 7.4	1.7	(+) 0.3	N11	4.0	3.7
1984-85	6.8	(+) 7.4	(+)0.6	(+) 0.3	N11	1.9	1.6
1985-86	3.5	(+) 7.4	(+)3.9	(+) 0.3	N11	(+)0.5	(-) 0.8
1986-87	3.9	(+) 7.4	(+)3.5	(+) 0.2	N11	(+)0.5	(+) 0.7
PRESENT TOTALS	40.9	(+) 35.0	5.9	9.3	14.5	10.4	34.2
PREVIOUS TOTALS	85.0	(+) 28.3	56.7	(+) 8.2	19.8	35.9	47.5

NOTES:

- (1) Basis of forecasts This table revises the estimates given by the Department of Industry to the Select Committee on Industry and Trade on 3 March 1981, and reproduced at page 107 of the Committee's Minutes of Evidence. Estimates for two further years, 1985-86 and 1986-87, have been added; and estimates are now expressed on an updated price basis (September 1981 instead of September 1980.)
- (2) All figures are at September 1981 economic conditions, and except where indicated by a (+) sign represent a cost to public funds.
- (3) Net project expenditures are for total costs to public funds, as met out of the Department of Industry's Concorde Vote. Thus they comprise expenditures less receipts as shown in Table A. The present forecasts take account of savings from PES 1981 contingent items, to which reference was made in paragraphs 5 and 6 of the Government's reply of 14 July 1981 to the Select Committee's report, as well as additional savings foreshadowed in paragraph 7 thereof.
- (4) British Airways surpluses are as estimated by the airline, less £0.5 million for each year to allow for a real increase in the price of Rolls-Royce Olympus 593 engine spares. They represent savings in the amount of the Government's Public Sector Borrowing Requirement (PSBR), and as such are deducted to arrive at a net total of the cost to public funds of continued Government financial support for Concorde.
- (5) Contractual costs of cancellation assume mutually agreed cancellation with effect from 1 April 1982. In 1982-83 they are net of receipts from the manufacturers during the three month break period of the contracts. They also include outstanding payments by British Aerospace under the Simulator Operating Agreement. For each year they reflect continuing income from capital assistance item rentals, which are also taken into account in the costs of continuation.
- (6) Severance costs as shown include all severance payments. Thus payments met by HMG under its contracts with British Aerospace and Rolls-Royce in respect of their discharged^d employees, as well as any settlements by Rolls-Royce when terminating contracts

with suppliers and subcontractors (estimated at £1 million) in respect of those companies employees, are included in this column and not under the contractual costs of cancellation. Similarly redundancy payments arising in other ways, eg out of the statutory Redundancy Fund, or by British Airways in respect of their own employees, are included in this column, and not as other PSBR costs. It is estimated that there would be no redundancies declared at RAE Farnborough in the event of cancellation.

- (7) Other PSBR costs The savings in 1985-86 and 1986-87 arise from the fact that many of the employees assumed to be made redundant in 1982 would have ceased working on Concorde between 1983 and 1987 even if the project had continued. The fact that, in the event of cancellation, they are all assumed to be made redundant in 1982 results in jobs being recreated earlier than would otherwise have been the case, hence the savings at the end of the period.
- (8) Previous totals are those in Table E of the Department of Industry's memorandum of 3 March 1981, adjusted to allow for the postponement of the assumed date of mutually agreed cancellation from 1 October 1981 to 1 April 1982, the extension of the calculations to include estimates for 1985-86 and 1986-87, and the revaluation of the figures from September 1980 to September 1981 economic conditions. Explanations for the principal reasons for the differences between the two sets of estimates are given in the text.

Parliament



From the
Minister of State

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
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TELEPHONE DIRECT LINE 01-212
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Rt Hon Francis Pym MC MP
Chancellor of the Duchy of Lancaster

✓ MP

13⁴ July 1981

D Francis

GOVERNMENT REPLY TO SELECT COMMITTEE REPORT ON CONCORDE

Your Private Secretary wrote to mine on 3 July to pass on your reactions to the suggestions in my letter of 22 June as to how we should handle the Government's reply. We have taken note of the procedures that you have agreed with Edward du Cann; and the answer to be given to the arranged Questions on 14 July will reflect your advice on this point.

As regards a possible debate, you will have noticed that, in supplementaries to Jock Bruce-Gardyne's Question on 22 June, he suggested that one should be held before the Summer Recess. This was to be expected. More to the point was the intervention by Stanley Orme, as Shadow Industry Minister, who referred to public interest in this matter, said that it was not sufficient to produce a Command Paper, and that there must be a debate at the earliest possible opportunity.

It is difficult to know how to interpret this initiative. Concorde has not been a Party matter since 1973-74 when, at a time of considerable uncertainty as to the future of the project, Michael Heseltine was given some fairly rough treatment by the Opposition. In the period 1974-79 the then Government, having decided to continue the project, were solidly in favour of supporting Concorde. There have been no subsequent public indications of a change of heart by the Opposition as a whole. But, for what it is worth, the Labour members of the Select Committee, Ian Mikardo in particular, were no less reproachful towards the project and the Government's role in support of it than were their Conservative colleagues.

However that may be, you seem likely to be pressed pretty heavily after Questions on Thursday 16 July - and not just by the Committee members, who have given notice of their intentions in the last paragraph of their report to pursue the matter on the floor of the House - to allow time for an early debate on the Committee's report and the Government's reply.



I suggested in my letter of 22 June to colleagues that we had no particular reasons for wanting a debate, and certainly none for proposing that one takes place in Government time. That is still my position; and the fact that, at this point in the Session, there are so many opportunities for having the matter debated in non-Government time, including the use by the Opposition of a Supply Day or half day, will add to your ability to refuse a debate in Government time, should timetable considerations require this.

But equally we have no need or desire to avoid a debate. If, therefore, you were to decide that one could be conceded without creating too much of a precedent, in terms of Parliamentary time, for discussion of all the other Select Committee reports which are now issuing in fairly large numbers, you would find us ready.

A further consideration to be taken into account when considering giving time for a debate in the House of Commons, is that the House of Lords, in anticipation of the Committee's report and the Government's reply, have already debated Concorde extensively on an unstarred Question by Lord Glenarthur on 11 February, and less fully on an oral Question by Lord Balfour of Inchrye on 30 April. It seems very likely that those Peers (apparently the great majority) who support Concorde will use the Lords' procedures and less pressing timetable to make their views known before the Recess.

I certainly agree with the suggestion which Michael Jopling made in his note of 30 June, that everything possible should be done to keep the Conservative Aviation Committee officers as firmly on side as possible. To this end I am planning to see Cranley Onslow and others from the Aviation and Industry Committees (though Maxwell Hyslop is a lost cause)
Today Monday 13 July.

I am copying this letter to the recipients of mine of 22 June.

NORMAN TEBBIT

14 JUL 1981





From the
Minister of State
Norman Tebbit

Parliament

DEPARTMENT OF INDUSTRY
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The Rt Hon James Prior MP
Secretary of State for Employment
Caxton House
Tothill Street
SW1

10 July 1981

Sec Secretary of State

GOVERNMENT REPLY TO SELECT COMMITTEE REPORT ON CONCORDE

Thank you for your letter of 2 July addressed to Keith Joseph in which you suggest that paragraph 9(d) of the Government's reply should make reference to the displacement factor, and that for this reason it is more satisfactory to use a range of PSBR costs.

You are, of course, quite correct in pointing out that the Committee have failed to take account of this factor in their remarks; and that what is really at issue in determining PSBR costs is not the extent to which discharged Concorde workers can find alternative employment, but the rate of job creation for people with those skills in the travel to work areas concerned which, over a period of time, will offset the jobs lost by Concorde cancellation. I have therefore amended paragraph 9(d) by adding a couple of sentences as follows:-

"The rate of net reabsorption must, however, be subject to a great deal of uncertainty due to the displacement factor. Thus Concorde skilled engineers may find jobs at the expense of already unemployed skilled engineers."

The background is explained in a new comment (e), which confirms that this factor was taken into account by the Department in their 3 March 1981 calculations.

I have not, however, taken this further by indicating that PSBR costs would be shown as a range in any set of future calculations presented to Parliament. In the particular circumstances of the Committee's inquiry and the Government's reply, there are good reasons for sticking to the earlier practice of using a single figure which I would be prepared to justify to the Committee and Parliament



generally as representing the Department's best assessment of job creation prospects in the context of the Government's general economic strategy and the results which we as a Government expect from it. In this connection, I see considerable presentational difficulties for the Government in my arguing that job creation prospects have since improved, particularly against the background to which Tom Trenchard refers in his letter of 30 June of deteriorating prospects of redeploying Concorde workers at British Aerospace and Rolls-Royce Bristol, to which paragraph 9(d) as further amended now refers.

There may, however, be scope for presenting, as your letter seems to suggest, an updating of the original calculations and using essentially the same assumptions accompanied by calculations using more optimistic assumptions about the rate of job creation, with an indication - if this indeed to be the case - that, even on these more optimistic assumptions, the estimated costs of agreed cancellation still exceed the reduced costs of continuation.

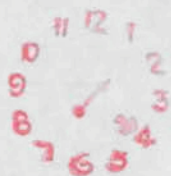
These are, however, matters that will require detailed study before I can take a definitive view. The specialised knowledge of your people will be helpful in this regard.

I am copying this letter to the recipients of mine of 22 June.

Yours sincerely
PF Mus

PF NORMAN TEBBIT
(Approved by the Minister
and signed in his absence)

13 JUL 1981



CONFIDENTIAL

Parliament



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From the
Minister of State
Norman Tebbit

The Rt Hon David Howell MP
Secretary of State for Energy

9 July 1981

D. David

GOVERNMENT REPLY TO SELECT COMMITTEE REPORT ON CONCORDE

Thank you for your letter of 7 July in which you indicate your belief that British Airways' assumption of a 5 per cent increase in the real price of fuel is likely to prove too high, and counsel against setting British Airways' forecasts against the current state of the market.

The reference in the draft reply to the current state of the market was intended as a reminder to the Committee that conditions had changed substantially since they took evidence from British Airways on 28 January, and to challenge the Committee's criticism of the airline's assumption as being over optimistic. However, I quite agree that forecasting in this area is so hazardous that, if we can get away with it, we should as a Government avoid suggesting even by inference that the present weakness in the market will continue. Fortunately the information given to us by British Airways about how their assumptions compare with those of the industry generally enables us to make a suitably convincing rebuttal of the Committee's criticism without our having to refer to current market conditions.

I am sorry your people were not brought in earlier, and that this contributed to your own response being delayed. You will, however, be pleased to learn that your suggestion came in time for it to be included in the proof of the Government's reply. Paragraph 9(b) of this now reads as follows:-

"(b) Forecasting in this area is naturally difficult; but the British Airways' assumption of an increase in fuel prices of 5 per cent annually in real terms should be judged against the fact that the forecast level of increase assumed by British Airways is significantly higher than that being used by the airline industry generally."

I am copying this letter to the recipients of mine of 22 June.

NORMAN TEBBIT

10 502 JUL 1981





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From the
Minister of State
Norman Tebbit

The Lord Trenchard
Minister of State for
Defence Procurement

8 July 1981

D. Tom.

11
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GOVERNMENT REPLY TO SELECT COMMITTEE REPORT ON CONCORDE

Thank you for your letter of 30 June in which you refer to your belief that the assumption in the Department's calculations of Concorde cancellation costs of 3 March 1981 of a 25% redeployment at British Aerospace and Rolls-Royce Bristol is no longer valid.

As this accords with information which this Department had already received from the manufacturers direct, I added a couple of sentences towards the end of paragraph 9(d) indicating that, since the earlier calculations, there has been a substantial deterioration in the prospects of redeploying redundant Concorde workers at British Aerospace and Rolls-Royce Bristol, and that this would be taken into account in the Department's revised calculations. The commentary on this addition indicates that this factor will tend to increase the redundancy costs of cancellation, though this will be offset by the reduction in the numbers employed on Concorde.

You mentioned in this connection that, in the event of cancellation, you would be very anxious to ensure that these two manufacturers did not simply load surplus labour on to Ministry of Defence contracts. We have a similar anxiety that the reverse process does not happen so long as Concorde continues to be supported out of Department of Industry funds; we hope your people who administer Concorde contracts on our behalf will exercise a similarly stringent control to ensure that the level of Concorde engine and airframe support activities and manning fully reflect the reduced levels of airline utilisation, present



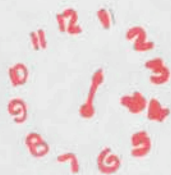
and expected. We therefore very much welcome the initiative taken by your engine people to appoint a Working Group of MOD (PE) officials to look into the question of Olympus 593 spares provisioning with Rolls-Royce representatives. We look forward to receiving their report at an early date, when it can be considered along with other measures, some already in hand, to bring down Concorde net expenditures.

I am copying this letter to the recipients of mine of 22 June.

J. Norman

NORMAN TEBBIT

-9 JUL 1984





Palmer

Treasury Chambers, Parliament Street, SW1P 3AG

TL

Norman Tebbit Esq MP
Minister of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1

7 July 1981

Norman,

GOVERNMENT REPLY TO SELECT COMMITTEE REPORT ON CONCORDE

will request if required

Thank you for your letter of 3 July. I am grateful to you for taking account of the points in my letter of 29 June, and I am entirely content with the revised draft of the Government's reply.

I accept that the reappraisal of the Concorde project, including the costs of cancellation, cannot be given absolutely top priority. But I hope that officials will be able to report to Ministers at the latest by the end of the Recess.

Copies of this letter go to the recipients of the previous correspondence.

Handwritten signature and scribbles

LEON BRITTAN

-9 JUL 19:1



Palmer

Mr. A. Walkoff.

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01-211-6402

Norman Tebbit Esq MP
Minister of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

*2
97*

7 July 1981

See memo

GOVERNMENT REPLY TO SELECT COMMITTEE REPORT ON CONCORDE

You kindly copied to me your letter to Keith Joseph of 22 June, with a copy of the proposed Government reply to the Select Committee Report on Concorde.

My Department would have welcomed the opportunity to have seen and offer comment at an earlier stage on the details of British Airways' assumptions on fuel price increases to which you refer at para 9(b) of your proposed reply. My response on this has been delayed by difficulties in establishing exactly what information had been supplied to the Committee. However, I note that British Airways assume a 5% increase in fuel prices in real terms.

We recognise the difficulties of making short term forecasts of product price increases but we believe that British Airways' assumptions are likely to prove too high. An interdepartmental group of officials under Treasury Chairmanship produced a report last year - which suggested as a central case a 4% p a rise in crude prices in real terms. Product prices will to some extent follow such a trend but the mix of crudes, the mix of product output and, most important, market conditions, will determine the actual movement in product prices. I understand that British Airways have themselves indicated that their forecasts are higher than those used by the airline industry generally, which are nearer 3%, and have proposed an amendment accordingly.



with compliments

✓
MAD

CHANCELLOR OF THE DUCHY OF LANCASTER
68 Whitehall London SW1A 2AT

Telephone 01-233-7113

There is one further point which calls for comment, and that is your Department's assumption that oil prices are unlikely to recover in the foreseeable future. There are no certainties in an area, such as this one, which is so heavily influenced by political events. But the present weaknesses in international oil markets could well prove of short duration, given that OPEC is likely to press for cutbacks in production to remedy current surpluses. I doubt therefore the wisdom of setting British Airways' forecasts against the current state of the market. I suggest that you simply refer to the fact that British Airways' forecast is higher than that of the airline industry generally.

Copies of this letter go to the other recipients of yours.

D A R HOWELL

Jan 20
Jan 20

CONFIDENTIAL

Parliament



PRIVY COUNCIL OFFICE
WHITEHALL LONDON SW1A 1AA

Chancellor of the Duchy of Lancaster

3 July 1981

Dear Peter

247

GOVERNMENT REPLY TO SELECT COMMITTEE REPORT ON CONCORDE

Your Minister wrote to the Secretary of State for Industry on 22 June about the Government's reply to the report made by the Select Committee on Industry and Trade on Concorde. A copy of this letter was sent to the Chancellor of the Duchy.

The Chancellor of the Duchy asks me to say that he is generally content with the proposed handling of the reply. In particular, he agrees that no commitment should be given to a debate until it is possible to assess the reaction of the House to the Government's reply, and the extent of any pressure for such a debate.

... His only comment is that, as you will see from the attached letter, an undertaking has been given to Mr Du Cann, as Chairman of the Liaison Committee of Select Committee chairmen, that the role of arranged written answers in relation to select committee reports will be confined to drawing the attention of the House to replies which have been made to the committee in other forms. It would accordingly be contrary to this assurance for any arranged written reply to do more than call attention to the publication of the Command Paper.

I am copying this to the Private Secretaries of the recipients of your Minister's letter.

Yours ever
N P M Huxtable

N P M HUXTABLE
Private Secretary

P E Mason, Esq
Private Secretary to the
Minister of State for Industry
123 Victoria Street

CONFIDENTIAL

28 May 1981

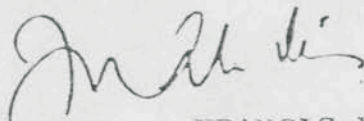
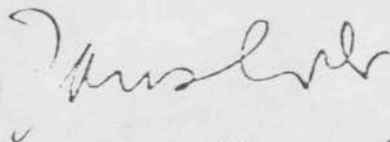
Dear Edward,

Thank you for your letter of 14 May about Government replies to select committee reports.

I was glad to hear that you were generally satisfied with the position with regard to the timing of departmental replies. I will, however, as you suggest, arrange for Departments to be reminded of the continued need for urgency in their replies. At the same time I will ensure, as indicated in my letter of 13 February, that substantive replies to select committee reports should no longer take the form of answers to arranged written questions.

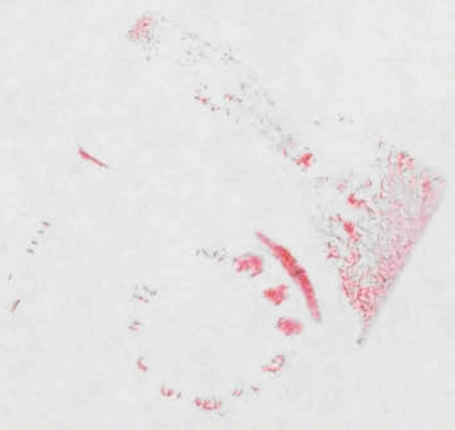
As regards replies in the form of Ministerial statements on the Floor of the House, I have noted your view that committees may expect these to be subsequently supplemented by a memorandum. There may be occasions, however, when Departments will not have anything to add to the statement on the Floor. To avoid misunderstanding in such cases we will in future arrange for committees to be informed when no further reply is envisaged.

Finally, as you recognise, there are occasions when a reply in the form of a memorandum, or Ministerial letter to the chairman, seems appropriate, either on grounds of speed, economy, or for some other reason. I would hope that committee chairmen would agree that where this more informal type of reply is used, unless special considerations of confidentiality arise, it should normally be open to a Minister to make public the contents of his reply in the same way as if it had taken the form of a White Paper.



FRANCIS PYM

The Rt Hon Edward du Cann, MP
House of Commons
LONDON



Parliament



DEPARTMENT OF INDUSTRY
 ASHDOWN HOUSE
 123 VICTORIA STREET
 LONDON SW1E 6RE
 TELEPHONE DIRECT LINE 01-212
 SWITCHBOARD 01-212 7676

From the
 Minister of State
 Norman Tebbit

The Rt Hon Leon Brittan QC MP
 Chief Secretary to the Treasury
 HM Treasury
 Parliament Street
 London SW1

3 July 1981

Dear Chief Secretary

GOVERNMENT REPLY TO SELECT COMMITTEE REPORT ON CONCORDE

Thank you for your letter of 29 June commenting on the draft enclosed with mine of 22 June. *will be agreed if required*

I quite agree that the reply should not prejudge the outcome of the current review by this Department of the relative costs of continuation and of cancellation of Government financial support for Concorde, and that the results should be regarded as being of sufficient general importance for them to be reported to Parliament direct and not just to the Committee. As your people have rightly indicated, this review should not however be at the expense of a continued vigorous search for reductions in future Concorde expenditures; nor can it take precedence over the considerable amount of work involved in getting the Government's reply published and with any possible fallout, eg an Adjournment Debate. To meet this point I have deleted the words "to well below those of cancellation" from the end of paragraph 2, the last sentence of paragraph 6, and also the last sentence of paragraph 20.

I cannot, however, agree to your suggestion that paragraph 6 should be further recast to remove all reference to the effect that alteration of the previously reported costs of continuation will have on the relative balance between these costs and those of mutually agreed cancellation. This would be a step backwards since, as the commentary indicates, this paragraph was inserted to meet criticisms by your officials and others that the earlier draft concentrated entirely on the first of the Committee's alternative policies, and summarizes the present state of the Department's ability to quantify the relative costs of continuation and of cancellation. Such information, which is factually correct



and in no way prejudices the outcome of the total review, is in my judgement an essential ingredient of a reply which rejects the appointment of independent consultants on the grounds that the Government is satisfied with the present arrangements for gathering and presenting information; and giving this information counteracts any suggestion that, in its pursuit of reductions in Concorde net expenditures, the Government is totally oblivious - and expects Parliament to be - of the impact that these are having on the relative costs of continuation and of cancellation.

To judge from the supplementaries to Jock Bruce-Gardyne's Question on 22 June, when I was obliged to indicate that Members should await the Command Paper calculations, it is necessary that we should give as much information as we can of the present state of the Government's knowledge of the relative costs of continuation and of cancellation is most necessary.

I have therefore retained the present wording of the first part of paragraph 6, including the reference to the fact that some reduction in the costs of cancellation is to be expected. As drafted, this latter reference is, however, unnecessarily obscure, and does not reveal the extent of the Department's current knowledge of the changing labour situation at British Aerospace and Rolls-Royce Bristol. A similar point arises on the comments in Tom Trenchard's letter of 30 June.

I have therefore reworded the second sentence to read as follows "Because many fewer people are expected to be employed on Concorde at the assumed date of cancellation than was the case with the earlier calculations, some significant reduction in the £42 million cost of mutually agreed cancellation is to be expected from the present review of the relative costs of continuation and of cancellation." I have also deleted the last sentence of the paragraph, since the juxtaposition it poses could be held to prejudice the outcome of the review.

I am copying this letter to the recipients of mine of 22 June.

Yours sincerely
P. E. Mas

99 NORMAN TEBBIT
 (Approved by the Minister
 and signed in his absence)



Parliament

Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400 GTN 213

Switchboard 01-213 3000

Rt Hon Sir Keith Joseph Bt MP
 Secretary of State
 Department of Industry
 Ashdown House
 123 Victoria Street
 LONDON SW1

2 July 1981

Ken Clark

GOVERNMENT REPLY TO SELECT COMMITTEE REPORT ON CONCORDE

I have one comment on the draft reply to this Report enclosed in Norman Tebbit's letter of 22 June. This concerns paragraph 9 (d) of it, and the reference to my Department in the attached commentary.

There is evidently a misunderstanding implicit in the Committee's remark (in conclusion (v) (c)) that "we do not think it likely, even in a recession, that skilled men displaced from the Concorde project will be long out of work". The Committee does not seem to have taken into account the question of "displacement". It is of course more than likely that highly-skilled engineers will be able to find new jobs quite quickly. But to say this begs the question whether in doing so they will displace other unemployed men who would otherwise have taken those new jobs. The reply should take account of this by speaking of net reabsorption.

What this amounts to is that while we have no quarrel with the first sentence of paragraph 9 (d), the draft reply should go on to say that nevertheless the rate of net reabsorption must be subject to a great deal of uncertainty owing to the displacement factor. For this reason it is more satisfactory to use a range of PSBR costs. (This range would show the costs implied by the reabsorption rate used in Norman Tebbit's memorandum to the Committee at one end and the costs resulting from a rather "more sanguine" rate at the other.)

I am copying this letter to those to whom Norman sent his.

Ken Clark

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6 7 8 9 10 11



CONFIDENTIAL

DEPARTMENT OF TRADE

1 VICTORIA STREET LONDON SW1H 0ET

Parliament
Telephone 01-215 7877



MBM yet

From the Secretary of State

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
London SW1E

30 June 1981

Dear Keith

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GOVERNMENT REPLY TO SELECT COMMITTEE REPORT ON CONCORDE

Norman Tebbit sent me a copy of his letter to you of 22 June, with which he enclosed a draft reply to the Select Committee report. While I am quite content with the text of the reply, which has been discussed with my officials, I do not think it would be appropriate for it to be presented to Parliament, as Norman suggests, by you and me jointly. As is explained in the commentary, the reply deliberately concentrates on the first of the two alternatives recommended by the Select Committee: the ways of reducing the costs of the project. It says hardly anything about the other suggestion - the cessation of Concorde services - which would have engaged my Departments responsibility as sponsor of British Airways. Because of this emphasis (with which I am perfectly happy) I think it would be better for the report to be issued in your name.

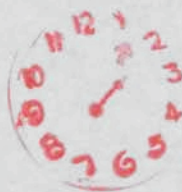
I am copying this letter to the recipients of Norman Tebbit's.

John Biffen

CONFIDENTIAL

JOHN BIFFEN

E1 JUL 1981





Minister of State for
Defence Procurement

D/MIN/TT/11/5

MINISTER OF STATE FOR DEFENCE

WHITEHALL LONDON SW1A 2HB

Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

30 June 1981

MSM

R

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Dear Norman

Thank you for sending me a copy of your letter of 22nd June to Sir Keith Joseph enclosing the draft of a Command Paper in response to the report of the Select Committee regarding the position of the Concorde programme.

I am in general agreement with the tenor of the draft but there is one comment that I would like to make in connection with paragraph 9(d) where you refer to an assumption that in the event of cancellation there could be immediate redeployment by the manufacturers of 25% of those made redundant. For our part we would be very anxious to ensure that Rolls Royce and British Aerospace at Bristol did not simply load surplus labour onto Ministry of Defence contracts and we would be controlling this situation very stringently. In the light of what we know of the present circumstances of these two plants we do not believe that the assumption of a 25% redeployment within Rolls Royce Bristol and British Aerospace Bristol is any longer valid. I suggest, therefore, that paragraph 9(d) be reworded so that whilst making full play of the possibilities of job creation within

/ the ...

Norman Tebbit Esq MP

the Bristol area it does reflect current thinking on the possibilities of redeployment within Rolls Royce and British Aerospace.

Copies of this letter go to the recipients of yours.

*Yours sincerely
Tom*

Lord Trenchard

30 JUN 1981



Return to CF



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 7691
SWITCHBOARD 01-212 7676

From the
Minister of State
Norman Tebbit MP

✓ see the letter

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
London SW1

msom jet

22nd June 1981 *TC* *376*

D Keith,

GOVERNMENT REPLY TO SELECT COMMITTEE REPORT ON CONCORDE

1 I am writing to you, as Chairman of E(EA), to seek your approval, and that of those to whom this letter is being copied, to the attached Government reply to the Report by the Select Committee on Industry and Trade on Concorde (HC 265). The reply would be presented to Parliament in mid-July as a Command Paper under your name, possibly in association with that of John Biffen.

The Committee's Inquiry and Report

2 Although Concorde has been examined several times before, the present inquiry was the first substantive consideration by a Parliamentary body of the aircraft's in-service support phase. It was therefore welcomed by the Department, which along with British Aerospace, Rolls Royce and British Airways gave the Committee every assistance. The Department submitted six memoranda in all, the first jointly with the Department of Trade. I appeared before the Committee on 4 February. In accordance with the line proposed by my predecessor in his letter to you of 12 December and endorsed by my colleagues, I drew attention to the many complexities and uncertainties attaching to a collaborative project of this kind, and agreed that updated estimates of the relative costs of continuing and of cancelling Government financial support should be supplied. The former were based on the Department's PES 1981 forecasts, and were submitted as being the current best estimates by officials, with no commitment by Ministers.

Requested from Trade

3 The Committee's original intention had been to present a relatively brief and early report. This would have come between their very protracted inquiry into imports and exports and their next substantive inquiry; would hopefully have been published



before Christmas; and, in the expectation of at least some members of the Committee, would have pointed to cancellation as being demonstrably substantially cheaper than continued Government support.

4 Several events combined to frustrate these expectations. The Committee considerably overshot the time they had allocated to completing the import-export inquiry; the subject matter proved much more complex and intractable than the Committee had bargained for; and the Department's calculations of the relative costs of continuation and of cancellation showed no significant savings during the maximum lifetime of the present Parliament.

5 Most important of all, however, was the fact that even before the Committee had begun their inquiry the Department, in conjunction with MOD (PE), the two British manufacturers and the French authorities, had begun a series of measures designed to reduce Concorde project expenditures and to increase receipts. These actions, taken in the interests of good project management and seeking full advantage of the opportunities provided by reduced airline utilisation of the aircraft and engines, led to progressively lower forecasts of the net costs of continued Government support.

6 The Committee - and this may be a feature of inquiries into other Departmental spending programmes undergoing similarly rapid change - found it difficult to adjust to this successive revision of the data, and to the necessarily qualified nature of the assessments based on it. In the end, they simply decided to call no oral evidence on the three additional Departmental memoranda they had requested at the hearing on 4 February. They proposed instead that the Government should appoint independent consultants, the results of whose appraisal should be made available to Parliament in the Government's reply.

The Government's Reply

7 Not surprisingly, given this background, the Committee's report is generally critical of the project, and of the evidence given by the Department and other witnesses. They have three main recommendations, of which (b) and (c) are presented as alternatives:-

a For a thorough and urgent appraisal by independent consultants of all the factors surrounding continued expenditure on Concorde up to 1990 and possibly beyond.

b HMG to take action to reduce the incidence of these costs of public funds.

c HMG to enter early discussions for agreed discontinuance of Concorde operations at the earliest possible date.



8 The proposal that the Government should appoint independent consultants is quite unacceptable. This would not help the Government better to discharge its responsibilities for the administration of the project; and, in relation to Select Committee inquiries generally, to concede this in the case of Concorde would create a precedent to which this and all other Departments with spending programmes subject to Select Committee consideration would be vulnerable if a similarly capricious view of Departmental calculations were to be taken on some other occasion.

9 The second proposal, that of reducing public expenditure on Concorde, is fully acceptable as being in line with current Government policies. The draft reply therefore concentrates on this, while not neglecting the Committee's other alternative, that of agreed cancellation. The latter is, however, not at present on offer from the French; we could not ourselves propose it without undermining our case for a settlement, in our favour, of Anglo-French cost sharing imbalances; and such - admittedly incomplete - evidence as we have (paragraph 6 of the reply) suggests that cancellation would now be more costly than continued support.

10 In contrast to the Committee's report, the tone adopted in the draft reply is intentionally both smooth and firm. This, I suggest, is more likely to prevent Parliamentary opinion coalescing behind the Committee - with the awkwardnesses that this would present for the Government in its relations with Select Committees generally - than a more forthright approach. This is particularly necessary, given the Committee's declared intentions, in the final paragraph of their report, if no speedy appraisal takes place or if they are not satisfied with its outcome, to propose a reduction either in the Concorde subhead (if the House's supply procedure rules are amended to permit a debate on a specific proposal) or, if not, under SO 18 (10) in relation to the "total amount" of the Estimates of which expenditure on Concorde forms part.

The Parliamentary Factors

11 It will be primarily for Francis Pym and Michael Jopling to advise on the issues raised in the previous paragraph. On other points, the reply seems sufficiently comprehensive and self sufficient not to require a Statement after Questions, though answers to arranged Written Questions in both Houses would be appropriate. It would not seem necessary to concede, particularly in the run up to the Summer Recess, a Debate in Government time; but we should stand ready for one to be initiated on the Adjournment Motion. In line with our generally low keyed approach, I think we should avoid a Press Conference. However, some selective briefing of Lobby and Air Correspondents could be helpful in getting our message across.



12 I am copying this letter and enclosure to the Prime Minister, to all members of E(EA), to Christopher Soames, Ian Gilmour, Francis Pym, Michael Jopling and Tom Trenchard, and to Sir Robert Armstrong. I would appreciate comments by Monday 29 June.

A handwritten signature in cursive script, appearing to read 'Norman', with a horizontal line underneath the name.

NORMAN TEBBIT

17 June 1981

GOVERNMENT REPLY TO REPORT OF SELECT COMMITTEE
ON INDUSTRY AND TRADE ON CONCORDE (HC 265)

TEXT

1. The Government has noted the Committee's report, its conclusions and recommendations, and has the following comments.

Government Policy on the Future of
Concorde Financial Support
(Recommendation viii)

2. The Committee recommend that the Government should be ready either to reduce the incidence of Concorde costs to public funds, or to enter into early discussions with all interested parties to ensure

COMMENTS

Paragraph 1

This is standard wording.

Heading and Paragraph 2

(a) The Committee have postulated two alternative policies. While not neglecting developments since the publication of the Committee's report which would affect the balance between the relative costs of continuation and of cancellation (paragraph 6), the reply deliberately concentrates on the first alternative.

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speedy agreement to discontinue operation of the aircraft at the earliest possible date. Since the Committee's report was published the Government's efforts have been concentrated on the first alternative. As indicated in paragraph 6 below, in present circumstances this offers substantial opportunities for bringing down the costs of continued support to well below those of cancellation.

- (b) The decision to play down the Committee's second alternative minimises the risk further wrangling over the continuation/cancellation costs scenarios. It also avoids speculation, and the giving of possible negotiating hostages to fortune, should agreed cancellation prove to be both on offer from the French and in HMG's interests to accept. Neither has yet been established.
- (c) The heading makes it clear that what is at issue is the future of Government financial support on project account, not the future operation of Concorde aircraft in airline service (which raises other and wider issues for both Governments and their respective airlines), nor the termination of the 1962 Agreement (which raises yet other issues).
- (d) The second sentence is taken from the Minister for Industry's (Mr Tebbit) letter of 8 June to the Chairman of the Committee. The words "since the Committee's report was published" allows for a future shift of emphasis to

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the second alternative, should developments suggest this to be desirable.

Reduction in Concorde Project Expenditures (Recommendation via (a))

3. In their written and oral evidence to the Committee the Department of Industry explained why expenditure on Concorde should in future be on a declining trend. In 1981-82 project expenditures, net of receipts and at 1981 PES prices, are estimated to be some 25% below the now expected outturn for 1980-81.

Paragraph 3

(a) Reductions in Concorde support expenditures and increases in receipts have been a continuing Departmental policy since the aircraft entered airline service in 1976. Over the last couple of years the limited use made by the airlines of the aircraft and its engines have enabled this policy to be intensified. The objective in the remaining paragraphs of this section of the reply is to summarize the financial results, past, present and future, while leaving enough in reserve to be able to point to further savings should the White Paper be subsequently be debated in either House of Parliament.

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(b) Thus paragraph 3 deals with the efforts to cut costs to date, as detailed in the Financial Estimates for 1981-82; paragraph 4 with the PES 1981 forecasts which take the position up to 1984-85; while paragraph 5 gives details of the estimated savings from the largest of the PES 1981 contingent items. Paragraph 6 summarizes its effect on the calculations of the relative costs of continuation and of cancellation, while paragraph 7 holds out the prospect of further savings, but deliberately does not go into detail as to their composition or timing.

(c) The 25% reduction is based on the latest available information on the outturn for 1980-81, which show a rising tendency compared with earlier forecasts, as given to the Committee in the Department's memorandum of 3 March 1981.

4. As the Department's memoranda of 3 and 23 March 1981 indicated, further substantial reduction are

Paragraph 4

(a) As with paragraph 3, this gets on record the substantial reductions in Concorde net

expected in future years. Full details of the items and amounts involved were given in the memoranda. Compared with 1981-82, these entail a forecast decline of some £14 million (52%) at 1981 PES prices in net project expenditure to 1984-85.

5. This reduction does not take into account the expected substantial savings from the PES 1981 contingent items, referred to in the Annex to the Department's memorandum of 3 March 1981. The most important of these is the curtailment of the

expenditures as already given to the Committee, but not taken into account by them.

- (b) Thus they took no oral evidence on the additional memoranda that they had requested; nor did they seek explanations through informal contacts involving their specialist advisers.
- (c) In fact, the published Minutes of Evidence substantially understate the amount of information given to the Committee which they might have examined had they been so minded. This included, in the memorandum of 23 March 1981, details of British Aerospace and Rolls-Royce expenditures by contract headings, but not reproduced at the Department's request because of commercial confidentiality.

Paragraph 5

- (a) Presentationally this is a key paragraph, since the savings involved are substantial, both in relation to the costs of continued support, and relative to the estimated costs of cancellation, to which reference is made in paragraph 6 below.

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fatigue testing programmes from which a total saving, compared with the present programmes, of some £63 million at 1981 PES prices is expected. Of this, £24 million is estimated to accrue in the years to 1984-85, the period covered by the current PES and by the Department's calculations of the relative costs of continuing and of cancelling HMG's contracts with the manufacturers. Details of what would be involved as a result of curtailment, and of what financial benefits to HMG would need to be established to justify expenditure on further testing, have been put to the French authorities with a view

- (b) The £24 million of savings to 1984-85 have now become sufficiently firm as to amount and timing for this item to be removed from the PES contingent items, and from the Department's option cuts proposals (where it had been included among the "functions at reduced levels"), and the savings in question deducted from the PES 1981 baseline (PES 1980 revalued) to give a new and much reduced level of PES 1981 forecasts and Departmental requests.
- (c) Details of the arrangements described in this paragraph will be put to French officials on 26 June, with an indication that they will form the basis of the British Ministerial position as the meeting of British and French Concorde Ministers later this year. They will then be put to British Aerospace on 3 July as the basis for their programme of work, and that of RAE Farnborough, until such time as British and French Ministers jointly decide whether there is a cost effective case for further supersonic testing to extend the potential service life of Concorde beyond that covered by testing that has already taken place.

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to an early joint decision being taken. Meanwhile, until details of future arrangements can be agreed, supersonic fatigue testing, being well in advance of Concorde airline utilisation to date, has been temporarily suspended and work begun on non-supersonic testing to confirm the integrity of the aircraft structure taken as a whole.

6. The expected £24 million of fatigue specimen savings to the end of 1984-85 brings the estimated costs of continuation, as given in the Department's memorandum of 3 March 1981, to some £20 million less than the estimated costs of mutually agreed cancellation (which were then

Paragraph 6

- (a) This is a new paragraph; and along with an expanded paragraph 2 is intended to meet criticisms that the earlier draft concentrated on the first of the Committee's alternative policies to the total exclusion of that of possible agreed cancellation.

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put at £42 million). Some reduction in the latter figure is to be expected when the costs of mutually agreed cancellation are next recalculated; but these would have to fall by nearly one half to bring them to a level equal to the costs of continuation, adjusted for fatigue test savings.

7. The Government intends to continue action across a broad front to bring about further-

(b) The paragraph summarizes the present state of the Department's ability to quantify the relative costs of continuation and of cancellation, and puts the costs of continuation so far below those of cancellation as seemingly to preclude cancellation as a practical option for the time being.

(c) Like all assessments based on changing data, this is necessarily an interim appreciation. Thus the second sentence of paragraph 6 envisages that, when information exists to make a comprehensive recalculation of the relative costs of continuation and of cancellation, the latter may be expected to be reduced; while paragraph 7 and its commentary envisages that the estimated costs of continuation will also be reduced. While such reassessment will be carried out when the necessary information becomes available, this will not be until some time after the Government's reply has been published.

Paragraph 7

(a) In continuation of the Department's earlier, deliberately cautious, approach this does

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savings, including but not limited to the 1981 PES contingent items in Concorde project expenditures and increases in receipts. Developments will continue to be made known to Parliament.

Appointment of Independent
Consultants (Conclusion v and
Recommendations vi and vii)

8. The Committee criticise the

not seek to quantify contingent savings, for which claims can only be made with assurance when savings become sufficiently firm for them to be included in the Department's PES 1981 forecasts (as has now happened with fatigue testing).

- (b) Nevertheless a number of such savings are expected to move into that category before the end of the Summer Recess. It is too early yet to be sure which items will be affected; and the question of if, when and in what manner these further savings should be announced will be for later consideration.
- (c) Meanwhile all the savings, along with those originally included in the Department's PES 1981 proposals (which will be progressively adjusted to reflect additional savings), will be taken into account in the Public Expenditure White Paper to be published in Spring of next year.

Paragraph 8

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Department's estimates on the basis that their assumptions are questionable; that the figures have been adjusted frequently; and that they suspect that the Department have consistently played down expenditure and played up income from continuation while taking a consistently gloomy view of the costs of cancellation. They therefore recommend a thorough reappraisal be made urgently by independent consultants and that the results be made available in the Government's reply.

9. As regards the first point, the Department do not accept that their assumptions, and those of

- (a) This contains, in summary form, all the stated considerations which led the Committee to recommend the appointment of independent consultants, and the expected role which the Committee see them as performing.
- (b) Ensuing paragraphs therefore begin by demolishing the Committee's case for the appointment of independent consultants (paragraph 9, 10, and 11), before going on (in paragraph 12) to assess the usefulness or otherwise to HMG of such appointment producing informed and accurate appraisals, as a basis for future policy making.

Paragraph 9 Preamble

- (a) The first two assumptions referred to by the Committee (Conclusions v (a) and (b)) were

others which have been included in the Department's calculations, are any more questionable than in the case with any other commercial, industrial or economic forecast. On the specific matters raised in Conclusion v they note that:-

(a) British Airways assumption that reduced utilisation would lead to a turn round from loss to surplus is explained by the cessation of the Singapore service, the losses on which were

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made by British Airways rather than the Department; while the redundancy costs of cancellation (Conclusion v (c)) are based on assumptions by British Aerospace, Rolls-Royce and British Airways about what proportion of their Concorde workforce they could redeploy, and what redundancy payments would have to be made to the remainder.

- (b) The preamble therefore refers to assumptions made by others, as well as by the Department directly.
- (c) Where the reply refers to assumptions by the former, it will be necessary to confirm the proposed wording with the parties concerned.

Paragraph 9 (a)

(a) In Conclusion v (a), on which paragraph 9 (a) is a commentary, the Committee question, not the absolute amount of British Airways future operating surpluses which the Department have taken into account in their calculations of the net costs to public funds of continuing the Concorde project, but the assumed turn

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more than sufficient to offset any surplus earned on the North American routes.

(b) Forecasting in this area is naturally difficult; but the British Airways assumption of an increase in fuel prices of 5% annually in real terms should be judged against the background of recent

round from loss to surplus on reduced utilisation.

(b) Paragraph 9 (a) tackles this Committee observation. The Committee's doubts about the assumptions used in calculating the absolute amount of British Airways operating surpluses, as set out on Conclusion v (b), are dealt with in paragraph 9 (b).

(c) The scale of losses on the Singapore route in 1980-81 (£8.5 million, and possibly higher on the still to be audited figures) is a matter of record (Minutes of Evidence page 42), as is the expected surplus (£2 million on North American operations taking New York and Washington together (Minutes of Evidence page 8)).

Paragraph 9 (b)

(a) British Airways have in the past underestimated the real increase in fuel prices; and the Committee surmise that they have continued to do so in their estimates for the future.

(b) However, real oil prices have recently been declining, and there is no evidence that they

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substantial weaknesses in international oil prices.

(c) The arrangements to pay the Government a share of the airline's accumulated Concorde operating surpluses when the backlog of past deficits has been eliminated do not affect the calculation of Concorde's cost to public funds. These depend upon whether the aircraft is currently earning an operating surplus, or making an operating deficit, which along with other financial flows determines the

will recover in the foreseeable future.

(c) This is, nevertheless, something about which it is right to be cautious; and the proposed wording, while rebutting the Committee's contention, reflects this.

Paragraph 9 (c)

(a) This is a much condensed version of the outcome of some fairly complex argumentation in which the Department considered whether, when calculating the cost of Concorde to public funds, it was conceptually more correct to take Concorde operating results into account in full in the year in which they occurred, or whether current losses should be ignored and accumulated surpluses only taken into account at and when there was a payment to the Government as some possible future date, and then only as to the 80% share going to the Government.

(b) If operating deficits had been forecast for future years, instead of surpluses, the Committee would have undoubtedly contended that these

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airline's total impact on public sector financing for the years in which these surpluses or deficits occurred.

- (d) The Department agree with the Committee that it would be wrong to assume that, even in a recession, skilled men displaced from the Concorde project will be long out of work. The Department's calculations are thus on the basis of an immediate redeployment by the manufacturers of 25% of those made redundant; and an immediate, and cumulatively increasing, rate of job creation which would provide work for those

should be added to the net expenditures on project account to give a total cost to public funds.

Paragraph 9 (d)

- (a) The Committee's observation on reabsorption is fundamentally correct; and it was because the Department had a similar appreciation of the position that their assumptions as to the rate of job creation, as set out at page 108 of the Minutes of Evidence, were relatively optimistic (and a lot more sanguine than the view originally taken by the Department of Employment).
- (b) The Committee's other observation, namely that they do not find some of the other supposed costs of cancellation any better founded, is too imprecise to be capable (or worthy) of comment.

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discharged, unskilled as well as skilled.

(e) So far as the PES 1981 contingent items are concerned, the Department told the Committee that the total anticipated effect in reducing net project expenditures is substantial. All but one of the contingent items would represent savings, while the single item of additional expenditure would be relatively small. The estimated saving from fatigue test curtailment alone has since been

Paragraph 9 (e)

- (a) Conclusion v (d), to which paragraph 9 (e) is a reply, contains certain -apparently deliberate- misquotations by the Committee of the Department's written evidence intended to convey the precise opposite of what the Department was getting at, eg the substitution of the perjorative term "contingency" for "contingent"; the statement that the PES items were "unquantifiable" when what the Department said was that they were "impossible at this point in time to quantify with ... any degree of precision"; and the complete disregard of the fact that all but one of the PES contingent items, as listed at pages 109 and 110 of the Minutes of Evidence, represented savings, not potential expenditures.
- (b) To give priority to the reply it has been decided to disregard these observations, and to concentrate on disproving the Committee's main conten-

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estimated at £24 million
(paragraph 5 above).

10. The bases of the Department's calculations have been explained in the evidence to the Committee, and the Department have also shown how the manufacturers' estimates of future expenditures and receipts have been incorporated in the estimates of continuation costs. The Government does not accept that the calculations have been deliberately slanted; on the contrary continued efforts have been made to avoid bias, and no account has been taken of the considerable savings expected from contingent

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tion namely that the total effect of the PES contingent items is likely to be to increase the costs of continued financial support for Concorde.

Paragraph 10

- (a) This combines a remainder of the bases on which continuation costs were calculated with a rejection of the Committee's suspicions that the Department has presented deliberately biased evidence. This rejection is couched however, in terms that do not oblige the Government to say, in so many words, that it has every confidence in those who produced the estimates.
- (b) In fact, all six memoranda were submitted to the Department's Ministers for approval before being passed to the Committee. Moreover, a detailed report on the methodology used in the comparisons was submitted to the then Minister for Industry (Mr Adam Butler) when his approval was sought for the Department's memorandum of 24 November 1980 on the relative costs of continuing and cancelling HMG's

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items until these have become sufficiently firm for them to be included in the Department's PES forecasts (as is now the case with the projected fatigue test savings).

contracts with the manufacturers for Concorde in-service support. The attention of his successor was subsequently drawn to the principal new development (that of making assumptions about the rate of job creation), and to its statistical implications, when he was asked to approve the Department's memorandum of 3 March 1981, which updated these calculations.

- (c) The principal positive measure to avoid introducing statistical bias was the inclusion in the net costs of cancellation, as well as in those of continuation, of £15.5 million for compensation receipts for the loss of airframe spares.
- (d) The statement at the end of the paragraph is intended to dispute the Committee's contention that the Department's estimated costs of continuation were biased on the side of optimism. Since the Committee's report was published, the fatigue test savings have become sufficiently firm as to amount and timing for them to be deleted from the list of contingent items and included in the

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Department's PES 1981 proposal; but no other items have yet moved to that position.

Paragraph 11

11. The Committee have quite rightly noted that the figures have been adjusted frequently. But this must be expected with any programme, such as the Concorde programme, which is undergoing rapid change. Wherever adjustments have been made, the reasons have been explained.

- (a) This is a deliberately bland rebuttal of one of the Committee's more unjustifiable complaints.
- (b) In fact, that Committee were advised at the outset that the Department's financial estimates would change to reflect developments in the Concorde programme; and this warning was repeated at intervals throughout their inquiry. The Department's initial warning was contained in the memorandum of 6 October 1980 (pages 45 to 65 of Minutes of Evidence); and the reasons for subsequent adjustments, and the nature of such changes, in the Department's memoranda of 27 January 1981 (pages 69 to 74) and 3 March 1981 (pages 101 to 110).
- (c) Independent consultants, no less than officials, would have found it necessary frequently to adjust their estimates to take account of developments in what is now a fast moving

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12. Against this background, the Government is not convinced of the need to appoint independent consultants as recommended by the Committee, and is satisfied that the present arrangements for gathering information and making assessments will continue to be the best means of producing as informed and accurate an appraisal as possible as a basis for future policy making.

Anglo-French Aspects
(Conclusion ii and Recommendation ix)

13. The Government concurs with the Committee's conclusion that several factors, including

situation, the only difference being that the consultants, adjustments would have ceased when they had made their report.

Paragraph 12

- (a) This paragraph too is smoothly worded, and avoids giving specific reasons for not appointing independent consultants which the Committee could use against the Government if they wished to continue the argument.
- (b) The words "against this background" emphasize, however, that the Government's decision has been taken only after detailed examination, as in paragraphs 8 to 11, of the reasons the Committee themselves adduce for the appointment of consultants.

Paragraph 13

- (a) This is a deliberately low keyed response to the Committee's observation, which covers the

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the participation of two sovereign states, make for inherent difficulties. It is clearly difficult to arrive at decisions which involve two Governments and which affect a number of interested parties; but this does not mean that the project is beyond control.

multiplicity of contracts and the number of interested parties, as well as difficulties arising from the participation of two sovereign states.

- (b) In particular, it avoids even hinting at unilateral withdrawal as a possibility, as well as the controversial ground of whether compensation would be payable in that event (paragraph 55 of Report).

- (c) The Committee themselves recognise the difficulty of termination by proposing (Recommendation vii (b)) that this should be agreed between the parties. However, the reply does not draw attention to this, since to do so would impose a constraint on those conducting future Anglo-French negotiations. In this connection the Committee have been informed (letter from Mr Tebbit to Sir Donald Kaberry of 8 June 1981) that the fact that we have been in touch with the French authorities about the two Governments, mutual desire to reduce the net cost to public funds in their respective countries should not be

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14. The Government will continue to press for the implementation of the equal sharing provisions of the 1952 Agreement, and has invited representatives of the newly appointed French Government to discuss these and other Concorde matters at an early convenient date.

taken to imply that we have also discussed with them the second of the Committee's alternatives, that of agreed cancellation.

Paragraph 14

- (a) For similar reasons this paragraph too is low keyed, and avoids detailed comment.
- (b) In practice, the reductions in British project expenditures will go towards preventing existing adverse imbalances on Anglo-French cost sharing from worsening. But the problem remains of securing compensation for previous imbalances; this is likely to persist until means can be found of doing so without the transfer of monies.
- (c) It is intended that, shortly before publication, the Minister for Industry (Mr Tebbit) should write to M Louis Mermaz, Minister of Public Equipment and Transport, enclosing an advance copy of the Government's reply, and renewing his invitation to come to London for discussions. It is unlikely that these could usefully take

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place before October, by which time French attitudes towards the future of the project, like our own, should also have clarified.

Environmental Aspects
(Recommendation x)

15. The answer by the Parliamentary Under Secretary of State for Trade on 11 June (reproduced at Annex A) gave details of revised tracks for British Airways and Air France Concorde to alleviate secondary sonic booms in Britain and France.

Paragraph 15

- (a) The CAA issued a Notice to Airmen (NOTAM) on 4 June giving details of the changes, as agreed by all the parties concerned. These become operative from 9 July.
- (b) Given the widespread constituency interest (including that of at least two Select Committee members), Parliament's attention was drawn to the changes by an arranged written PQ. The summary of the history of the problem placed in the Library of the House at the same time, and copied to the Committee, refuted Committee allegations that discussions had been proceeding in a leisurely fashion since 1978.

Other Committee Observations
(Conclusion i, iii, iv)

16. Information on Concorde

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Paragraph 16

project expenditures and receipts giving details up to 1981 for each of the parties concerned and updating earlier information, was contained in answer to a written Parliamentary Question on [] June 1981 (reproduced at Annex B).

- (a) This paragraph is in confirmation of the indication of the Minister for Industry's letter of 8 June 1981 to the Committee Chairman that such information would be presented to Parliament before publication of the Government's reply, and is directed towards meeting the Committee's complaint (Conclusion i) that they found it impossible to ascertain with precision how much had already been spent and by whom.

- (b) The annual statement to Parliament, made by the PUSS for Industry (Mr Marshall) in answer to an arranged written PQ, covers French as well as British manufacturers expenditures and receipts. It did not, however, include information about expenditures in Government R & D Establishments (intramural costs); nor did it identify (for reasons of commercial confidentiality which are no longer relevant) the expenditures and receipts of individual manufacturers.

- (c) The statement, made in accordance with an undertaking to the PAC in 1977 by the then Accounting Officer that the Department would continue to

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keep Parliament informed of changes in Concorde costs, is based on a joint report to the two Government by British and French Concorde Management Board officials. The 1981 report is now complete and is expected to be submitted shortly.

- (d) In view of the Committee's criticisms it is intended on this occasion that the statement to Parliament should give details of the expenditures and receipts of individual manufacturers, and also of intramural expenditures (at least those incurred by the British Government), to give a UK total. The draft is at Annex B.
- (e) Meanwhile the Department have continued to answer other PQ's seeking information on Concorde costs (most recently in reply to Lord Harris of High Cross on 30 April 1981).

Paragraph 17

- (a) The reply concentrates on that part of Conclusion iii which suggests that Concorde has escaped the rigorous appraisal given to other programmes involving public expenditure. In fact the

17. The Government does not accept that the Concorde project has been immune from rigorous appraisal; it has been under continuing re-assessment over a prolonged period.

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The Committee were informed in the Department's memorandum of 6 October 1980 of the reductions in net expenditures then achieved, and that there had recently been a number of significant changes, particularly relating to airline utilisation, which would increasingly affect the pattern of Concorde finances. The Department's memorandum of 3 March 1981 referred to further savings forecast during the period of the current PES. Details of the most important of these are included at paragraph 5 above, and their effect on the relative costs of continuation and of cancellation at paragraph 6.

reappraisal has been continuous; and, in sharp contrast to the results obtained on a number of other programmes, has led to progressively lower forecasts of net expenditure during the maximum lifetime of the present Parliament and beyond. Thus the PES 1981 forecast expenditures, taking into account the expected savings from the curtailment of fatigue testing, are less than half those of PES 1980 revalued.

- (b) The reply avoids commenting on the Committee's subsidiary opinion that no real attempt has been made within Government to appraise all the costs and benefits of continuing or cancelling. This is true; but only because the costs of continuation and of agreed cancellation have shown so little potential financial benefit from cancellation as to make an overall assessment, taking into account the largely imponderable non-financial aspects, not worth the considerable effort involved. This is even more the case now that the estimated costs of continuation have fallen well below those of cancellation (for detail: see paragraph 6).

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- (c) Also to avoid complicating the argument, the reply ignores the fact that the figure of £123 million quoted by the Committee refers to the PES 1980 calculations, and not those for PES 1981 of which the Committee were also appraised and which give a significantly lower figure.

Paragraph 18

- (a) Conclusion iv contains a number of observations which raise very debatable issues and which cannot be dealt with satisfactorily in a short reply.
- (b) Paragraph 17 therefore concentrates on the most straightforward of these, which arises out of evidence given by British Airways rather than by the Department.

Paragraphs 19, 20 and 21

- (a) These paragraphs replace a concluding paragraph

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18. The Government has taken note of the Committee's suggestion that the prestige value of flying a commercial SST has already been obtained. In considering the case for continued financial support for Concorde, the Government has never considered that this should be allowed to rest on prestige value.

Conclusion

19. For some twenty years Concorde has been a major publicly

financed project, on which substantial - though diminishing - sums continue to be spent. As the Committee have noted, the background to the project is complex; and the Government has therefore particularly welcomed the Committee's interest. The Government regrets that the Committee have felt it necessary to be so critical of the forecasts and necessary assumptions presented in the evidence given to them. It considers that this is unwarranted, and that there is no need to duplicate the the present assessment arrangements by appointing consultants.

in an earlier draft which expressed the Government's regret that the Committee decided against making a sustained effort, directed to achieving the objective of an authoritative assessment of the project as a contribution to the framing of future Government policy. While it is true that the Committee failed to finish their inquiry, and left the pieces to be picked up by independent consultants, this is a point that, if made at all, is best made in the context of a reply to a Parliamentary debate rather than in a White Paper. Coupled with the associated suggestion that the Government would be ready to co-operate in a further Committee inquiry on assumptions as to the Committee's good intentions, this would have left the Committee feeling that their integrity had been questioned, and determined to mount a further inquiry with the intention of producing an even more critical report than the present one.

- (b) The revised paragraphs, while indicating the Government's sharp differences with the Committee's approach, cannot be read as such a challenge. They seem likely therefore to be more successful than the earlier version in achieving the

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20. The Committee recommended that the Government should be ready either to reduce the incidence of Concorde costs on public funds, or to enter into discussions to discontinue operation of the aircraft. The Government is already taking action, as described in this Reply, in line with the Committee's alternative for a reduction of the incidence of Concorde costs to public funds; and action will be continued across a broad front to achieve further reductions in public expenditure, and to increase Concorde project receipts. The extent of the reductions in expenditures now envisaged suggest that this could be a financially more promising course than the Committee's

Government's objective of preventing the Committee from gaining the support of other backbench MP's who, even if they were not particularly concerned with Concorde and the Committee's opinions on it, would feel obliged to back the Committee in challenging the Government, not merely on Concorde but possibly on other matters as well.

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other alternative of agreed
cancellation.

21. The Government also welcomes
the Committee's recommendations for
efforts to secure equal sharing of
costs with France, which will support
its intention of continuing to press
for the implementation of the equal
sharing provisions of the 1962
Anglo-French Agreement. Finally,
the Committee recommended that
discussions on alleviating discussions
on secondary sonic boom arising from
Concorde flights should be brought
to a speedy conclusion; and these
discussions have since been concluded.

EXTRACT FROM HOUSE OF COMMONS OFFICIAL REPORT -
PARLIAMENTARY DEBATES (HANSARD) 15 JUNE 1981

WRITTEN ANSWERS TO QUESTIONS
THURSDAY 11 JUNE 1981

Concorde (Sonic Boom)

Mr. Peter Bottomley asked the Secretary of State for Trade what action is being taken to reduce the disturbance caused by the sonic booms generated by Concorde flights.

Mr. Eyre: The problem of sonic booms associated with Concorde flight has been under continuous investigation since Concorde first entered commercial service in 1976 and a number of changes in operational procedures have already been introduced in an attempt to overcome it. Although these changes have eliminated the primary booms and have greatly reduced the disturbance caused by the secondary or reflected booms, it is evident that any further improvement is unlikely to be obtained unless the point at which Concorde decelerates to subsonic speed is moved further westwards.

If this is to be done without imposing unacceptable fuel penalties on Concorde operations, it needs to be associated with some modification of the route structure and it has been difficult to arrange this in a way that ensures that the high standards of safety observed by our air traffic control services are maintained. I am glad to be able to say that agreement has now been reached on a revised procedure which meets all of these objectives. I hope that this will largely eliminate the disturbance caused by secondary sonic booms.

I have placed in the Library a map showing the new route structure together with a short summary of the history of this problem

CONCORDE FINANCES

DRAFT ARRANGED WRITTEN PQ AND ANSWER

QUESTION :

To ask the Secretary of State for Industry, what is the present total cost of the development, production, and in-service support of the Concorde aircraft; and what is the net Government commitment to production and in-service support expenditure.

ANSWER :

The manufacturers' total development costs in Britain and France to completion of the programme on 31 December 1980 were £1,126 million. The expenditures were divided as follows:-

	<u>£ million</u>	
British Aerospace	312	
Rolls Royce	<u>262</u>	
Total British expenditure	574	
SNIAS	373	
SNECMA	<u>179</u>	
Total French expenditure	<u>552</u>	(6,500 million francs)
Total development costs	<u>1126</u>	

The manufacturers' total production costs to the end of 1979, when the production phase is regarded as having been completed, and their receipts from the sale of aircraft, and from the sale or lease of engines and spares, also to the end of 1979 were as follows:-

British manufacturers (£ million)

	<u>Expenditures</u>	<u>Receipts</u>
British Aerospace	267	84
Rolls Royce	<u>101</u>	<u>63</u>
Totals	<u>368</u>	<u>147</u>

French manufacturers (F million)

	<u>Expenditures</u>	<u>Receipts</u>
SNIAS	2,550	1,023
SNECMA	836	529
Totals	<u>3,386</u>	<u>1,552</u>

All expenditures and receipts from 1 January 1980, other than the residual costs of engine development to completion of the programme on 31 December 1980, are regarded as arising from the support of Concorde aircraft and engines in airline service. The manufacturers' in-service support costs and receipts to the end of 1980, and their estimated costs and receipts during 1981, are as follows:-

British manufacturers (£ million)

	<u>To end of 1980</u>		<u>Estimates for 1981</u>	
	<u>Expenditures</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Receipts</u>
British Aerospace	18	3	20	6
Rolls Royce	15	19	20	7
Totals	<u>33</u>	<u>22</u>	<u>40</u>	<u>13</u>

French manufacturers (F million)

SNIAS	102	17	98	20
SNECMA	37	32	41	26
Totals	<u>139</u>	<u>49</u>	<u>139</u>	<u>46</u>

At 31 March 1981, the Government's total net commitment to Concorde production and in-service support expenditures stood at £ 3.3 million, and net expenditures at £ 2.6 million. Additionally, the Government's intramural expenditures at that date, arising mainly from work undertaken in Government Research Establishments, stood at £ 0.7 million.

23 JUN 1981





CABINET OFFICE

JMA

With the compliments of
The Private Secretary to the
Secretary of the Cabinet

M. A. Pattison, Esq

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CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

Ref: A05117

19th June 1981

*will request
it signed*

Government Reply to Select Committee Report
on Concorde

Thank you for your letter of 16th June about your Secretary of State's view that the Government's reply to the Select Committee's Report on Concorde should take the form of a Command Paper. We were grateful for this information and in particular the fact that the Government's intention is to be announced in Answer to a Parliamentary Question on 22nd June. We can see no objection to the course you propose, provided of course the other Departments concerned are content.

I am copying this letter to Mike Pattison (No. 10), Jim Buckley (CSD), Stephen Gomersall (FCO), John Rhodes (Trade), Terry Matthews (Treasury), David Heyhoe (Chancellor of the Duchy's Office), Murdo McLean and Colin Balmer (MOD).

D. J. WRIGHT

(D. J. Wright)

R. Riley, Esq



✓ Press
na
MMP

DEPARTMENT OF INDUSTRY
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Secretary of State for Industry

16 June 1981

David Wright Esq
Private Secretary to
Secretary to the Cabinet
Cabinet Office
70 Whitehall
London SW1

overpaid underpaid?
*What does Prime Minister
use Command Paper
presenting content with these
arrangements?*
MMP 19/6

Dear David

GOVERNMENT REPLY TO SELECT COMMITTEE REPORT ON CONCORDE

The House of Commons Select Committee on Industry and Trade published a report on Concorde on 14 April. My Secretary of State considers that the Government's reply should take the form of a Command Paper, and that this should be presented to Parliament before the Summer Recess.

2 Mr Tebbit has written to the Chairman of the Committee accordingly; a copy of his letter is attached. He will also be informing Parliament when answering an (unsolicited) Oral Question by Mr Jock Bruce-Gardyne MP on 22 June.

3 In accordance with the customary procedures for giving collective Ministerial consideration to Concorde matters, Mr Tebbit will be writing to the Secretary of State, as Chairman of E(EA) Committee, indicating what he proposes and the reasons for his recommendations. The letter and attachment would be copied to other members of E(EA) and to other Ministers and persons whose views are being sought.

4 The date we have in mind for publication is Wednesday 15 July with embargoed copies being released a couple of days before. As the reply is self-sufficient, we do not envisage it being necessary to make a Statement after Questions or to respond positively to any request from members of the Select Committee for the report and the Government's reply to be debated in Government time. We shall probably arrange for written questions to be tabled in both Houses.

5 I am copying this letter and enclosure to the Private Secretaries to the Prime Minister, the Lord President and Leader

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of the House of Lords, the Lord Privy Seal, the Secretary of State for Trade, the Chief Secretary, the Chancellor of the Duchy of Lancaster, the Chief Whip, and the Minister of State for Defence Procurement.

Yours sincerely
Richard Riley

RICHARD RILEY
Private Secretary

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From the
Minister of State
Norman Tebbit MP

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Sir Donald Kaberry Bt TD DL MP
Chairman
Select Committee on
Industry and Trade
House of Commons
London
SW1A 0AA

8¹⁶ June 1981

D. Donald,

SELECT COMMITTEE INQUIRY INTO CONCORDE

In my answer to Jock Bruce-Gardyne on 18 May I said that the Select Committee's observations and recommendations, which cover many aspects of Concorde, were being studied in detail; and that, in accordance with normal practice, the Government's final and considered reply would be delivered to Parliament as soon as possible. However, I could not at that stage anticipate when this would be, or the form or content of the Government's response.

I am writing to let you know that our consideration of the report is now well advanced; and that the Secretary of State for Industry has accordingly decided that a substantive Government reply can be given to Parliament before the Summer Recess. The reply would take the form of a Command Paper.

Our present objective is that this should be published in mid-July, probably in the week beginning 13 July. This is later than we would have hoped; but the outcome of the French Presidential elections and the still to be fought elections for a new National Assembly have made it quite exceptionally difficult to consult our French Treaty partners about those aspects of the Committee's observations and recommendations that have Anglo-French implications.

The fact that we have been in touch with the French authorities about the two Governments' mutual desire to reduce the net cost of Concorde to public funds in their respective countries should not be taken to imply that we have also discussed with them the second of the Committee's



M

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From the
Minister of State

The Hon Adam Butler MP

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
London
SW1E 6RB

12 December 1980

Copies to:	
PS/Mr Marshall	
PS/Secretary	
Mr Croft	Dep Sec
Mr McEnery	CNC
Mr Farrow	Air
Miss Marston	FEA
Mr MacTavish	CNC
Mr Stredder	CNC
Mr Novell	CNC
Mr James	CNC
Mr MacTavish (on file)	

Dear Secretary of State

CONCORDE

I am seeking the views of colleagues about two forthcoming events concerning the future of Concorde. These are, first, my meeting with the French Minister for Transport, M Hoeffel, in January to discuss inter-governmental work on cost sharing and other Concorde problems; and second, my appearance before the Select Committee on Industry and Trade in either mid-January or in the second half of February to assist them in their inquiry into the operating and associated costs of Concorde.

2 General background and financial position

Since my meeting with M Hoeffel's predecessor, Mr Le Theule, we have made further progress in reducing the net Government expenditures charged to the Concorde Vote. The 1980 PES forecasts (incorporated in the March 1980 Public Expenditure White Paper) showed significant savings on the plans which we as a Government had inherited. It is my intention, where possible, to further reduce such expenditure. Regrettably, however, things have not gone so well with British Airways (BA). Reflecting the large increases in fuel prices, BA made a £5.8 million deficit on their Concorde operations in 1979/80; and in 1980/81, despite the suspension of the heavily loss-making Singapore service, they expect to incur a further deficit of some £4 million. They are forecasting a small operating surplus of somewhat under £2 million in 1981/82 and £5½ million in 1982/83. Reductions in BA's and Air France's Concorde services reduce opportunities for the profitable sales of spares and, until production can be adjusted in line with falling demand, increase net project expenditures.

3 Inter-governmental cost-sharing

The 1962 Agreement between the British and French Governments, establishing arrangements for the development and production of Concorde, provided that work on and the cost of the programme should



... shared equally. When Mr Le Theule and I last discussed this we decided that the data available did not enable us to decide whether and to what extent there was an imbalance in the share of costs borne by the two Governments. Our officials were asked to examine this further. Despite these studies, summarised in the attached Joint Situation Report, officials have been unable to agree on the assumptions to be used and therefore on whether the imbalances were adverse to the UK, as we believe.

4 I propose to press M Hoeffel hard on the question of rectifying these imbalances, which we estimate to be of the order of £100 million at current prices. However, even if he accepts our case, I cannot see the French Government offering to effect a financial transfer, either immediately or possibly even at any time in the future. In addition to making payments to French manufacturers on project account, the Government are having to meet 70% of Air France's Concorde operating deficits, and 100% of their Concorde investments; and they have their own general financial problems which they will not be anxious to increase in the run up to the May 1981 Presidential elections. My immediate objective in seeking redress would be rather to improve our tactical position should action arising out of the proposed review of the Concorde project (described below) lead to our being at odds with the French; or to ensure arrangements which achieved a balance by the 'end' of the project (1993).

5 The Select Committee Inquiry

... I now expect to appear before the Committee after my meeting with M Hoeffel. The Department of Industry has already submitted two memoranda to the Committee - one (jointly with the Department of Trade) on the support of Concorde in airline service, and a further one on the relative costs of continuing and of cancelling HMG's contracts with the Concorde manufacturers (both attached). The latter gives estimates of the costs of continuation only up to the end of 1981/82. Depending on the timing of the Committee hearings, we should be able to provide a further memorandum in early February giving updated estimates of the costs of continuation during later years. Although these would be based on the PES 1981 forecasts exercise, they would be submitted as being the current best estimates by officials, with no commitment by Ministers.

6 The Committee includes a strong opponent of Concorde in Robin Maxwell-Hyslop, and an equally staunch defender in Russell Kerr. The former may see in the comparison between the estimated costs of agreed cancellation of £56 million and those of continuation to the end of March 1982 (£54 million, with more to come for subsequent years) a case for the immediate withdrawal of the Government's financial support for the project. This is only one of a number of possible options open to the Government; and I would aim, in my answers to make clear that there are many complexities and uncertainties attaching to a collaborative project of this kind, and that these go well beyond what the Committee can hope to cover in the relatively brief and early report they have it in mind to submit. It may suit us if the Committee



recommends a comprehensive Government review of the various options for the future of the project. Changes in the pattern of Concorde operations and other recent events have made such a review timely.

7 Faced with heavier Concorde expenditures than we are, the French Government, also, may well undertake a thorough review, after the Presidential elections. Recent reports suggest a continuing, though no longer unquestioning, French attachment to continuance of Concorde. Having carefully weighed all the evidence we may come to a different conclusion as to where British interests lie. But we should first seek the maximum common ground with our French partners. I shall explore matters with M Hoeffel.

8 I am copying this letter and attachments to other members of E(EA), to Douglas Hurd, Euan Strathcona and to Sir Robert Armstrong. I would appreciate comments by 23 December.

Yours sincerely,

Jonathan Hurd

for
ADAM BUTLER (Approved by the Minister
and signed in his absence)

